

Management Report
for
City of Arden Hills, Minnesota
December 31, 2024



Certified Public Accountants Business Consultants

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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, 2024. 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.

Respectfully submitted,

A handwritten signature in black ink that reads 'LB Carlson, LLP'.

LB CARLSON, LLP
Minneapolis, Minnesota

May 19, 2025

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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, 2024. 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, 2024:

- 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 DEFICITS

As reported in the City's Annual Comprehensive Financial Report (ACFR), the Cable Special Revenue Fund, the EDA TIF District No. 5 Special Revenue Fund, and the TCAAP Capital Project Fund had year-end deficit fund balances of \$27,597, \$26,511, 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 compensated absences will be paid out over the course of employment or 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 19, 2025.

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 supplement 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 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 2022 fiscal year (the most recent comparative state-wide data available), local ad valorem property tax levies provided 44.1 percent of the total governmental fund revenues for cities over 2,500 in population, and 35.2 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2024 increased 7.5 percent compared to the prior year, and 7.7 percent for taxes payable in 2025.

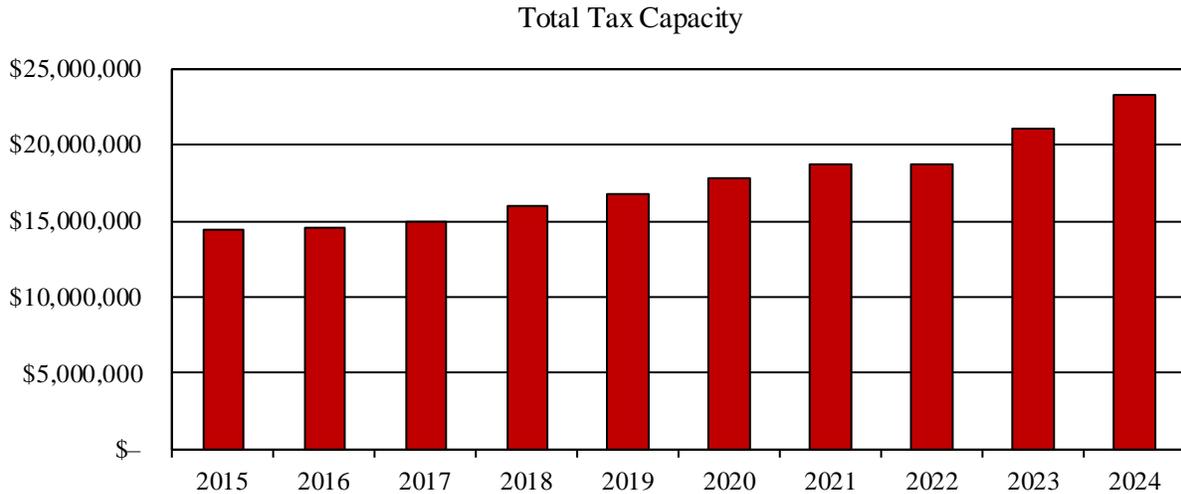
The taxable net tax capacity value of property in Minnesota cities increased about 8.4 percent for the 2024 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2024 were based on assessed market values as of January 1, 2023), so the trend of change in these tax capacity values lags somewhat behind the housing market and economy in general.

The City's market value increased 13.1 percent for taxes payable in 2023 and increased 9.0 percent for taxes payable in 2024. 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 12.9 percent and 10.3 percent for taxes payable in 2023 and 2024, respectively.

