

Management Report
for
City of Arden Hills, Minnesota
December 31, 2023

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PRINCIPALS

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To the City Council and Management
City of Arden Hills, Minnesota

We have prepared this management report in conjunction with our audit of the City of Arden Hills, Minnesota's (the City) financial statements for the year ended December 31, 2023. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- 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
May 6, 2024

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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 AND *GOVERNMENT AUDITING STANDARDS*

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, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. 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 OPINIONS AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2023:

- We have issued unmodified opinions on the City's basic financial statements.
- We reported one matter involving the City's internal control over financial reporting that we consider to be a significant deficiency, as detailed in the Special Purpose Audit Reports. Due to the limited size of the City's office staff, the City has limited segregation of duties in certain areas.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FUND BALANCE/NET POSITION DEFICITS

As reported in the City's Annual Comprehensive Financial Report (ACFR), the EDA TIF District No. 5 Special Revenue Fund and the TCAAP Capital Project Fund had year-end deficit equity balances of \$24,701 and \$194,879, respectively. Management has disclosed that these deficits will be eliminated with future contributions, grants, and internal fund transfers, if needed.

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.

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:

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Pension Benefits** – The City has recorded liabilities and activity for pension benefits. Actuarial estimates of the net pension balances are calculated using actuarial methodologies described in Governmental Accounting Standards Board Statement No. 68. The actuarial calculations include significant assumptions, including projected changes, investment returns, retirement ages, proportionate share, and employee turnover.
- **Compensated Absences** – Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood that unused balances will ultimately be paid out at termination.

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 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.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated May 6, 2024.

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) and the 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 combining and individual fund statements and schedules, reported as supplementary information, as described in the table of contents, which accompany the financial statements, but 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 section and the statistical section, 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 projects 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 2021 fiscal year (the most recent comparative state-wide data available), local ad valorem property tax levies provided 44.0 percent of the total governmental fund revenues for cities over 2,500 in population, and 35.5 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2023 increased 4.2 percent compared to the prior year, and 7.5 percent for taxes payable in 2024.

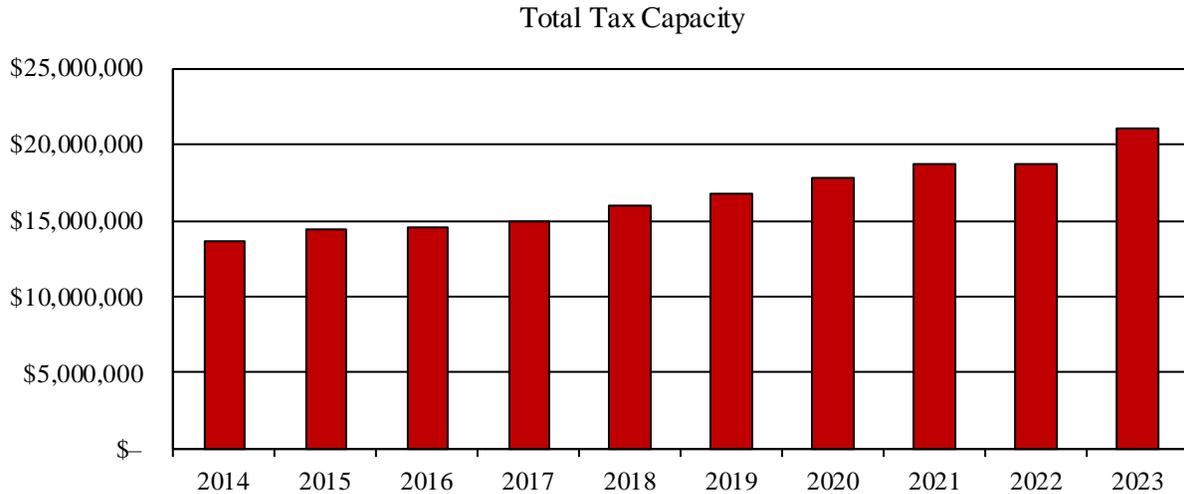
The taxable net tax capacity value of property in Minnesota cities increased about 17.7 percent for the 2023 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2023 were based on assessed market values as of January 1, 2022), 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 0.2 percent for taxes payable in 2022 and increased 13.1 percent for taxes payable in 2023. 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 0.1 percent for 2022 and increased 12.9 percent for 2023.

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 Arden Hills		
	2021	2022	2023
Average tax rate			
City	25.1	26.5	23.6
County	47.7	48.1	44.9
School	23.9	23.4	25.5
Special taxing	7.8	10.0	8.8
Total	<u>104.5</u>	<u>108.0</u>	<u>102.8</u>

The overall decrease in the average tax rate was spread across most of the taxing authorities as presented in the table above, with a slight increase in the school portion. Increases in property valuations contributed to the change in the average tax rate.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2023, presented both by fund balance classification and by fund:

