



South St. Paul

WORKSESSION AGENDA

SSP City Hall
125 3rd Avenue North
Training room

Monday, June 27, 2022
7:00 pm

AGENDA:

1. Presentation of the 2021 Financial Report – MMKR – Jackie Huegel & Jim Eichten
2. Public Works Facility Update (*No Attachment*)
3. Council Comments & Questions

Management Report
for
City of South St. Paul, Minnesota
December 31, 2021

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PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
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To the City Council and Management
City of South St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of the City of South St. Paul, Minnesota's (the City) financial statements for the year ended December 31, 2021. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 23, 2022

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally, in our audit engagement letter, and in a separate letter dated March 31, 2022. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2021:

- We have issued an unmodified opinion on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- We reported two matters involving the internal control over compliance that we consider to be a material weakness and significant deficiency with the types of compliance requirements that could have a direct and material effect on each of the City's major federal programs, one of which resulted in a reportable instance of noncompliance:
 - The City did not have sufficient controls in place to ensure completeness of the Schedule of Expenditures of Federal Awards, resulting in a material weakness in internal control over compliance.
 - The City did not have sufficient controls in place to ensure compliance with federal special tests and provisions requirements applicable to the Public and Indian Housing federal program regarding the waiting list, which resulted in a significant deficiency in internal control over compliance, reportable noncompliance, and a qualified opinion on compliance for this program.

- We reported two findings based on our testing of the City’s compliance with Minnesota laws and regulations:
 - For one group insurance contract tested, the City did not comply with Minnesota Statutes, which requires the request for proposal to be in writing and at a minimum shall include: coverage to be provided, criteria for evaluation of proposals, and the aggregate claims records for the appropriate period. Public notice of the request for proposals must be provided in a newspaper or trade journal at least 21 days before the final date for submitting proposals.
 - For city deposits that exceeded federal deposit insurance coverage, the City did not comply with Minnesota Statutes which requires corporate surety bonds or collateral that has a market value of at least 110 percent of such excess.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Uniform Guidance Written Procedures

The Uniform Guidance requires the City to have written procedures. During our audit, we noted that the City had developed and adopted written federal grant procedures; however, these did not fully address procedures specific to cash management, cost principles, budget to actual reviews, and subrecipient monitoring as it relates to federal awards.

Federal Uniform Guidance requires the City to have documented cash management procedures in accordance with 2 CFR § 200.305, which includes payments for allowable costs charged to a federal program, as well as advances received for federal programs, among other things.

Federal Uniform Guidance requires the City to have documented cost principles for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles.

Federal Uniform Guidance requires the City to have documented budget to actual procedures that includes budget to actual comparison of expenditures for each federal award in accordance with 2 CFR § 200.302(b)(5).

Federal Uniform Guidance requires nonfederal entities to have and use documented subrecipient monitoring and management procedures consistent with 2 CFR § 200.331-333 for disbursements of federal funds determined to be a federal subaward. A subaward is an agreement between the City and an outside party for the purpose of carrying out a portion of a federal award, which creates a federal assistance relationship with the subrecipient. The Uniform Guidance requirements for pass-through entities include, but are not limited to:

- Providing the subrecipient with the best information available to describe the key identifiers and terms of the federal award and subaward;
- A written risk assessment evaluating each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring;
- Written documentation of monitoring activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward, and that the subaward performance goals are achieved; and
- Written procedures verifying that every subrecipient is audited as required by the Uniform Guidance Subpart F when it is expected that the subrecipient’s federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 CFR § 200.501.

We recommend that the City review its current federal grant procedures to ensure they include and are consistent with the Uniform Guidance requirements.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2021.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements, and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Other Post-Employment Benefits (OPEB) and Pension Liabilities** – The City has recorded liabilities and activity for pension benefits and OPEB. These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.
- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Land Held for Resale** – These assets are stated at net realizable value based on management's estimates.
- **Compensated Absences** – Management's estimates are based on current rates of pay.
- **Self-Insurance** – Management's estimates of self-insurance reserves are based on the estimated liability for incurred, but not reported claims.
- **Unbilled Utilities** – Management's estimates of unbilled utilities are based on the portion of the first billing cycle in the subsequent year applicable to the current year.

We evaluated the key factors and assumptions used by management to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 23, 2022.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis (MD&A), budgetary comparison schedules for the General Fund and major special revenue funds, and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information accompanying the financial statements and the separately issued Schedule of Expenditures of Federal Awards, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2020 fiscal year, local ad valorem property tax levies provided 40.9 percent of the total governmental fund revenues for cities over 2,500 in population, and 36.5 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2021 increased 4.0 percent compared to the prior year, and 5.9 percent for taxes payable in 2022.

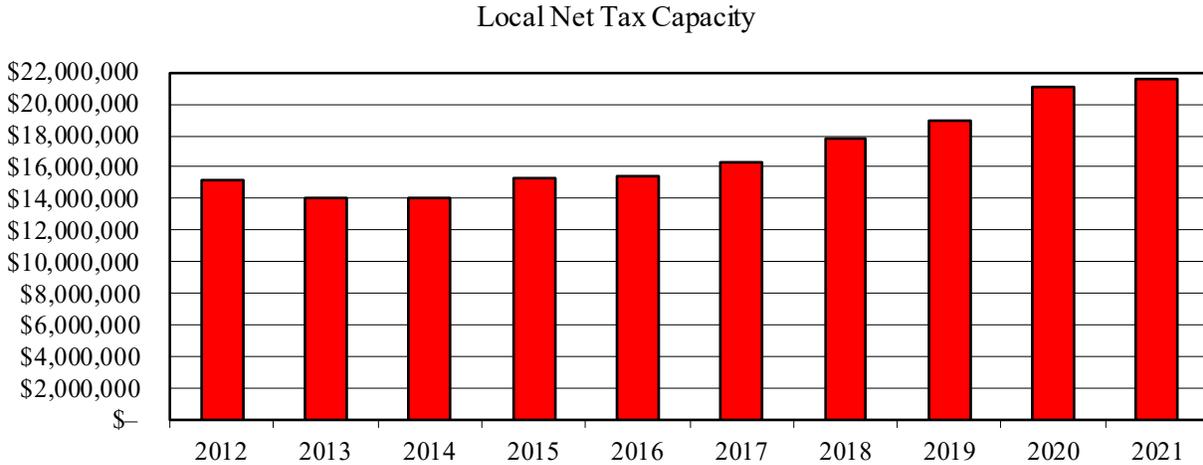
The total tax capacity value of property in Minnesota cities increased about 6.3 percent for the 2021 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2021 were based on assessed market values as of January 1, 2020), so the trend of change in these tax capacity values lags somewhat behind the housing market and economy in general.

The City's estimated market value increased 10.3 percent in 2020 and 3.8 percent in 2021. The following graph shows the City's changes in estimated market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state’s property classification system to each property’s market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city’s total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of its tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City’s tax capacity increased 11.1 percent for taxes payable in 2020 and increased 2.4 percent for taxes payable in 2021.

The following graph shows the City’s change in tax capacities over the past 10 years:



The following table presents the average tax rates applied to city residents for each of the last three levy years:

Rates Expressed as a Percentage of Net Tax Capacity			
	City of South St. Paul		
	2019	2020	2021
Average tax rate			
City	64.6	60.8	63.4
County	23.0	21.8	20.6
School	29.6	28.9	30.3
Special taxing	8.2	7.6	7.7
Total	<u>125.4</u>	<u>119.1</u>	<u>122.0</u>

The City’s portion of the tax capacity rates for South St. Paul residents, as well as the total tax capacity rate, increased from the prior year.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as a city's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year, due to the effect of inflation and changes in its operation. Also, certain data on these tables may be classified differently than how they appear in the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of the City. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the MD&A. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita With State-Wide Averages by Population Class							
Year Population	State-Wide			City of South St. Paul			
	December 31, 2020			2019	2020	2021	
	2,500–10,000	10,000–20,000	20,000–100,000	20,487	20,759	20,800	
Property taxes	\$ 540	\$ 517	\$ 537	\$ 648	\$ 681	\$ 716	
Tax increments	34	33	44	89	91	106	
Franchise and other taxes	49	60	46	59	58	65	
Special assessments	54	39	54	50	35	30	
Licenses and permits	36	39	46	22	19	34	
Intergovernmental revenues	474	367	273	295	555	1,013	
Charges for services	113	89	91	206	182	202	
Other	83	69	69	53	36	26	
Total revenue	\$ 1,383	\$ 1,213	\$ 1,160	\$ 1,422	\$ 1,657	\$ 2,192	

The City's governmental fund revenues for 2021 were \$45,581,211, an increase of \$11,196,541 (32.6 percent) from the prior year. On a per capita basis, the City received \$2,192 in governmental fund revenue for 2021, which is an increase of \$535 from the prior year. The majority of this increase was in intergovernmental revenues, which increased \$458 per capita due to the federal grant and county funds received for the Concord Street improvement project in the current year.