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		
	2022	2023	2024
Average tax rate			
City	26.5	23.6	24.5
County	48.1	44.9	45.5
School	23.4	25.5	25.0
Special taxing	10.0	8.8	8.9
Total	<u>108.0</u>	<u>102.8</u>	<u>103.9</u>

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

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, 2024, presented both by fund balance classification and by fund:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Change
	<u>2024</u>	<u>2023</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 49,266	\$ 43,847	\$ 5,419
Restricted	1,506,861	2,103,255	(596,394)
Committed	835,010	713,987	121,023
Assigned	4,264,184	6,644,390	(2,380,206)
Unassigned	<u>2,801,052</u>	<u>2,659,048</u>	<u>142,004</u>
Total governmental funds	<u>\$ 9,456,373</u>	<u>\$ 12,164,527</u>	<u>\$ (2,708,154)</u>
Total by fund			
General	\$ 3,320,763	\$ 3,205,735	\$ 115,028
Permanent Improvement Revolving	3,118,495	5,605,205	(2,486,710)
Other governmental funds	<u>3,017,115</u>	<u>3,353,587</u>	<u>(336,472)</u>
Total governmental funds	<u>\$ 9,456,373</u>	<u>\$ 12,164,527</u>	<u>\$ (2,708,154)</u>

In total, the fund balances of the City’s governmental funds decreased by \$2,708,154 during the year ended December 31, 2024. The largest change was in the decrease in the assigned fund balance within the Permanent Improvement Revolving Capital Project Fund. Capital spending on multiple projects accounted for the decrease in the fund balance assigned for capital improvements.

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, 2022			2022	2023	2024	
Population	2,500–10,000	10,000–20,000	20,000–100,000	9,682	9,854	9,879	
Property taxes	\$ 586	\$ 549	\$ 584	\$ 455	\$ 465	\$ 541	
Tax increments (abatements)	37	38	46	35	4	(2)	
Franchise and other taxes	56	72	58	10	9	9	
Special assessments	51	34	50	45	36	69	
Licenses and permits	43	47	55	86	48	45	
Intergovernmental revenues	400	381	223	56	111	60	
Charges for services	154	116	137	49	35	36	
Other (charges)	32	7	(21)	(5)	104	78	
Total revenue	\$ 1,359	\$ 1,244	\$ 1,132	\$ 731	\$ 812	\$ 836	

The City’s governmental funds revenue for 2024 was \$8,269,085, an increase of \$261,388 over the prior year. On a per capita basis, the City received \$836 in governmental funds revenue for 2024, an increase of \$24 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. Special assessments were up with a new street project assessed in the current year that generated more prepayments compared to the prior year. A one-time state public safety grant recognized last year was the main reason for the decrease in intergovernmental revenues when compared to the prior year. The decrease in the “Other” category was due to a reduction in investment earnings and the final payment from Bethel College last year on a joint trail project.

GOVERNMENTAL FUNDS 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, 2022			2022	2023	2024
Population	2,500–10,000	10,000–20,000	20,000–100,000	9,682	9,854	9,879
Current						
General government	\$ 172	\$ 145	\$ 126	\$ 124	\$ 140	\$ 162
Public safety	343	312	347	263	274	286
Public works	163	167	120	94	69	72
Parks and recreation	121	137	117	69	73	76
All other	86	88	92	14	8	31
Total current	<u>885</u>	<u>849</u>	<u>802</u>	<u>564</u>	<u>564</u>	<u>627</u>
Capital outlay and construction	509	446	346	237	126	521
Debt service						
Principal	163	133	117	–	–	–
Interest and fiscal	43	40	32	–	–	–
Total debt service	<u>206</u>	<u>173</u>	<u>149</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total expenditures	<u>\$ 1,600</u>	<u>\$ 1,468</u>	<u>\$ 1,297</u>	<u>\$ 801</u>	<u>\$ 690</u>	<u>\$ 1,148</u>