Governmental Fund Change in Fund Balance			
	Fund Balance as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 43,847	\$ 38,579	\$ 5,268
Restricted	2,103,255	1,641,192	462,063
Committed	713,987	658,457	55,530
Assigned	6,644,390	5,471,259	1,173,131
Unassigned	<u>2,659,048</u>	<u>2,854,218</u>	<u>(195,170)</u>
Total governmental funds	<u>\$ 12,164,527</u>	<u>\$ 10,663,705</u>	<u>\$ 1,500,822</u>
Total by fund			
General	\$ 3,205,735	\$ 3,366,237	\$ (160,502)
Permanent Improvement Revolving	5,605,205	4,702,027	903,178
Other governmental funds	<u>3,353,587</u>	<u>2,595,441</u>	<u>758,146</u>
Total governmental funds	<u>\$ 12,164,527</u>	<u>\$ 10,663,705</u>	<u>\$ 1,500,822</u>

In total, the fund balances of the City's governmental funds increased by \$1,500,822 during the year ended December 31, 2023. The largest increases were in amounts restricted for public safety and tax increment purposes, along with increases in amounts assigned for capital improvements and public safety capital equipment.

GOVERNMENTAL FUNDS REVENUE

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 in 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	State-Wide			City of Arden Hills			
	December 31, 2021			2021	2022	2023	
Population	2,500–10,000	10,000–20,000	20,000–100,000	9,897	9,682	9,706	
Property taxes	\$ 560	\$ 529	\$ 557	\$ 433	\$ 455	\$ 472	
Tax increments	38	36	49	40	35	4	
Franchise and other taxes	52	66	53	10	10	9	
Special assessments	59	41	56	67	45	37	
Licenses and permits	45	46	53	76	86	49	
Intergovernmental revenues	421	293	202	51	56	113	
Charges for services	135	111	110	46	49	35	
Other (charges)	60	39	26	62	(5)	106	
Total revenue	\$ 1,370	\$ 1,161	\$ 1,106	\$ 785	\$ 731	\$ 825	

The City’s governmental funds revenue for 2023 was \$8,007,697, an increase of \$938,272 from the prior year. On a per capita basis, the City received \$825 in governmental funds revenue for 2023, an increase of \$94 from the prior year.

The City’s governmental funds have generated significantly less revenue per capita in total than other Minnesota cities in its population class. A city’s stage of development, along with the way a city finances various capital projects, will impact the mix of revenue sources it receives.

Property taxes increased as anticipated with the change in the adopted levy. A new state public safety grant increased the amount of intergovernmental revenues in the current year. The largest change in the table above was the increase in the “Other” category, which includes investment earnings. Shifts in interest rates between fiscal years has had a significant impact on the fair value on certain investments held by the City. Required fair value adjustments on investments was a significant factor in the increase in investment earnings compared to the prior year. There was less development activity in the current year accounting for the decrease in tax increments, licenses and permits, and charges for services.

GOVERNMENTAL FUND EXPENDITURES

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:

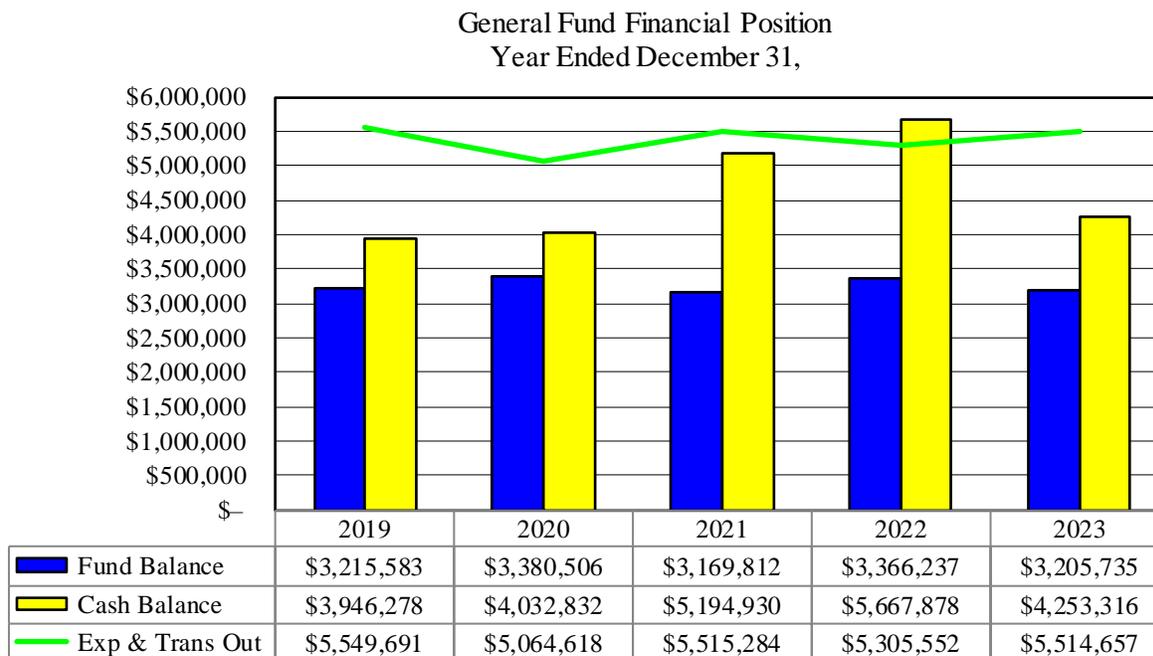
Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class						
Year	State-Wide			City of Arden Hills		
	December 31, 2021			2021	2022	2023
Population	2,500–10,000	10,000–20,000	20,000–100,000	9,897	9,682	9,706
Current						
General government	\$ 168	\$ 131	\$ 116	\$ 115	\$ 124	\$ 143
Public safety	327	296	327	274	263	279
Public works	144	124	112	62	94	70
Parks and recreation	108	124	107	63	69	74
All other	101	79	77	35	14	8
Total current	<u>848</u>	<u>754</u>	<u>739</u>	<u>549</u>	<u>564</u>	<u>574</u>
Capital outlay and construction	525	407	317	255	237	128
Debt service						
Principal	168	161	110	–	–	–
Interest and fiscal	48	41	34	–	–	–
Total debt service	<u>216</u>	<u>202</u>	<u>144</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total expenditures	<u>\$ 1,589</u>	<u>\$ 1,363</u>	<u>\$ 1,200</u>	<u>\$ 804</u>	<u>\$ 801</u>	<u>\$ 702</u>