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City’s circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources, such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources, such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City’s expenditures per capita of its governmental funds for the past three years, together with comparative state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class							
Year	State-Wide			City of South St. Paul			
	December 31, 2020			2019	2020	2021	
Population	2,500–10,000	10,000–20,000	20,000–100,000	20,487	20,759	20,800	
Current							
General government	\$ 176	\$ 140	\$ 118	\$ 107	\$ 109	\$ 112	
Public safety	315	288	320	411	431	432	
Street maintenance	146	122	112	184	175	208	
Parks and recreation	100	112	95	142	121	123	
All other	95	108	104	201	140	163	
Total current	<u>832</u>	<u>770</u>	<u>749</u>	<u>1,045</u>	<u>976</u>	<u>1,038</u>	
Capital outlay and construction	586	429	331	399	203	851	
Debt service							
Principal	172	149	91	75	85	82	
Interest and fiscal charges	45	42	33	43	45	40	
Total debt service	<u>217</u>	<u>191</u>	<u>124</u>	<u>118</u>	<u>130</u>	<u>122</u>	
Total expenditures	<u>\$ 1,635</u>	<u>\$ 1,390</u>	<u>\$ 1,204</u>	<u>\$ 1,562</u>	<u>\$ 1,309</u>	<u>\$ 2,011</u>	

Total expenditures in the City’s governmental funds for 2021 were \$41,810,391, an increase of \$14,645,578 (53.9 percent) from the prior year. On a per capita basis, the City expended a total of \$2,011 in 2021, an increase of \$702. Current expenditures increased \$62 per capita, mainly in street maintenance and all other. Street maintenance increased, due to design work for renovations at city sites and sidewalk repairs. All other increased, due to the design for runway reconstruction at the airport. Capital outlay costs increased \$648 per capita, primarily due to the Concord Street improvement project. Debt service expenditures were \$8 lower than last year, due to scheduled bond principal payments. The City’s current operating costs are higher than average, due to above average public safety, street maintenance, parks and recreation, and all other costs.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the years ended December 31, 2020 and 2021, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Change
	2020	2021	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 242,806	\$ 134,510	\$ (108,296)
Restricted	12,216,166	13,847,601	1,631,435
Committed	4,625,755	4,630,954	5,199
Assigned	8,708,642	10,454,617	1,745,975
Unassigned	6,422,182	7,279,800	857,618
Total governmental funds	<u>\$ 32,215,551</u>	<u>\$ 36,347,482</u>	<u>\$ 4,131,931</u>
Total by fund			
General	\$ 14,868,236	\$ 14,718,955	\$ (149,281)
ARPA	-	2,444	2,444
Doug Woog Arena	(989,435)	(837,702)	151,733
Airport	22,877	(36,352)	(59,229)
Capital Programs	8,410,351	10,199,952	1,789,601
Local Improvements	(2,217,545)	(1,509,673)	707,872
Tax Increment	4,408,250	5,078,119	669,869
Other governmental funds	7,712,817	8,731,739	1,018,922
Total governmental funds	<u>\$ 32,215,551</u>	<u>\$ 36,347,482</u>	<u>\$ 4,131,931</u>

In total, the fund balances of the City's governmental funds increased by \$4,131,931 during the year ended December 31, 2021. Restricted fund balance increased by \$1,631,435, mainly in restricted balances for tax increment financing and economic development. Assigned fund balance increased \$1,745,975 in assigned balances for working capital in the Capital Programs Fund. Unassigned fund balance increased by \$857,618, mainly due to the improved fund balance in the Local Improvements Fund.

Doug Woog Arena Fund – This fund had an increase in fund balance of \$151,733. In 9 of the last 10 years, this fund has had to borrow from other funds to fund cash flow needs. The interfund borrowing totals \$802,214 at December 31, 2021.

We recommend that the City continue to monitor the financial results in this fund. We also recommend that the City continue to update the long-range financial plan for this fund, including considering plans for financing the payback of the interfund borrowing in this fund.

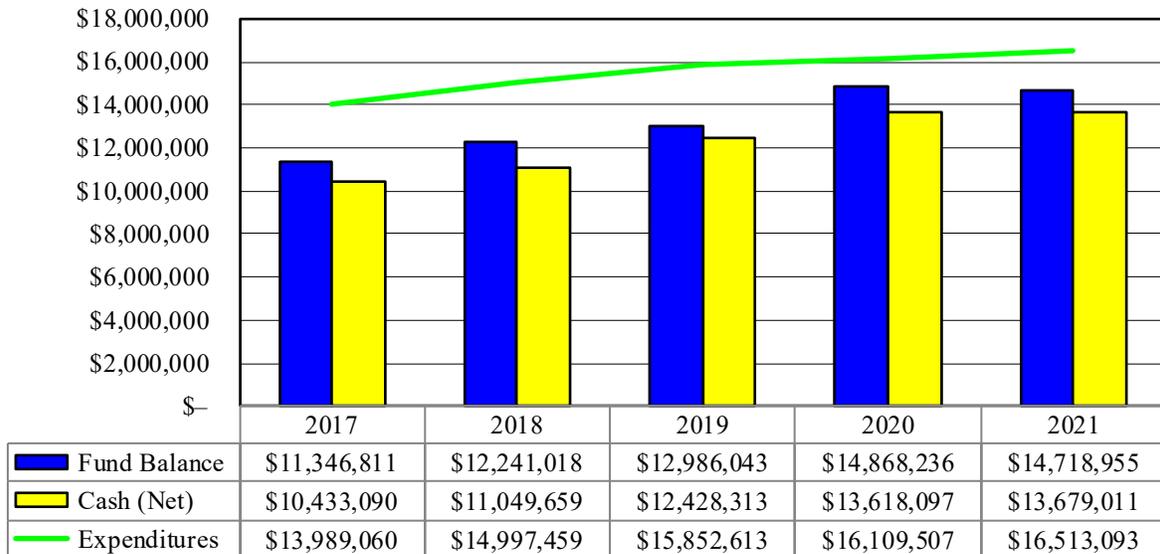
Airport Fund – This fund had a decrease in fund balance of \$59,229. In 9 of the last 10 years, this fund has been able to decrease the amount borrowed from other funds to fund cash flow needs. The interfund borrowing totals \$95,220 at December 31, 2021.

We recommend that the City continue to monitor the financial results in this fund. We also recommend that the City continue to update the long-range financial plan for this fund, including the completion of the plan in place for the payback of the interfund borrowing in this fund.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.