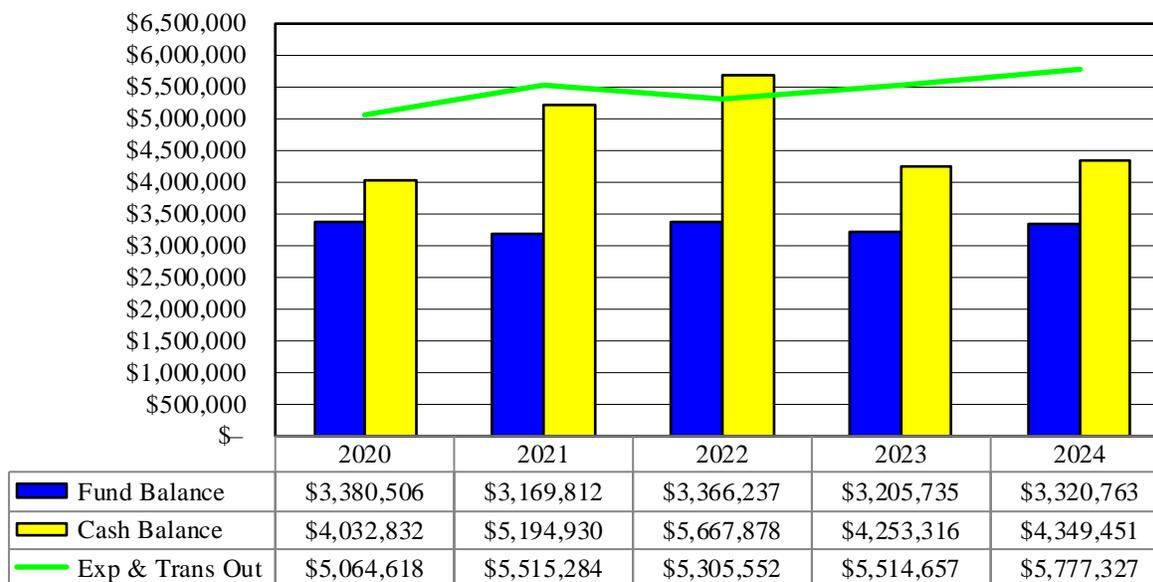
Total expenditures in the City’s governmental funds for 2024 were \$11,340,639, an increase of \$4,522,039. The City’s total per capita governmental funds expenditures for 2024 were \$1,148, an increase from the per capita expenditures total of \$690 in the prior year.

Capital outlay and construction increased by \$395 per capita, with more spending for street improvements compared to the prior year. The current portion of spending was up by \$63 per capital. Natural inflationary increases and an excess tax increment payment to the county contributed to the change in the current year.

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.

General Fund Financial Position
Year Ended December 31,



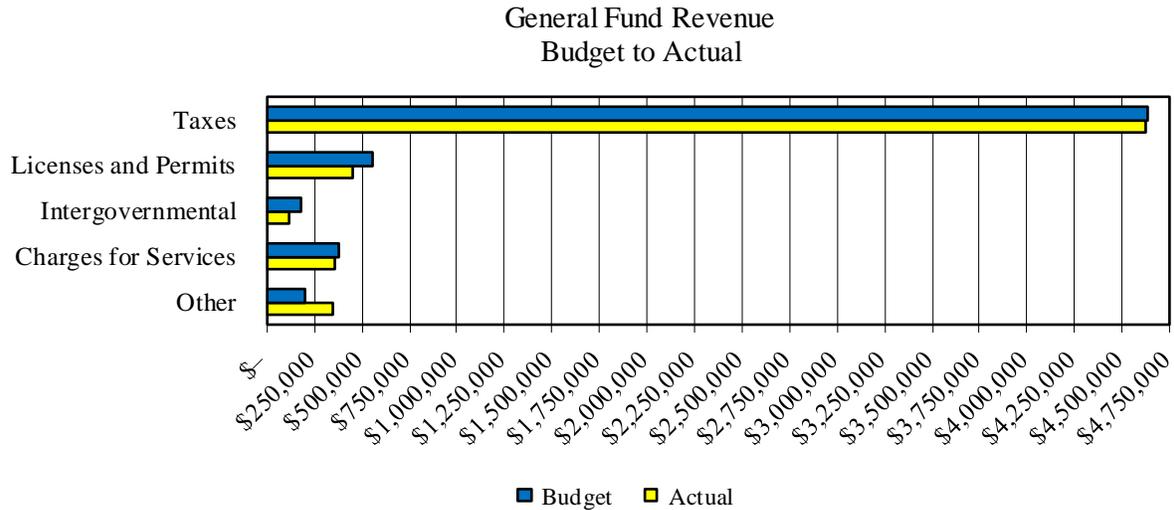
The City's General Fund cash and investments balance on December 31, 2024, was \$4,349,451, an increase of \$96,135 from the prior year. Total fund balance on December 31, 2024, was \$3,320,763, an increase of \$115,028 from the prior year. This fund balance level represents approximately 58.0 percent of the City's annual General Fund expenditures based on 2024 expenditure levels, which compares to a prior year fund balance level of 60.0 percent. The overall impact of operations on fund balance was \$297,098 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 amount 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 78.5 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.