Total expenditures in the City's governmental funds for 2023 were \$6,818,600, a decrease of \$940,539 (12.1 percent). The City's total per capita governmental funds expenditures for 2023 were \$702, a decrease from the per capita expenditures total of \$801 in the prior year.

Capital outlay and construction decreased by \$109 per capita, with a decrease in the amount of street improvements compared to the prior year. This also impacted current expenditures for public works, which were down by \$24 per capita.

GENERAL FUND FINANCIAL POSITION

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, street 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 and transfers out to reflect the change in the size of the General Fund operation over the same period.



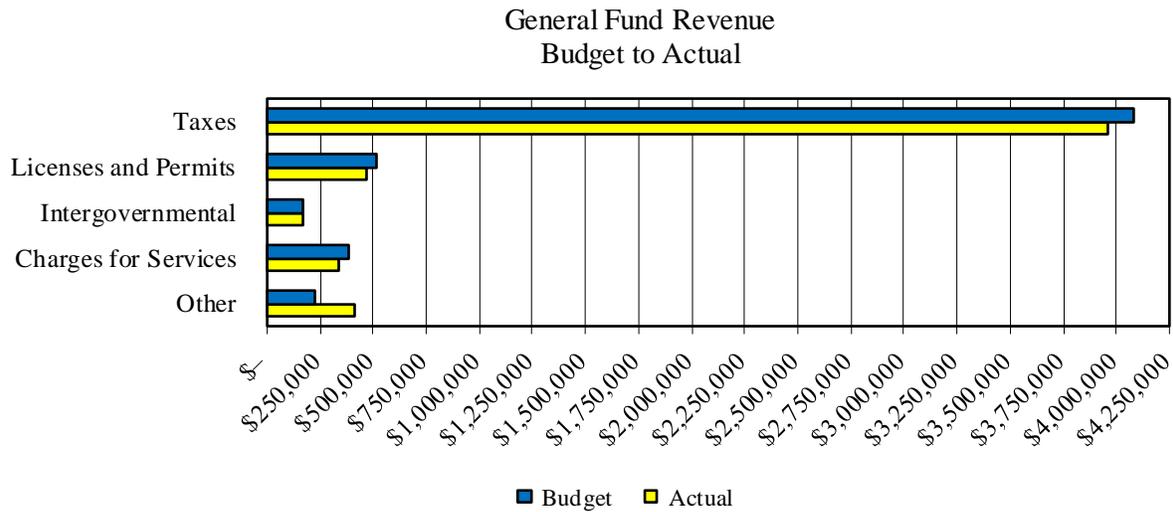
The City's General Fund cash and investments balance on December 31, 2023, was \$4,253,316, a decrease of \$1,414,562 from the prior year. Total fund balance on December 31, 2023, was \$3,205,735, a decrease of \$160,502 from the prior year. This fund balance level represents approximately 60.0 percent of the City's annual General Fund expenditures based on 2023 expenditure levels, which compares to a prior year fund balance level of 64.7 percent. The overall impact of operations on fund balance was \$232,388 better than anticipated in the final budget.

As the graph illustrates, the City has generally been able to maintain stable cash and fund balance levels as the volume of financial activity has fluctuated. This is an important factor because governments, like any organization, requires a certain amounts of equity to operate. 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 is a factor in determining the City's bond rating and resulting interest costs.