General Fund Financial Position
Year Ended December 31,

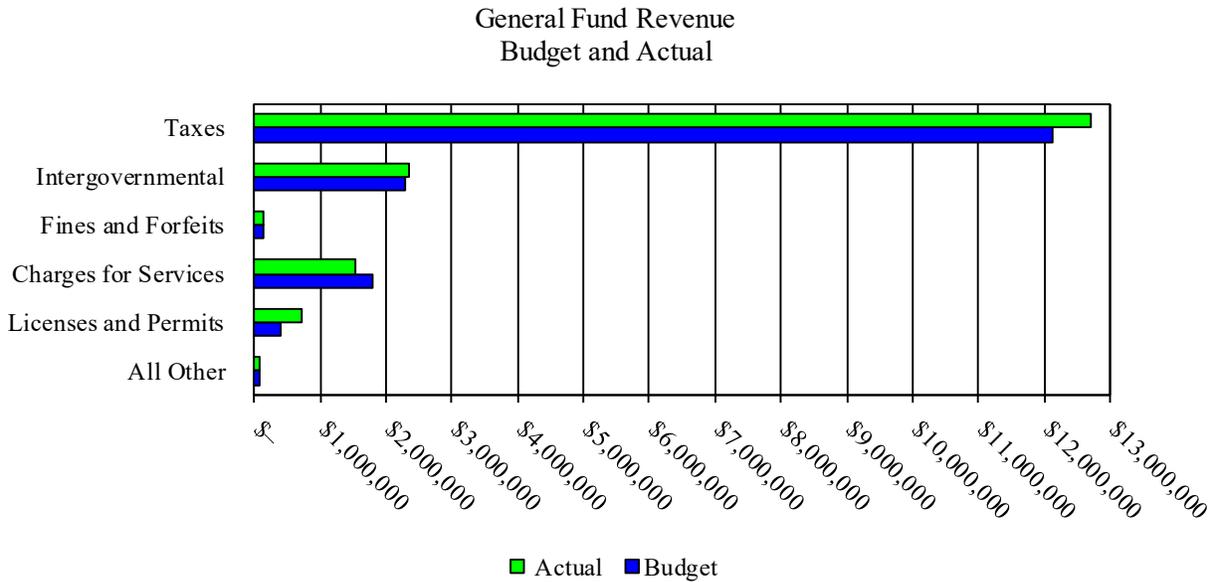


The City's General Fund cash and investments balance (net of borrowing) at December 31, 2021 was \$13,679,011, an increase of \$60,914. Total fund balance at December 31, 2021 was \$14,718,955, which is a decrease of \$149,281 from the prior year.

Having an appropriate fund balance is an important factor in assessing the City's financial health because a government, like any organization, requires a certain amount of equity to operate. Generally, the amount of equity required typically increases as the size of the operation increases. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and can be a factor in determining the City's bond rating and resulting interest costs.

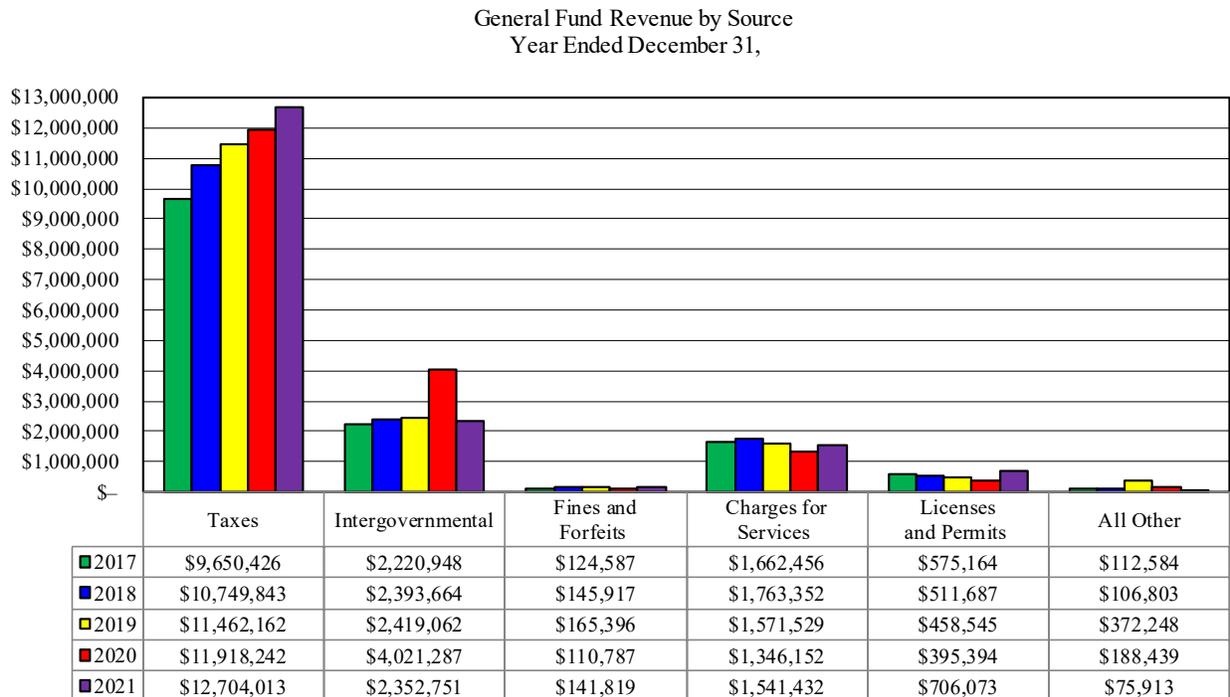
The City has an approved fund balance policy that states the General Fund will maintain a minimum unassigned fund balance of 35.0 to 50.0 percent of the subsequent year's budgeted expenditures. At December 31, 2021, the City's General Fund unassigned fund balance was 56.1 percent of the subsequent year's budgeted expenditures.

The following graph reflects the City’s General Fund revenue sources for 2021 compared to budget:



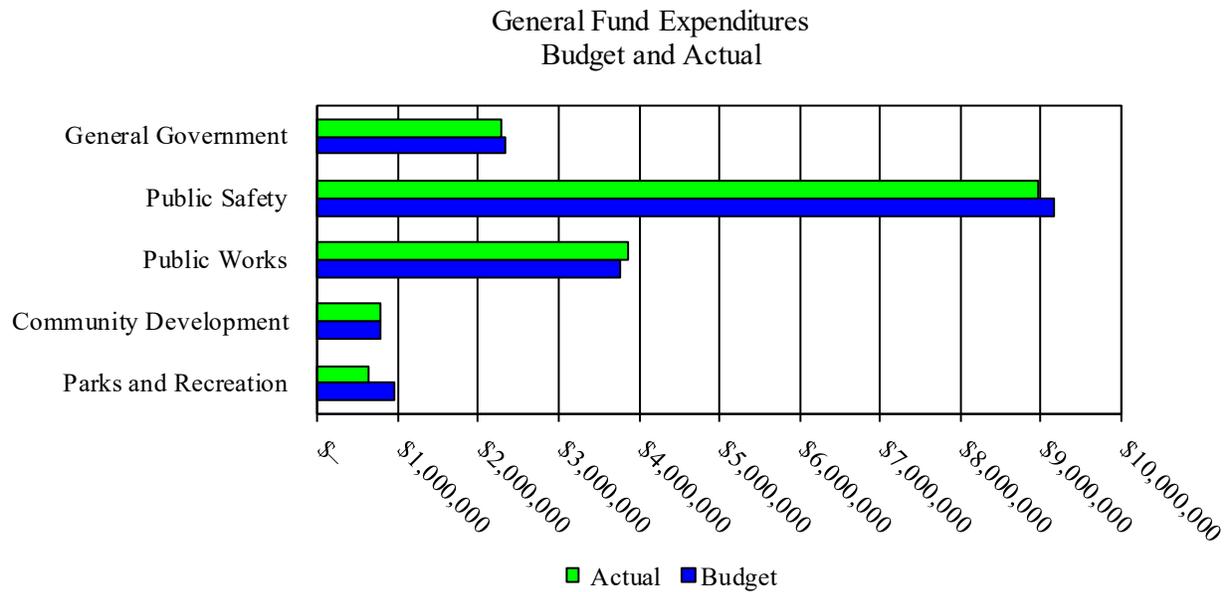
General Fund revenue for 2021 was \$17,522,001, which was \$667,555 (4.0 percent) more than budget. Taxes were \$575,365 over budget, primarily due to excess tax increment financing and delinquent tax collections being more than anticipated. Licenses and permits were \$315,313 over budget, due to more than anticipated building activity.