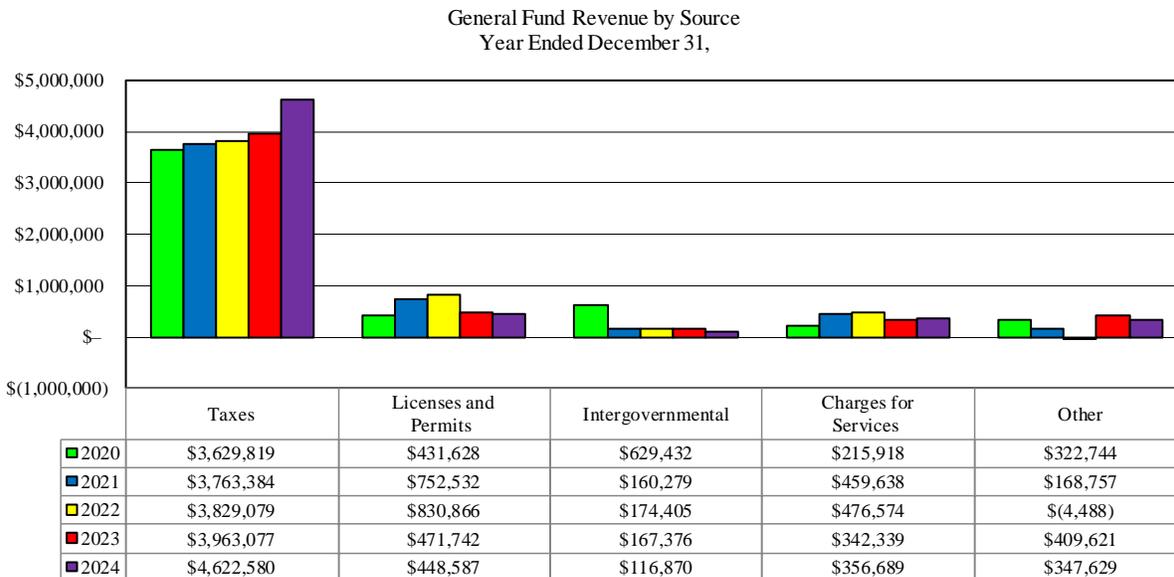
GENERAL FUND REVENUES

The following graph reflects the City's General Fund revenues, budget and actual, for 2024:



Total General Fund revenues for 2024 were \$5,892,355, which was \$46,845 (0.8 percent) under the final budget. Other sources exceeded budget by \$151,839, largely due to conservative estimates anticipated for investment earnings and 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.