A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Property taxes comprise approximately 74.0 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

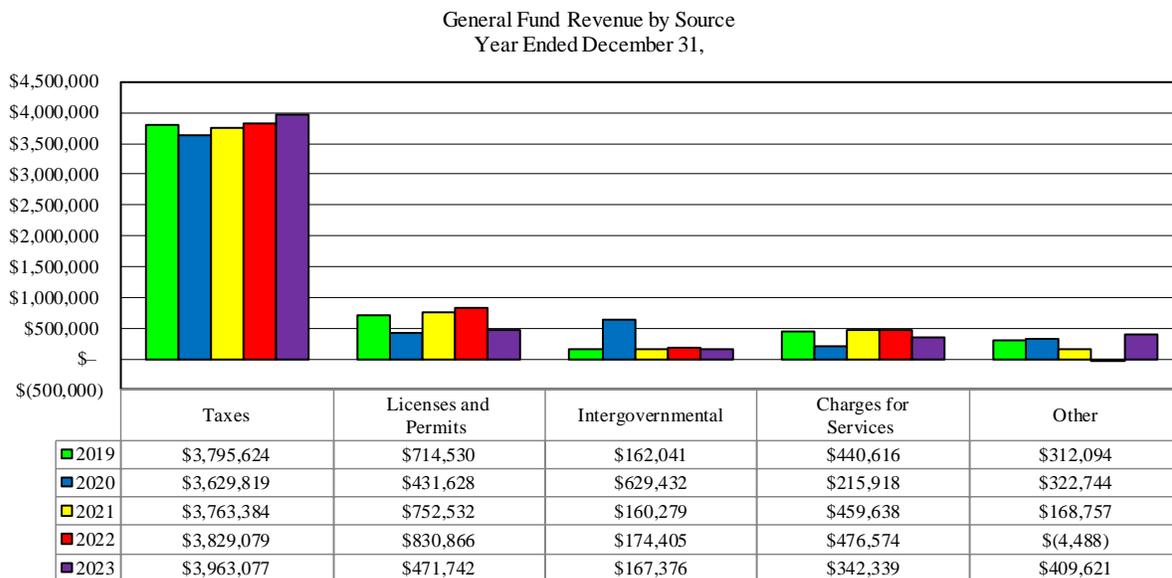
GENERAL FUND REVENUES

The following graph reflects the City’s General Fund revenues, budget and actual, for 2023:



Total General Fund revenues for 2023 were \$5,354,155, which was \$15,265 (0.3 percent) under the final budget. Other sources exceeded budget by \$183,931, largely due to fair value changes, which increased investment earnings and conservative estimates anticipated for various other miscellaneous sources in the current year. The favorable variance in other sources nearly offset the shortfall in other areas presented in the above graph.

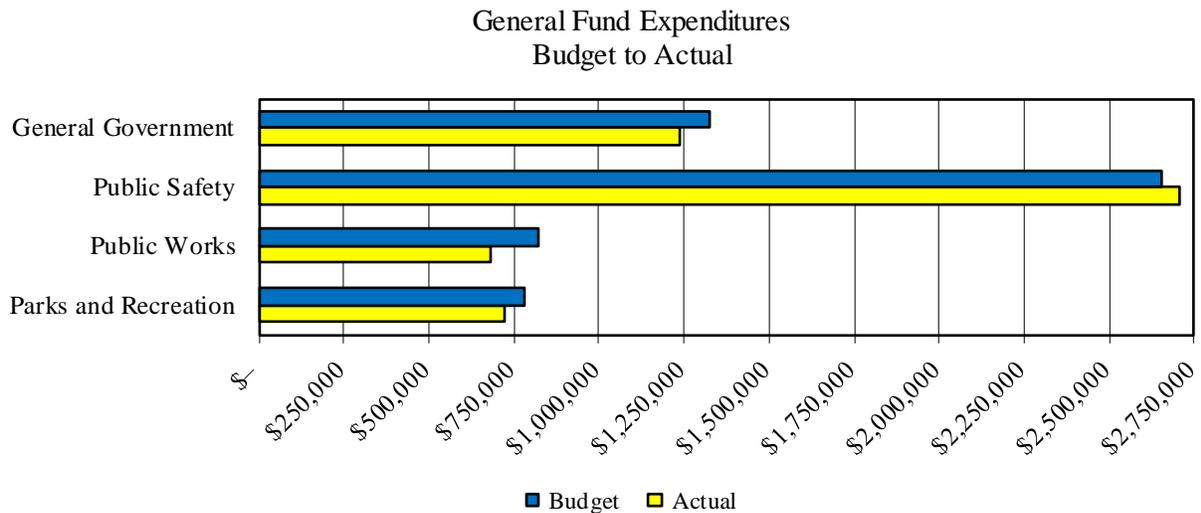
The following graph presents the City’s General Fund revenues by source for the last five years. The graph reflects the City’s reliance on property taxes:



Total General Fund revenues for 2023 were \$47,719 more than prior year. Taxes were up in the General Fund, due to an increase in the tax levy. Licenses and permits and charges for services were down in the current year, with less projects occurring in the community. Intergovernmental revenues were also slightly down compared to amounts reported last year. Remaining revenue sources of the General Fund were \$414,109 more than 2022, with an increase in investment earnings, due to fair value adjustments in the current year.