The following graph presents the City’s General Fund revenues by source for the last five years:



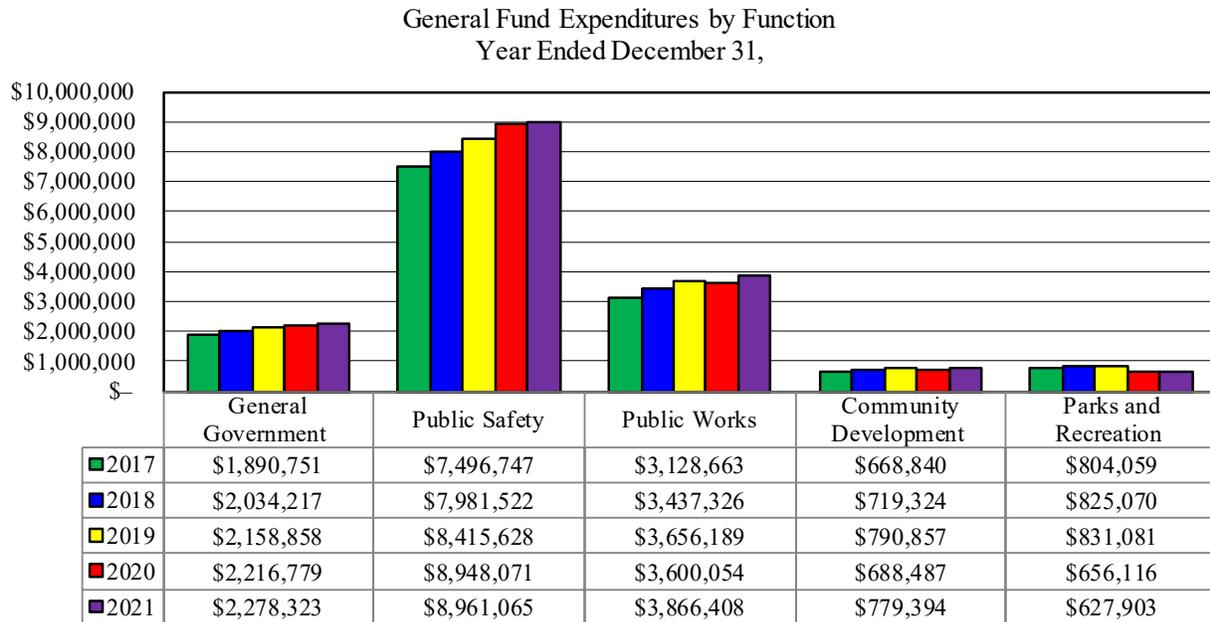
Total General Fund revenue for 2021 was \$458,300 (2.5 percent) lower than last year, mainly in intergovernmental revenue offset by an increase in taxes. Intergovernmental revenues decreased \$1,668,536, due to receipt of the Coronavirus Relief Funds (CRF) in the prior year. This decrease was offset by an increase in taxes of \$785,771, due to an increase in the levy as approved by the City Council and excess tax increment financing received.

The following graph illustrates the components of General Fund spending for 2021 compared to budget, excluding the contingency category:



General Fund expenditures for 2021 were \$16,513,093, which was \$531,353 (3.1 percent) under budget. Parks and recreation expenditures were \$324,330 under budget, mainly due to lower than anticipated personnel costs and lower maintenance for recreation facilities that were closed. Public safety expenditures were \$197,781 under budget, mainly in police personnel costs.

The following graph presents the City’s General Fund expenditures by function for the last five years:



Total General Fund expenditures for 2021 were \$403,586 (2.5 percent) higher than the previous year, mainly due to the increase in the public works function. Public works expenditures increased \$266,354, due to the purchase of a trackless sidewalk plow in the current year.

ENTERPRISE FUNDS OVERVIEW

The City maintains several enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City’s enterprise funds, which include the Water and Sewer Utility, Storm Water Utility, Street Light Utility, and Low Rent Housing Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City’s enterprise funds during the years ended December 31, 2020 and 2021, presented both by classification and by fund:

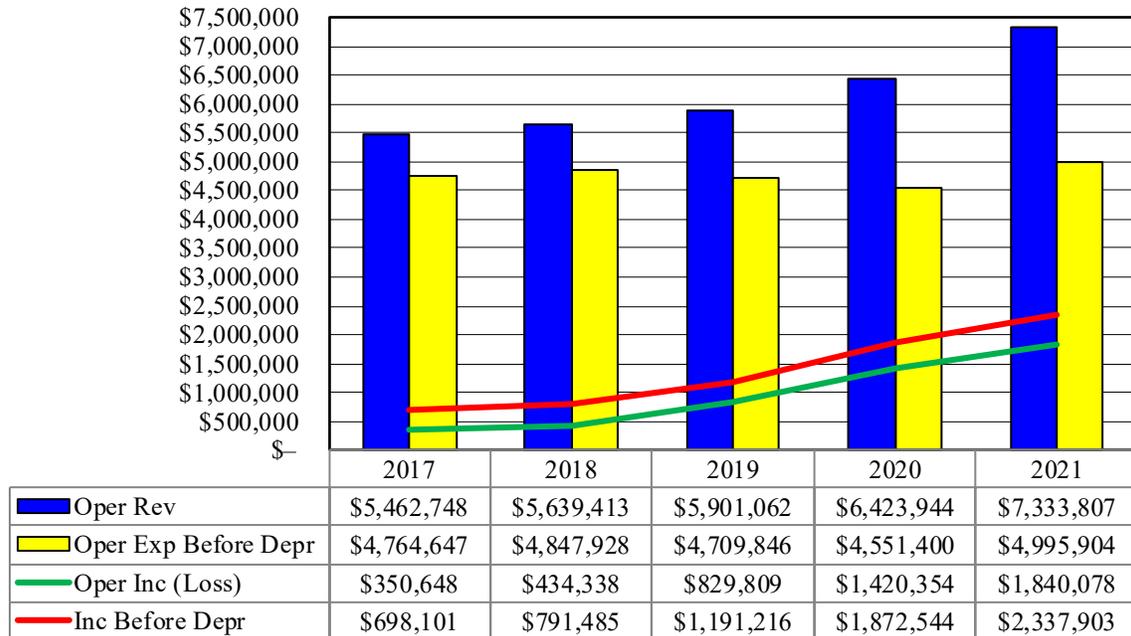
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	2020	2021	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 25,893,184	\$ 25,706,792	\$ (186,392)
Unrestricted	<u>9,415,522</u>	<u>12,251,143</u>	<u>2,835,621</u>
Total enterprise funds	<u>\$ 35,308,706</u>	<u>\$ 37,957,935</u>	<u>\$ 2,649,229</u>
Total by fund			
Water and Sewer Utility	\$ 20,744,514	\$ 22,221,626	\$ 1,477,112
Storm Water Utility	7,663,224	8,199,122	535,898
Street Light Utility	338,062	368,536	30,474
Low Rent Housing	<u>6,562,906</u>	<u>7,168,651</u>	<u>605,745</u>
Total enterprise funds	<u>\$ 35,308,706</u>	<u>\$ 37,957,935</u>	<u>\$ 2,649,229</u>

In total, the net position of the City’s enterprise funds increased \$2,649,229 during the year ended December 31, 2021, mainly in unrestricted net position. Unrestricted net position increased due to positive operating results in each of the enterprise funds noted above.

WATER AND SEWER UTILITY FUND

The following graph presents five years of comparative operating results for the City's Water and Sewer Utility Fund:

Water and Sewer Utility Fund
Year Ended December 31,



The Water and Sewer Utility Fund ended 2021 with a total net position of \$22,221,626, an increase of \$1,477,112 from the prior year. Of this, \$14,306,137 represents the net investment in utility distribution system capital assets, leaving \$7,915,489 of unrestricted net position.