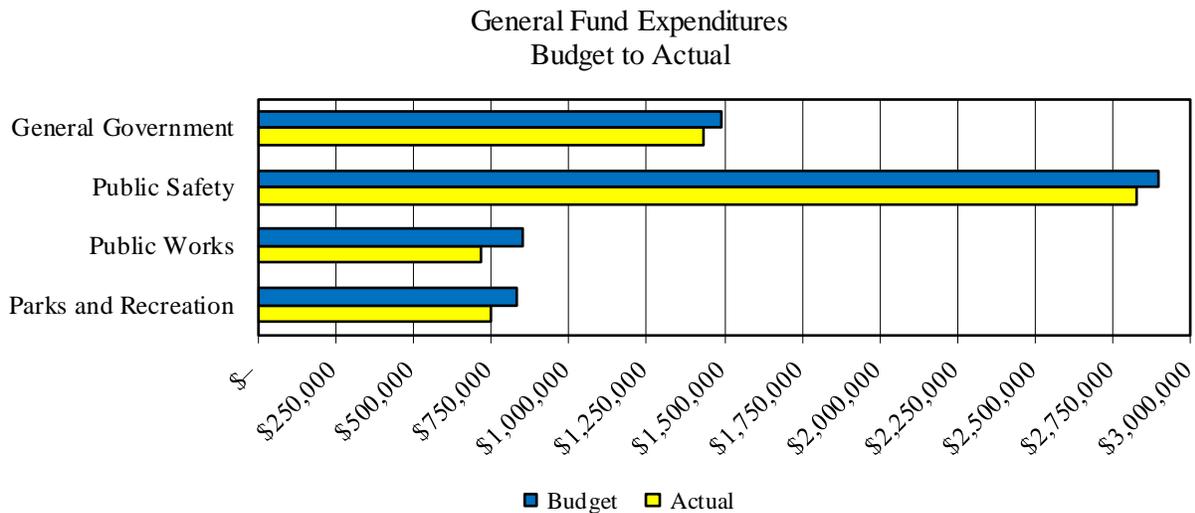
The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property taxes:



Total General Fund revenues for 2024 were \$538,200 more than prior year. Taxes were up in the General Fund, due to an increase in the council approved tax levy. Remaining revenue sources of the General Fund were \$121,303 less than 2023, with less development activity in the current year.

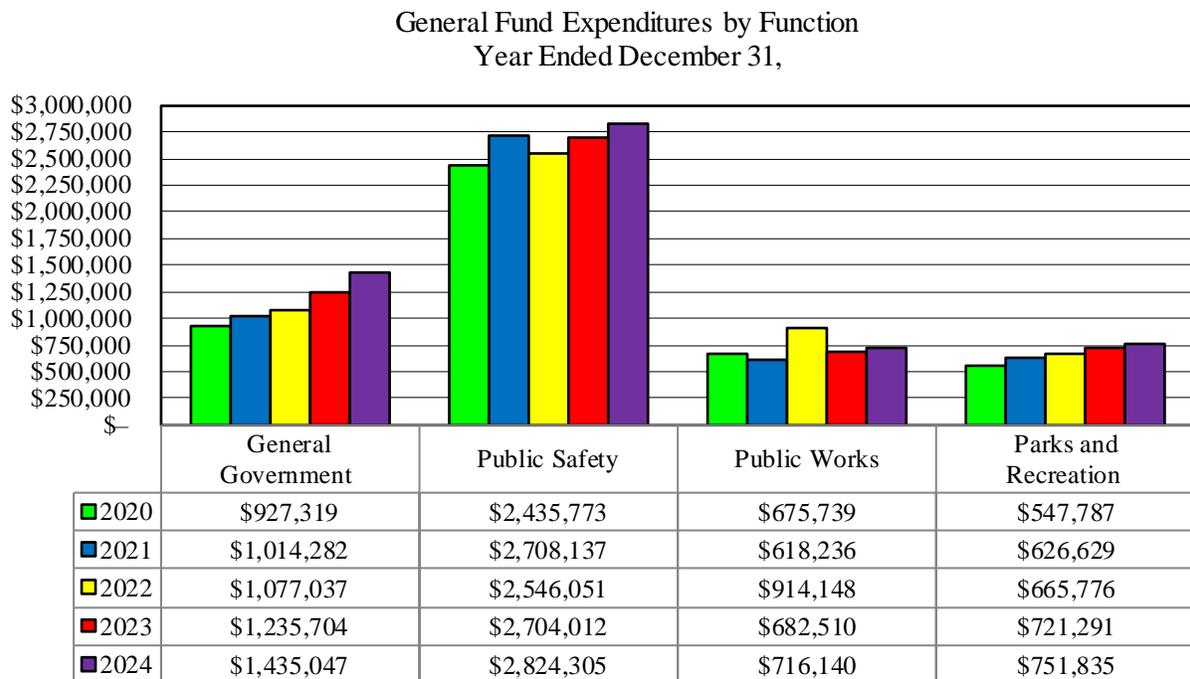
GENERAL FUND EXPENDITURES

The following graph reflects the City’s General Fund expenditures, budget and actual, for 2024:



Total General Fund expenditures for 2024 were \$5,727,327, which was \$343,943 (5.7 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. All functions for general government, public safety, public works, and parks and recreation were under budget, largely in personal services and other services and charges.

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



Overall, General Fund expenditures increased \$383,810 (7.2 percent) from the prior year. The largest increases were in general government and public safety, with smaller increases in public works and parks and recreation.

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.

ENTERPRISE FUNDS FINANCIAL POSITION

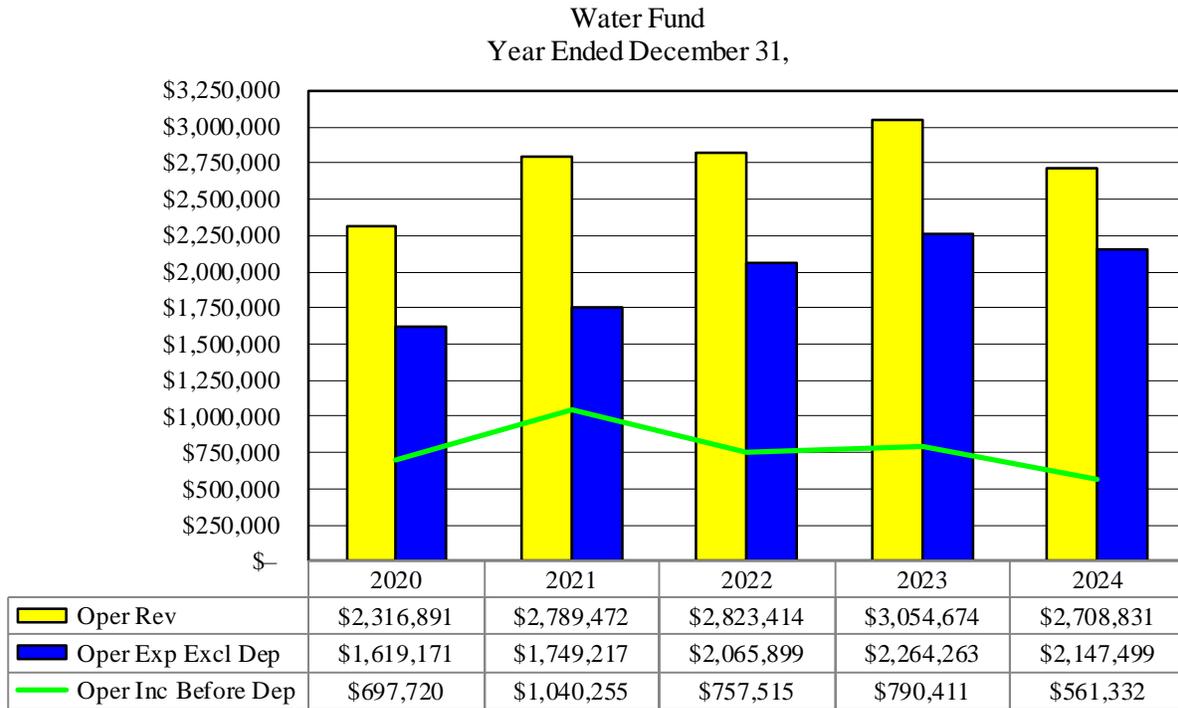
The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2024, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	2024	2023	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 19,805,933	\$ 18,887,277	\$ 918,656
Unrestricted	<u>6,338,765</u>	<u>6,079,346</u>	<u>259,419</u>
Total enterprise funds	<u>\$ 26,144,698</u>	<u>\$ 24,966,623</u>	<u>\$ 1,178,075</u>
Total by fund			
Water	\$ 11,229,489	\$ 10,824,360	\$ 405,129
Sewer	8,570,273	8,110,877	459,396
Surface Water Management	6,079,069	5,790,963	288,106
Recycling (nonmajor)	<u>265,867</u>	<u>240,423</u>	<u>25,444</u>
Total enterprise funds	<u>\$ 26,144,698</u>	<u>\$ 24,966,623</u>	<u>\$ 1,178,075</u>