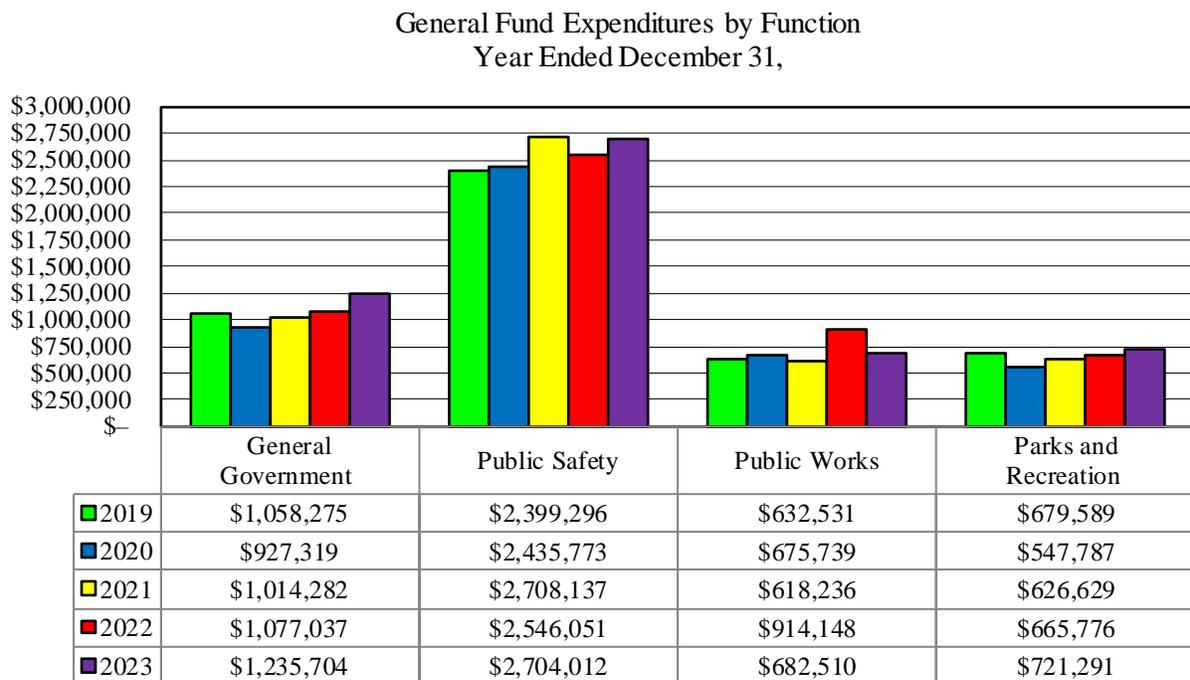
GENERAL FUND EXPENDITURES

The following graph reflects the City’s General Fund expenditures, budget and actual, for 2023:



Total General Fund expenditures for 2023 were \$5,343,517, which was \$247,653 (4.4 percent) under the final budget. As presented in the budgetary comparison schedule (within the City’s ACFR), expenditure variances were both favorable and unfavorable within the various functions and departments, while overall, they remained within total appropriations approved by the City Council. The functions for general government, public works, and parks and recreation were under budget, largely in personal services and other services and charges. The public safety function was \$48,212 over budget, mainly in other services and charges for police and animal control and for protective inspections.

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



Overall, General Fund expenditures increased \$140,505 (2.7 percent) from the prior year. The largest increases were in general government and public safety, these increases were partially offset by a decrease in public works spending compared to budget.

ENTERPRISE FUNDS OVERVIEW

The City maintains 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, Sewer, Surface Water Management, and Recycling Funds.

The utility funds comprise a considerable portion of the City's activities. We understand that the City is proactive in reviewing these activities on an ongoing basis, and we want to reiterate the importance of continually monitoring these operations. Over the years, we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general government funds. This would include the accumulation of net position for future capital improvements and to provide a cushion in the event of a negative trend in operations.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2023, presented both by classification and by fund:

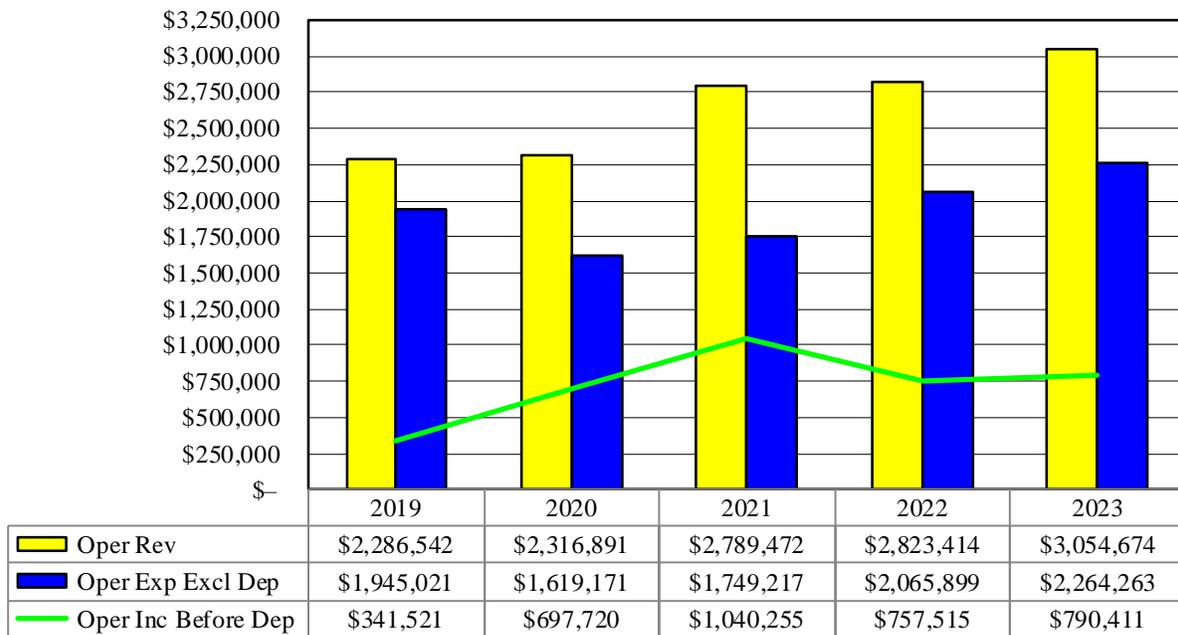
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 18,887,277	\$ 18,960,842	\$ (73,565)
Unrestricted	<u>6,079,346</u>	<u>4,679,804</u>	<u>1,399,542</u>
Total enterprise funds	<u><u>\$ 24,966,623</u></u>	<u><u>\$ 23,640,646</u></u>	<u><u>\$ 1,325,977</u></u>
Total by fund			
Water	\$ 10,824,360	\$ 10,350,785	\$ 473,575
Sewer	8,110,877	7,544,199	566,678
Surface Water Management	5,790,963	5,539,163	251,800
Nonmajor Recycling	<u>240,423</u>	<u>206,499</u>	<u>33,924</u>
Total enterprise funds	<u><u>\$ 24,966,623</u></u>	<u><u>\$ 23,640,646</u></u>	<u><u>\$ 1,325,977</u></u>

In total, the net position of the City's enterprise funds increased by \$1,325,977 during the year ended December 31, 2023. The increase in net position is primarily related to positive operating results and capital contributions for connection fees and capital grants recognized in the current year.

WATER FUND

The following graph presents five years of operating results for the Water Fund:

Water Fund
Year Ended December 31,



The Water Fund ended 2023 with a net position of \$10,824,360, an increase of \$473,575, from the prior year. Of total net position, \$7,397,458 represents the net investment in capital assets, leaving \$3,426,902 of unrestricted net position.

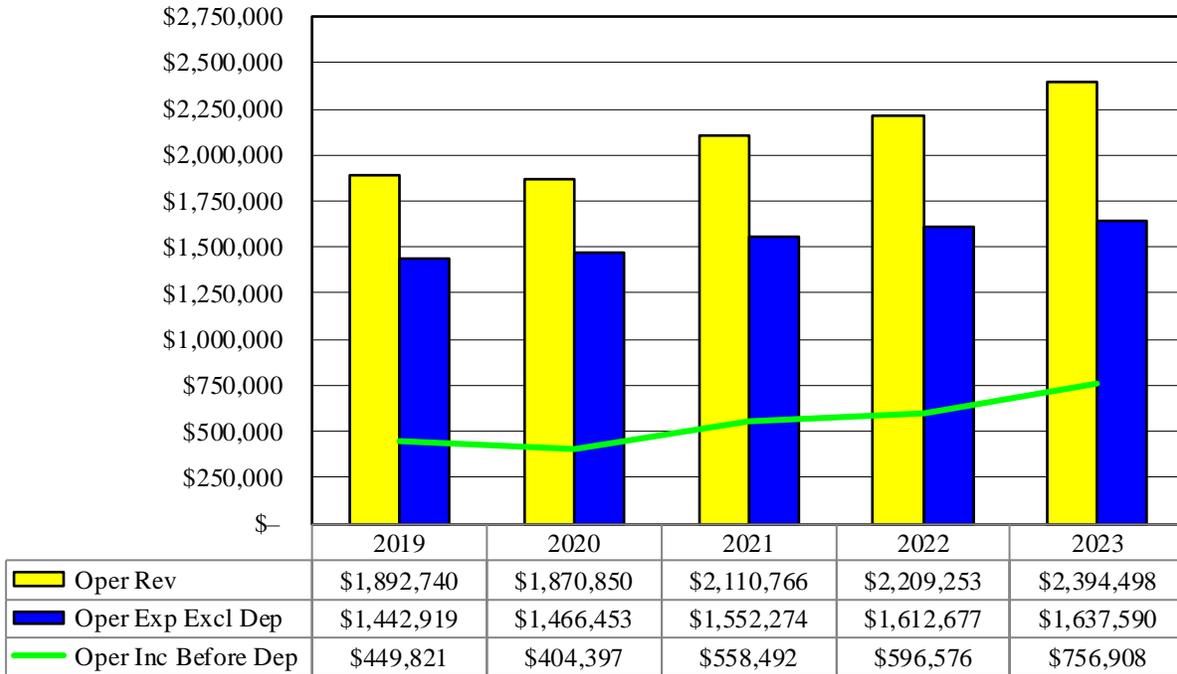
Water Fund operating revenues were \$3,054,674 for 2023, an increase of \$231,260, due to increased consumption. Operating expenses (excluding depreciation of \$376,642) were \$2,264,263, which represents an increase of \$198,364. Expenses increased largely due to an increase in the amount for water purchased from the City of Roseville.