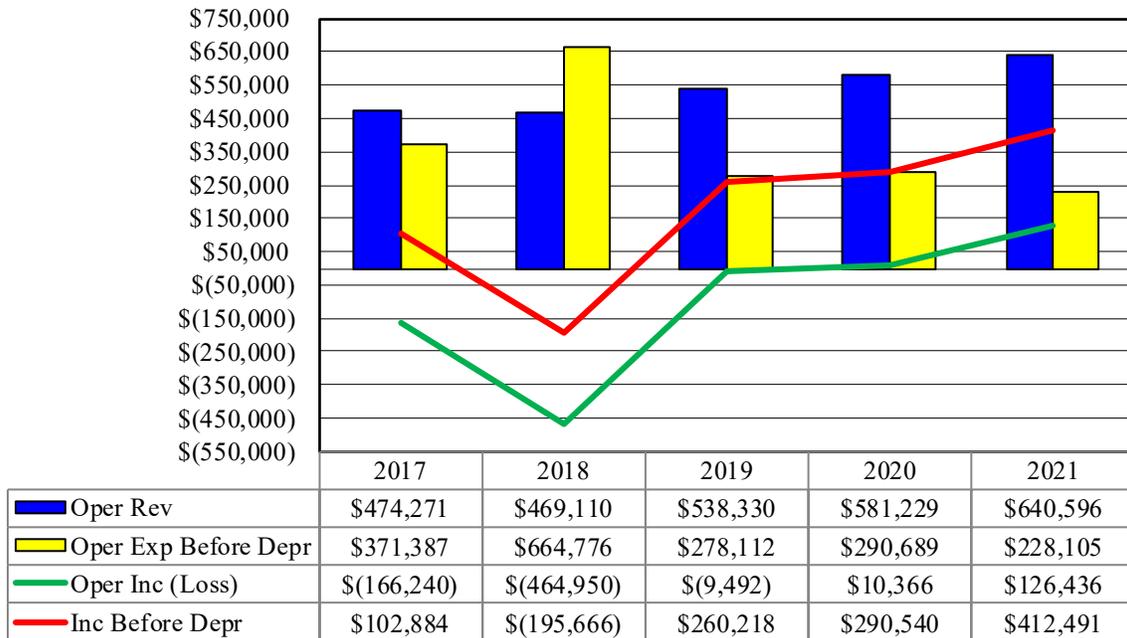
Operating revenue in the Water and Sewer Utility Fund was \$7,333,807, an increase of \$909,863 (14.2 percent) from the prior year, due to the increased rates and consumption.

Water and Sewer Utility Fund operating expenses before depreciation for 2021 were \$4,995,904, an increase of \$444,504 (9.8 percent) from the previous year. The largest factor contributing to the change was due to additional maintenance, an increase in utility costs, and an increase in professional services.

STORM WATER UTILITY FUND

The following graph presents five years of comparative operating results for the City's Storm Water Utility Fund:

Storm Water Utility Fund
Year Ended December 31,



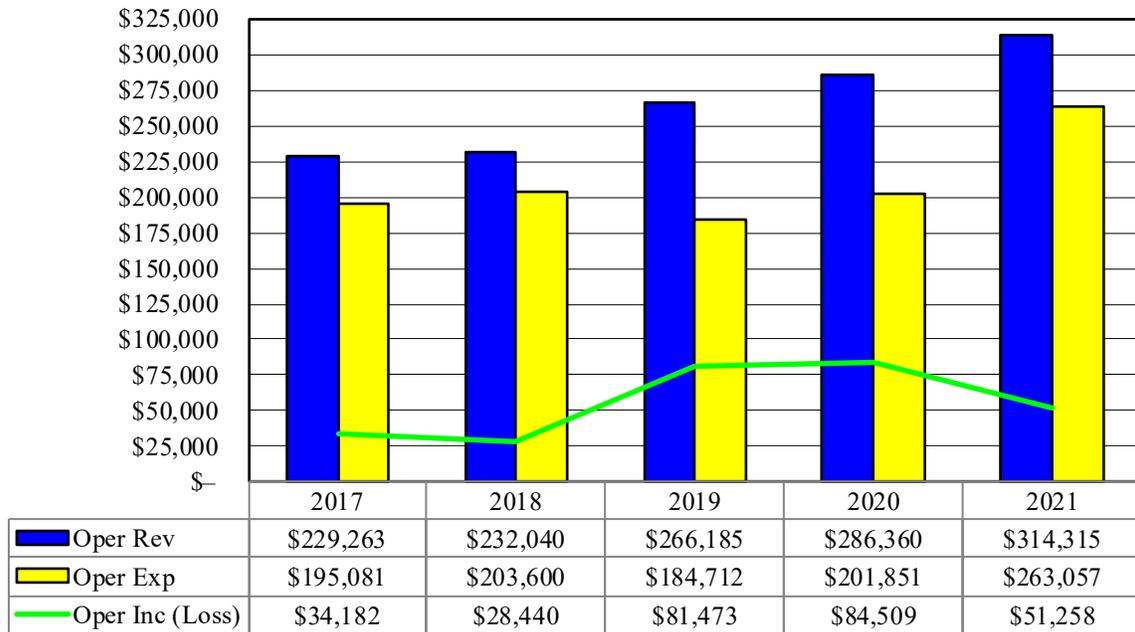
The Storm Water Utility Fund ended 2021 with a total net position of \$8,199,122, an increase of \$535,898 from the prior year. Of this, \$7,673,439 represents the City's net investment in its storm water collection system capital assets, leaving an unrestricted net position of \$525,683.

Operating revenue in the Storm Water Utility Fund was \$640,596, an increase of \$59,367 (10.2 percent) from the prior year, due to the rate increase. Storm Water Utility Fund operating expenses before depreciation for 2021 were \$228,105, a decrease of \$62,584 (21.5 percent), mainly in materials and supplies.

STREET LIGHT UTILITY FUND

The following graph presents five years of comparative operating results for the City's Street Light Utility Fund:

Street Light Utility Fund
Year Ended December 31,

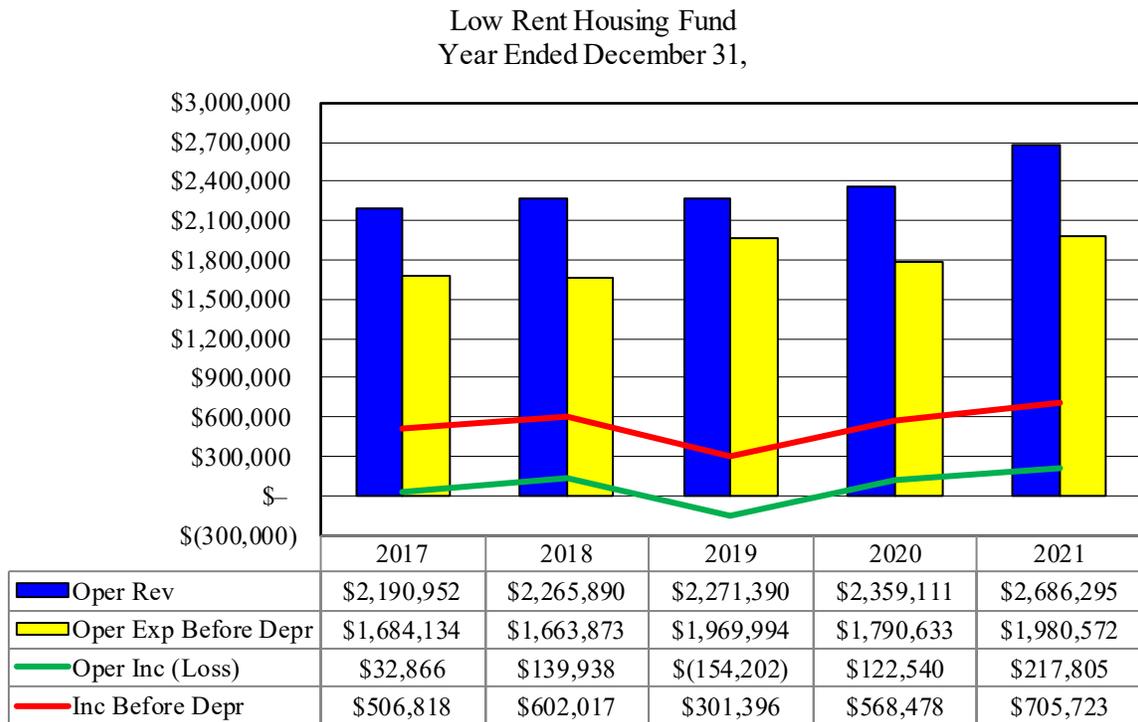


The Street Light Utility Fund ended 2021 with a total net position of \$368,536, an increase of \$30,474 from the prior year. This entire balance represents unrestricted net position.

Street Light Utility Fund operating revenue for fiscal 2021 was \$314,315, an increase of \$27,955 (9.8 percent) from the prior year, due to a rate increase. Operating expenses for 2021 were \$263,057, an increase of \$61,206 (30.3 percent), mainly due to increased materials, supplies, and contractual services.

LOW RENT HOUSING FUND

The following graph presents five years of comparative operating results for the City's Low Rent Housing Fund:



The Low Rent Housing Fund ended 2021 with a total net position of \$7,168,651, an increase of \$605,745 from the prior year. Of this, \$3,727,216 represents the investment in low rent housing capital assets, leaving \$3,441,435 of unrestricted net position.

Operating revenue in the Low Rent Housing Fund was \$2,686,295, an increase of \$327,184 (13.9 percent) from the prior year.

Low Rent Housing Fund operating expenses before depreciation for 2021 were \$1,980,572, an increase of \$189,939 (10.6 percent) from the previous year, mainly in increased contractual service costs, due to higher maintenance costs.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what the City owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, the Statement of Net Position divides the net position into three components:

- **Net Investment in Capital Assets** – The portion of net position reflecting equity in capital assets (i.e., capital assets minus related debt).
- **Restricted Net Position** – The portion of net position equal to resources whose use is legally restricted minus any noncapital-related liabilities payable from those same resources.
- **Unrestricted Net Position** – The residual balance of net position after the elimination of net investment in capital assets and restricted net position.

The following table presents the components of the City’s net position as of December 31, 2020 and 2021, for governmental activities and business-type activities:

	As of December 31,		Change
	2020	2021	
Net position			
Governmental activities			
Net investment in capital assets	\$ 57,231,399	\$ 63,616,350	\$ 6,384,951
Restricted	13,016,751	14,520,448	1,503,697
Unrestricted	6,818,193	10,777,178	3,958,985
Total governmental activities	<u>77,066,343</u>	<u>88,913,976</u>	<u>11,847,633</u>
Business-type activities			
Net investment in capital assets	25,893,184	25,706,792	(186,392)
Unrestricted	8,917,914	11,920,351	3,002,437
Total business-type activities	<u>34,811,098</u>	<u>37,627,143</u>	<u>2,816,045</u>
Total net position	<u>\$ 111,877,441</u>	<u>\$ 126,541,119</u>	<u>\$ 14,663,678</u>

Net position for governmental activities increased by \$11,847,633 in 2021, as presented above. The net investment in capital assets increased \$6,384,951 this year, mainly due to the significant amount of construction activity in the current year. The remaining change in this category of net position typically depends on the relationship of the rate at which the City is adding capital assets, the rate capital assets are being depreciated, and how the City finances the purchase and construction of capital assets. The restricted portion of net position increased \$1,503,697, mainly due to the increase in restricted balances for tax increment financing and economic development. The increase in unrestricted net position reflects positive operating results in the City’s governmental funds.

The change in net position for business-type activities is consistent with our earlier discussion for the utility operations, which are presented under the same full accrual basis of accounting.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net position. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2020 and 2021:

	Net Revenue (Expense)	
	2020	2021
Net (expense) revenue		
Governmental activities		
General government	\$ (1,120,324)	\$ (1,235,060)
Public safety	(9,022,386)	(7,949,757)
Public works	1,640,464	3,007,651
Community development	(569,739)	257,592
Parks, arena, and library	(2,075,953)	(1,720,534)
Economic development	(741,706)	(1,353,195)
Transportation	(160,034)	54,954
Interest on long-term debt	(770,470)	(702,669)
Business-type activities		
Water and sewer utility	1,380,872	1,940,327
Storm water utility	62,604	594,471
Street light utility	84,509	51,258
Low rent housing	452,098	605,307
Total net (expense) revenue	(10,840,065)	(6,449,655)
General revenues		
General property taxes	14,102,051	14,866,306
Tax increments	1,821,727	2,192,026
Franchise tax	1,203,096	1,343,648
Unrestricted grants and contributions	4,333,360	2,786,142
Investment income	310,363	(74,789)
Gain on sale of capital assets	54,160	—
Total general revenues	21,824,757	21,113,333
Change in net position	\$ 10,984,692	\$ 14,663,678

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows if the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources. The change in public works is due to additional funding received in 2020 for expenses in a previous year. The decrease in unrestricted grants reflects the federal CRF received in 2020.

LEGISLATIVE UPDATES

As the first year of the fiscal biennium, the primary focus of the 2021 Minnesota legislative session would typically have been the development of the state's fiscal year (FY) 2022–2023 biennial budget. Positive news on the state's budget forecast entering the session, with projections for the end of the FY 2020–2021 biennium improving from a \$2.4 billion shortfall predicted in a May 2020 special pandemic budget projection to a \$940.0 million surplus predicted in the February 2021 budget and economic forecast, was expected to ease the budget process and relieve the pressure to make budget cuts during an already uncertain time. However, given the significant events of the preceding year, including the COVID-19 pandemic and death of George Floyd, the focus of the regular session shifted to legislation responding to the pressing issues that resulted from those events. The business of setting a biennial budget was ultimately not addressed until a June special session that ended in the early morning hours of July 1st.

The following is a brief summary of legislative changes from the 2021 session or previous legislative sessions potentially impacting Minnesota cities.

American Rescue Plan (ARP) Act – The federal ARP Act, signed into law in March 2021, provided federal economic recovery funding for federal, state, and local government responses to the COVID-19 pandemic. Minnesota local governments received approximately \$2.1 billion in funding under the ARP Act, including \$644.0 million awarded to 21 large cities (over 50,000 population) and \$377.0 million awarded to cities and towns with a population below 50,000, with half distributed in FY 2021 and half in FY 2022. Local governments can use ARP Act funding in four broad categories: responding to public health and economic impacts; providing premium pay to essential workers; providing general government services to the extent of revenue loss; or investments in water, sewer, and broadband infrastructure.

Potential State Aid Enhancements – The 2021 Legislature increased state general fund base spending by approximately \$1.3 billion. Included are funding increases for several programs potentially of benefit to Minnesota cities, including:

- A one-time appropriation of \$5.5 million for supplemental aid to cities for FY 2022, to offset losses of local government aid (LGA) for 96 cities under the current formula. It is expected the Legislature will review and consider updating the LGA formula during the 2022 session.
- Annual appropriations of \$1.8 million for the Greater Minnesota Business Development Public Infrastructure Grant Program, intended to bolster local economic growth by providing grant assistance to cities for public infrastructure needed to create and retain jobs.
- Annual appropriations of \$2.5 million for local community childcare grants, intended to assist local communities to increase the number of childcare providers to support economic development.
- Allocating a total of \$70.0 million from the state's ARP Act funds over the biennium (\$35.0 million per year) to fund the Border-to-Border Broadband Grant Program, which provides grants to local governments for enhancing broadband availability.
- Annual allocations of \$4.5 million for reimbursements to local governments for firefighter training and education costs.
- Annual allocations of \$2.9 million for reimbursement to local governments for peace officer training costs.
- A one-time appropriation of \$18.0 million for FY 2022 to the small cities assistance account to provide additional road repair funding for cities under 5,000 population.

Truth-in-Taxation Changes – Effective for property taxes payable in 2023 and thereafter, county auditors will be required to prepare a new statement for inclusion in its parcel-specific truth-in-taxation notices that contains summary budget information for the county, cities, and school districts for which they spread and collect tax levies. Cities with a population greater than 500 will be required to compile and provide current and proposed summary budget information to the county auditor, based on the summary budget information cities are required to submit each year to the Minnesota state auditor.