Consumption will fluctuate from year-to-year based on many factors, including weather patterns and number of utility customers.

SEWER FUND

The following graph presents five years of operating results for the Sewer Fund:

Sewer Fund
Year Ended December 31,

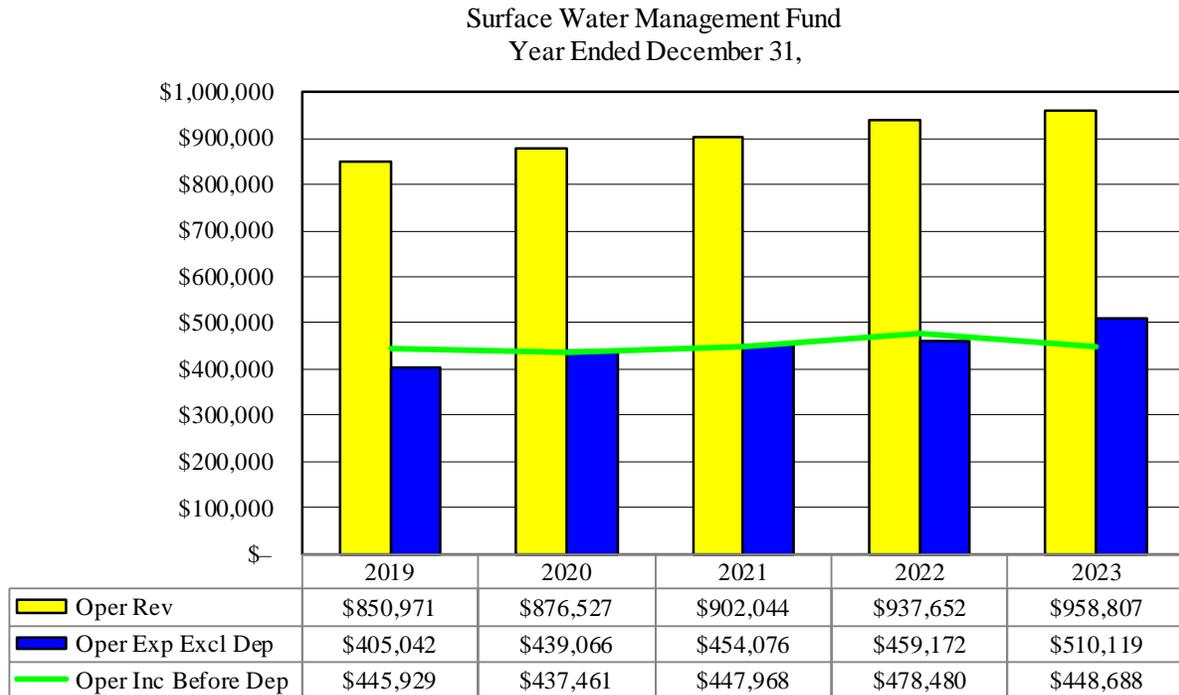


The Sewer Fund ended 2023 with a net position of \$8,110,877, an increase of \$566,678 from the prior year. Of total net position, \$6,487,665 represents the net investment in capital assets, leaving \$1,623,212 of unrestricted net position.

Sewer Fund operating revenues for 2023 were \$2,394,498, an increase of \$185,245 compared to last year, largely due to rate and consumption increases. Operating expenses for 2023 (excluding depreciation of \$221,567) were \$1,637,590, an increase of \$24,913 from the prior year. The largest increase was in sewer charges.

SURFACE WATER MANAGEMENT FUND

The following graph presents five years of operating results for the Surface Water Management Fund:

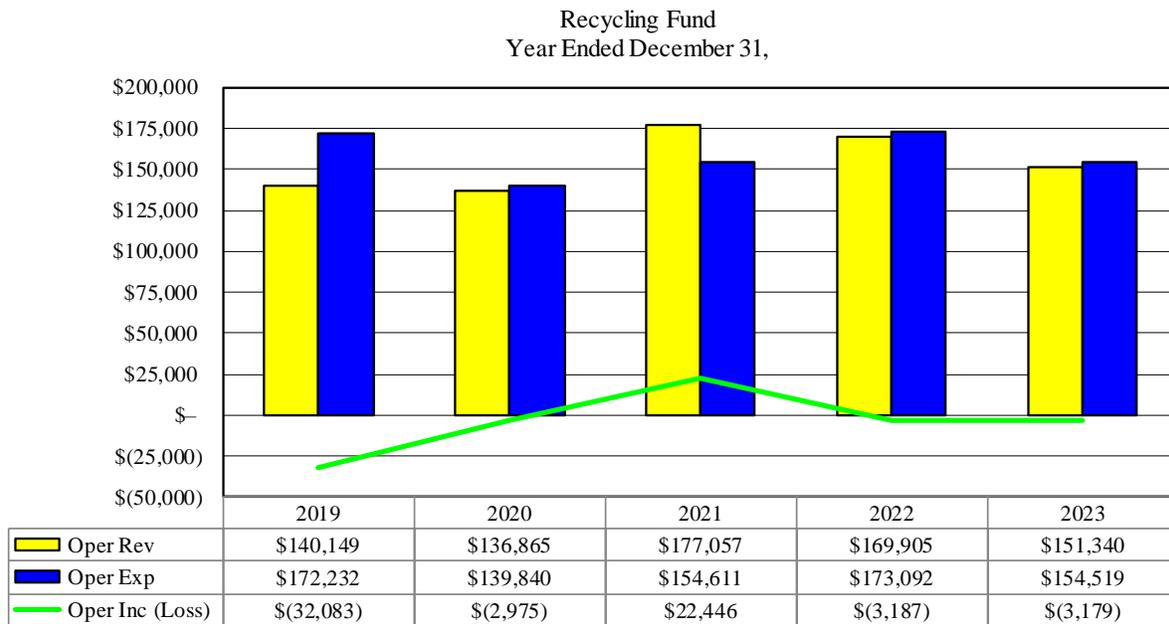


The Surface Water Management Fund ended 2023 with a net position of \$5,790,963, an increase of \$251,800 from the prior year. Of this, \$5,002,154 represents the net investment in capital assets, leaving \$788,809 of unrestricted net position.

Surface Water Management Fund operating revenues for 2023 were \$958,807, an increase of \$21,155 from last year. Operating expenses for 2023 (excluding depreciation of \$163,437) were \$510,119, or \$50,947 more than the prior year. The largest increase was in personal services, which includes the impact of changes in pension cost allocations.

RECYCLING FUND

The following graph presents five years of operating results for the Recycling Fund:



The Recycling Fund ended 2023 with an unrestricted net position of \$240,423, an increase of \$33,924 from the prior year.

Recycling Fund operating revenues for 2023 were \$151,340, a decrease of \$18,565 from the prior year. Operating expenses for 2023 were \$154,519, a decrease of \$18,537 from the prior year.

The Recycling Fund also received \$26,670 of nonoperating intergovernmental revenues that are available for the operation of the City's Recycling Program.

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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 your 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, net position is divided into three components: investment in capital assets, restricted, and unrestricted.

The following table presents the components of the City's net position as of December 31, 2023 and 2022, for governmental activities and business-type activities (utility fund operations):

	As of December 31,		Change
	2023	2022	
Net position			
Governmental activities			
Net investment in capital assets	\$ 28,247,394	\$ 28,318,503	\$ (71,109)
Restricted	2,103,290	1,641,206	462,084
Unrestricted	10,499,248	10,024,011	475,237
Total governmental activities	<u>40,849,932</u>	<u>39,983,720</u>	866,212
Business-type activities			
Net investment in capital assets	18,887,277	18,960,842	(73,565)
Unrestricted	6,079,346	4,679,804	1,399,542
Total business-type activities	<u>24,966,623</u>	<u>23,640,646</u>	1,325,977
Total net position	<u>\$ 65,816,555</u>	<u>\$ 63,624,366</u>	<u>\$ 2,192,189</u>

Net position for governmental activities increased by \$866,212 in 2023, as presented above. The investment in capital assets decreased \$71,109 this year, mainly due to depreciation activity in the current year. The 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 \$462,084, due to increases in the amounts restricted for public safety and tax increment purposes. The increase in unrestricted net position is due to operating results in the current year.

The change in net position for business-type activities is consistent with our earlier discussion of 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, 2023 and 2022:

	2023		2022	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 1,505,270	\$ 422,902	\$ (1,082,368)	\$ (906,002)
Public safety	2,889,826	1,019,754	(1,870,072)	(1,581,282)
Public works	1,327,617	680,242	(647,375)	(840,391)
Parks and recreation	1,136,248	93,721	(1,042,527)	(862,109)
Economic development	140,255	323	(139,932)	(196,488)
Business-type activities				
Water	2,677,247	3,093,292	416,045	647,413
Sewer	1,864,808	2,488,391	623,583	665,805
Surface water management	673,556	958,828	285,272	409,496
Recycling	154,519	178,010	23,491	23,623
Total net (expense) revenue	<u>\$ 12,369,346</u>	<u>\$ 8,935,463</u>	(3,433,883)	(2,639,935)
General revenues				
General property taxes			4,570,332	4,404,477
Tax increments			36,365	338,899
Franchise taxes			92,096	94,320
Unrestricted investment earnings (charges)			927,279	(560,873)
Gain on sale of capital assets			–	197,910
Total general revenues			<u>5,626,072</u>	<u>4,474,733</u>
Change in net position			<u>\$ 2,192,189</u>	<u>\$ 1,834,798</u>

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 taxes and unrestricted grants. It also shows that 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. As previously discussed in this report, changes in the investment market, contributed to the increase in current year investment earnings.

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.

GASB STATEMENT NO. 100, *ACCOUNTING CHANGES AND ERROR CORRECTIONS – AN AMENDMENT OF GASB STATEMENT NO. 62*

The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used, but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used, but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 102, *CERTAIN RISK DISCLOSURES*

The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities, due to certain concentrations or constraints.

This statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

A government will be required to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, a government must assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information (as outlined in the standard) in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.