Tax Base Change for Low-Income Rental Property – Effective for assessment years 2022 and 2023, the first-tier limit for class 4d low-income rental property is reduced from \$174,000 to \$100,000, with class rates remaining at 0.75 percent on the first \$100,000 and 0.25 percent on the remaining balance. The tier limit will once again be adjusted annually after assessment year 2023.

Local Sales Tax Projects Defined – Minnesota cities are authorized to include up to five capital projects in proposals for local sales taxes. The definition of a capital project for this purpose was updated to include: a single building or structure, including associated infrastructure; improvements within a single park or recreation area, or; a contiguous trail.

Tax Increment Financing (TIF) Flexibility – The Legislature enacted several measures that provide additional flexibility for TIF spending, including:

- Allowing unobligated TIF to be used to provide loans, interest rate subsidies, or other assistance to private developers for the construction or substantial rehabilitation of buildings and ancillary facilities, if doing so will create jobs. Transfer authority expires on December 31, 2022, and all transferred increment must be spent by December 31, 2025, or returned to the TIF district.
- Allowing TIF districts that have elected to increase pooling by 10 percent to use the increment for owner-occupied housing that meets the requirements of a housing TIF district, in addition to current low-income rental housing.
- Providing three-year extensions of the five-year and six-year rules for redevelopment districts created after December 31, 2017, but before June 30, 2020, thereby extending their duration.
- Creating a three-city pilot program, giving temporary authority to transfer unobligated housing TIF district increment to the cities affordable housing trust funds.

Sales and Use Tax Refund Process – Effective for purchases made after June 30, 2021, cities and other local governments are allowed to utilize a streamlined process to secure a sales tax refund on construction materials purchased by a contractor on behalf of the city for construction, remodeling, expansion, or improvement of public safety facilities owned by local governments, such as police and fire stations. The process also applies to materials used in related facilities, such as access roads, lighting, sidewalks, and utility components. Under the process, local governments would continue to initially pay sales tax on these materials, but would then be allowed to file for a refund of the sales tax paid. Contractors would be required to provide the local government with the information necessary to file for the refund.

Fire Protection Special Taxing District Authority – Effective for property tax levies payable in 2023 and thereafter, the current law giving emergency medical districts taxing authority is expanded to include fire protection districts. Two or more local units of government are now permitted to establish a special taxing district to provide fire protection, emergency medical services, or both. The special taxing district will have authority to levy property taxes to finance district operations, spread either across the entire district at a set rate, or allocated to each participating jurisdiction based on factors, such as population or service calls. Districts will also have authority to issue debt related to the function of the district. The property tax and debt issuance authority also apply to existing districts established prior to June 30, 2021.

Open Meeting Law – The Legislature made several pandemic-related changes to the Open Meeting Law, including removing the statutory cap of three times per year for elected officials to utilize a medical exception for attending meetings remotely between January 1, 2021, and July 1, 2021, and removing the requirement for elected officials participating in public meetings remotely, due to military service or medical exceptions, to disclose their remote locations. The law changes also updated the definition of “interactive technology” to replace “interactive television” throughout the text of the Open Meeting Laws, and added requirements for public bodies meeting remotely to enable remote participation by the public free of charge and enable public comment from remote locations, when practical.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB Statement No. 87, *Leases*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 91, *Conduit Debt Obligations*

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third party obligors in the course of their activities.

This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefit (OPEB) plan.
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for post-employment benefits.
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

The requirements of this statement are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

An SBITA is defined as a contract that conveys control of the right to use another party's (an SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an Amendment of GASB Statement No. 14 and No. 84, and a Supersession of GASB Statement No. 32

The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this statement that (1) exempt primary governments that perform the duties that a government board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.

GASB Statement No. 98, The Annual Comprehensive Financial Report

This statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

CITY OF SOUTH ST. PAUL
DAKOTA COUNTY, MINNESOTA

Special Purpose Audit Reports on

Single Audit,
Internal Controls, and Compliance
With Laws and Regulations

Year Ended
December 31, 2021

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CITY OF SOUTH ST. PAUL
DAKOTA COUNTY, MINNESOTA

Table of Contents

	Page
Schedule of Expenditures of Federal Awards	1
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	2–3
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	4–7
Independent Auditor's Report on Minnesota Legal Compliance	8
Schedule of Findings and Questioned Costs	9–13

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CITY OF SOUTH ST. PAUL

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal ALN	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct program		
Public and Indian Housing	14.850	\$ 921,189
Direct program		
Congregate Housing Services Program	14.170	\$ 193,382
COVID-19 – Congregate Housing Services Program	14.170	<u>16,990</u>
Subtotal ALN 14.170		210,372
Direct program		
Public Housing Capital Fund	14.872	682,987
U.S. Department of Justice		
Direct program		
Bulletproof Vest Partnership Program	16.607	2,326
U.S. Department of Transportation		
Passed through the Minnesota Department of Transportation		
Airport Improvement Program	20.106	343,076
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	2,546,540
Passed through the Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	4,782
Minimum Penalties for Repeat Offenders for Driving		
While Intoxicated	20.608	1,057
U.S. Department of Treasury		
Passed through the Minnesota Department of Transportation		
COVID-19 – Coronavirus Relief Fund	21.019	<u>23,000</u>
Total federal awards		<u>\$ 4,735,329</u>

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the City's basic financial statements.

Note 2: Unless noted in the table above, the pass-through entities use the same federal assistance listing numbers (ALN) as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The City did not elect to use the 10 percent de minimis indirect cost rate.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and Management
City of South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South St. Paul, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 23, 2022



PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the City Council and Management
City of South St. Paul, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

QUALIFIED AND UNMODIFIED OPINIONS

We have audited the City of South St. Paul, Minnesota's (the City) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

QUALIFIED OPINION ON PUBLIC AND INDIAN HOUSING

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended December 31, 2021.

UNMODIFIED OPINION ON EACH OF THE OTHER MAJOR FEDERAL PROGRAMS

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2021.

BASIS FOR QUALIFIED AND UNMODIFIED OPINIONS

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

(continued)

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance requirements referred to on the previous page.

MATTER GIVING RISE TO QUALIFIED OPINION ON PUBLIC AND INDIAN HOUSING

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with the Public and Indian Housing requirements for special tests and provisions reported as finding 2021-002.

Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance objectives referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance and is therefore, not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during our audit.

(continued)

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section on the previous page, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding 2021-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding 2021-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

(continued)

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated June 23, 2022, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 23, 2022



PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South St. Paul, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2022.

MINNESOTA LEGAL COMPLIANCE

In connection with our audit, we noted that the City failed to comply with provisions of the contracting – bid laws and depositories of public funds and investments sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Questioned Costs as findings 2021-003 and 2021-004. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

CITY'S RESPONSES TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the legal compliance findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 23, 2022

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CITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor’s report is issued? X Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified? X Yes None reported

Type of auditor’s report issued on compliance for major programs?

U.S. Department of Housing and Urban Development – Public and Indian Housing Qualified
U.S. Department of the Transportation – Highway Planning and Construction Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Programs tested as major programs:

Program or Cluster	Federal ALN
U.S. Department of Housing and Urban Development – Public and Indian Housing	14.850
U.S. Department of Transportation – Highway Planning and Construction	20.205

Threshold for distinguishing type A and B programs: \$ 750,000

Does the auditee qualify as a low-risk auditee? Yes X No

CITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2021

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER COMPLIANCE – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

2021-001 Reporting Compliance Requirement

Criteria – 2 CFR § 200.510 requires that the City of South St. Paul, Minnesota (the City) prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) for the year ended December 31, 2021, which must include the total federal awards expended as determined in accordance with 2 CFR § 200.502. Management is responsible for establishing and maintaining effective internal controls over compliance with requirements applicable to federal programs, including separately tracking federal expenditures within the finance system to provide for accurate preparation of the SEFA.

Condition – During our audit, we noted the City did not have sufficient controls in place to ensure completeness of the SEFA and compliance with this requirement. The City's SEFA was understated by \$1,063,198 in federal expenditures related to the Highway Planning and Construction and Airport Improvement Program federal programs.

Questioned Costs – Not applicable.

Context – On the December 31, 2021 SEFA, \$1,063,198 of \$4,735,329 was initially unreported.

Cause – This was an oversight by city personnel.

Repeat Finding – This is a current year finding.

Effect – An incomplete SEFA could result in incorrect major program determination and could be seen as a violation of federal award agreements.

Recommendation – We recommend that the City review its internal control procedures over reporting and verify completeness of expenditures reported on the SEFA in the future.

View of Responsible Official and Planned Corrective Actions – The City agrees with the finding. The City has separately issued a Corrective Action Plan related to this finding.

CITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2021

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE AND REPORTABLE INSTANCES OF NONCOMPLIANCE – U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PUBLIC AND INDIAN HOUSING – ALN 14.850

2021-002 Internal Control and Compliance With Special Tests and Provisions Requirements

Criteria – 24 CFR § 960. Management is responsible for establishing and maintaining effective internal control over compliance with requirements applicable to federal programs, including special tests and provisions requirements applicable to the Public and Indian Housing federal program.

Condition – During our audit, we noted that the City did not have sufficient controls in place within the Public and Indian Housing federal program to assure compliance with federal special tests and provisions requirements, which resulted in noncompliance. The City did not have proper controls in place regarding the waiting list to verify new tenants were placed into housing, based on approved policies.

Questioned Costs – Not applicable.

Context – The condition applies to special tests and provisions requirements as noted above. Nine of forty individuals added to the waiting list selected for testing were not added in accordance with the City's policy. Two of ten individuals placed into housing from the waiting list selected for testing were not placed in accordance with the City's policy.

Cause – This was an oversight by city personnel.

Repeat Finding – This is a current year and prior year finding.

Effect – Noncompliance with the special tests and provisions requirements could be viewed as a violation of the award agreement and result in tenants being placed into housing incorrectly based on their rank on the waiting list.

Recommendation – We recommend that the City review its internal control procedures relating to special tests and provisions requirements for all federal programs. The City should verify compliance with federal special tests and provisions procedures, including the waiting list, to ensure tenants are being properly placed into housing.

View of Responsible Official and Planned Corrective Actions – The City agrees with the finding. The City has separately issued a Corrective Action Plan related to this finding.

CITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2021

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2021-003 Group Insurance Request for Proposal

Criteria – Minnesota Statutes § 471.6161.

Condition – A city that provides group insurance for 25 or more employees shall request proposals from, and enter into, contracts with entities that in the judgment of a city are best qualified to provide coverage. The request for proposals shall be in writing and at a minimum shall include: coverage to be provided, criteria for evaluation of proposals, and the aggregate claims records for the appropriate period. Public notice of the request for proposals must be provided in a newspaper or trade journal at least 21 days before the final date for submitting proposals. The City did not comply with this statute for one group insurance contract entered into during fiscal year 2021.

Questioned Costs – Not applicable.

Context – One contract tested was not in compliance. The noncompliant contract was health insurance.

Cause – This was an oversight by city personnel.

Repeat Finding – This is a current year finding.

Effect – The City did not follow state statutes for group insurance request for proposals before entering into a new contract.

Recommendation – We recommend that the City review group insurance request for proposal procedures and obtain required documentation for future contracts.

View of Responsible Official and Planned Corrective Actions – The City agrees with the finding. The City will review its procedures relating to group insurance request for proposal to ensure compliance in the future.

CITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2021

D. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2021-004 Collateral

Criteria – Minnesota Statutes § 118A.03.

Condition – Minnesota Statutes require that if a city's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the City's accounts at December 31, 2021.

Questioned Costs – Not applicable.

Context – The City was under collateralized by \$166,920 for deposits as of December 31, 2021.

Cause – This was an oversight by city personnel.

Repeat Finding – This is a current year finding.

Effect – Deposits exceeding \$250,000 federal deposit insurance coverage may be lost in the event of a bank failure.

Recommendation – We recommend that the City obtain corporate surety bonds or collateral that has a market value of at least 110 percent of the City's deposits that exceed federal deposit insurance coverage.

View of Responsible Official and Planned Corrective Actions – The City agrees with the finding. The City will review its procedures in place to ensure compliance in the future.

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Corrective Action Plans and
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

A. FINANCIAL STATEMENT FINDINGS

None.

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2021-001 REPORTING COMPLIANCE REQUIREMENT

Summary of Finding

The City of South St. Paul, Minnesota (the City) did not have proper controls in place to ensure completeness of the Schedule of Expenditures of Federal Awards (SEFA) and compliance with this requirement. During our audit, we noted the City did not have sufficient controls in place to ensure completeness of the SEFA and compliance with this requirement. The City's SEFA was understated by \$1,063,198 in federal expenditures related to the Highway Planning and Construction and Airport Improvement Program federal programs.

Corrective Action Plan

Actions Planned – The City has implemented new processes and procedures in 2022 which address this internal control finding to comply with the Uniform Guidance in the future.

Official Responsible – The City's Finance Director, Clara Hilger.

Planned Completion Date – December 31, 2022.

Disagreement With or Explanation of Finding – The City agrees with this finding.

Plan to Monitor – The City's Finance Director, Clara Hilger, will ensure the new process and procedures implemented address internal controls and procedures in this area to ensure future federal grant compliance.

CITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2021

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2021-002 INTERNAL CONTROL AND COMPLIANCE WITH SPECIAL TESTS AND PROVISIONS REQUIREMENTS

Summary of Finding

The City did not have proper controls in place regarding the waiting list to verify new tenants were placed into housing based on approved policies. During our audit, we noted that the City did not have sufficient controls in place within the Public and Indian Housing federal program to assure compliance with federal special tests and provisions requirements, which resulted in noncompliance.

Corrective Action Plan

Actions Planned – The City has implemented new processes and procedures in 2022 which address this internal control and compliance finding to comply with the Uniform Guidance in the future.

Official Responsible – The City’s Director of Economic and Community Development, Ryan Garcia.

Planned Completion Date – December 31, 2022.

Disagreement With or Explanation of Finding – The City agrees with this finding.

Plan to Monitor – The City’s Finance Director, Clara Hilger, will ensure the new process and procedures implemented address internal controls and procedures in this area to ensure future federal grant compliance.

CITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2021

C. MINNESOTA LEGAL COMPLIANCE FINDINGS

2021-003 GROUP INSURANCE REQUEST FOR PROPOSAL

Summary of Finding

The City did not comply with state statutes for one group insurance request for proposal before entering into a new contract during fiscal year 2021. A city that provides group insurance for 25 or more employees shall request proposals from, and enter into, contracts with entities that in the judgment of a city are best qualified to provide coverage. The request for proposals shall be in writing and at a minimum shall include: coverage to be provided, criteria for evaluation of proposals, and the aggregate claims records for the appropriate period. Public notice of the request for proposals must be provided in a newspaper or trade journal at least 21 days before the final date for submitting proposals.

Corrective Action Plan

Actions Planned – The City will review group insurance request for proposal procedures to ensure the City complies with Minnesota Statutes in the future.

Official Responsible – The City’s Finance Director, Clara Hilger.

Planned Completion Date – December 31, 2022.

Disagreement With or Explanation of Finding – The City agrees with this finding.

Plan to Monitor – The City’s Finance Director, Clara Hilger, will ensure appropriate internal controls and procedures are updated and in place to ensure future compliance.

CITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2021

C. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2021-004 COLLATERAL

Summary of Finding

Minnesota Statutes require that if a city's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the City's accounts at December 31, 2021.

Corrective Action Plan

Actions Planned – The City will review its procedures relating to deposits and investments to ensure compliance in the future.

Official Responsible – The City's Finance Director, Clara Hilger.

Planned Completion Date – December 31, 2022.

Disagreement With or Explanation of Finding – The City agrees with this finding.

Plan to Monitor – The City's Finance Director, Clara Hilger, will ensure appropriate internal controls and procedures are updated and in place to ensure future compliance.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-001 Internal Control and Compliance With Special Tests and Provisions Requirements

A current finding is listed in the report of the City as finding 2021-002.