In total, the net position of the City's enterprise funds increased by \$1,178,075 during the year ended December 31, 2024. The increase in net position is primarily related to positive operating results, investment earnings, 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:



The Water Fund ended 2024 with a net position of \$11,229,489, an increase of \$405,129, from the prior year. Of total net position, \$7,537,292 represents the net investment in capital assets, leaving \$3,692,197 of unrestricted net position.

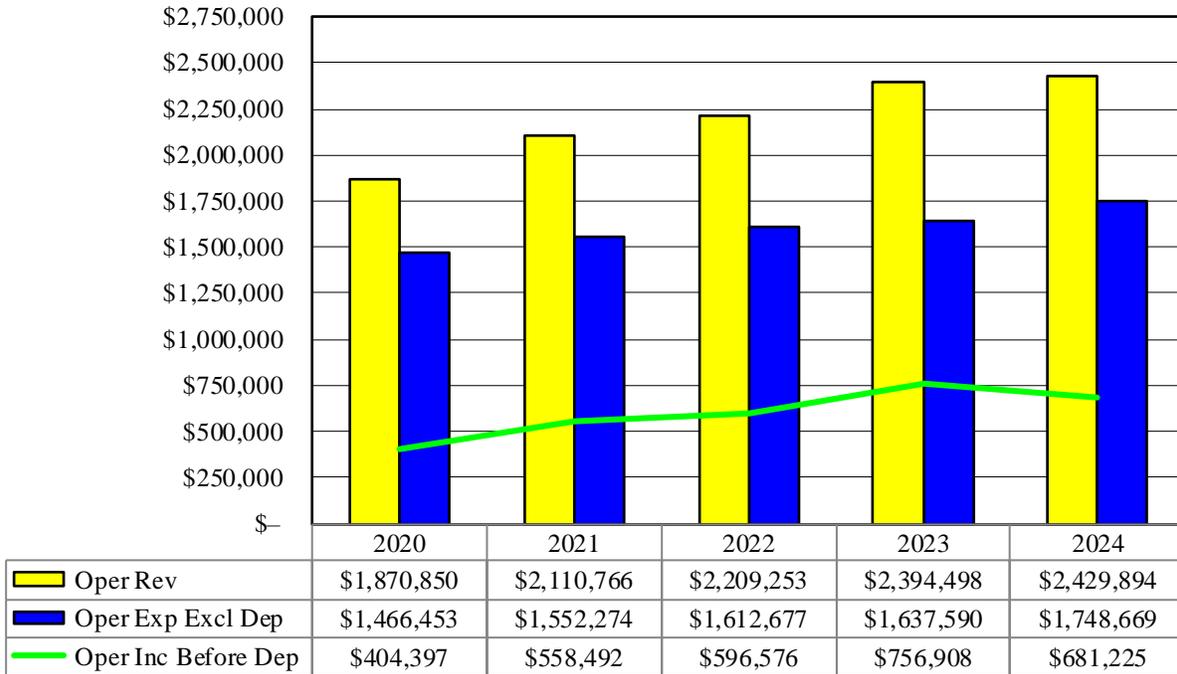
Water Fund operating revenues were \$2,708,831 for 2024, a decrease of \$345,843, due to reduced consumption. Operating expenses (excluding depreciation of \$382,684) were \$2,147,499, which represents a decrease of \$116,764. Expenses decreased largely due to a reduction in the amount for water purchased 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,

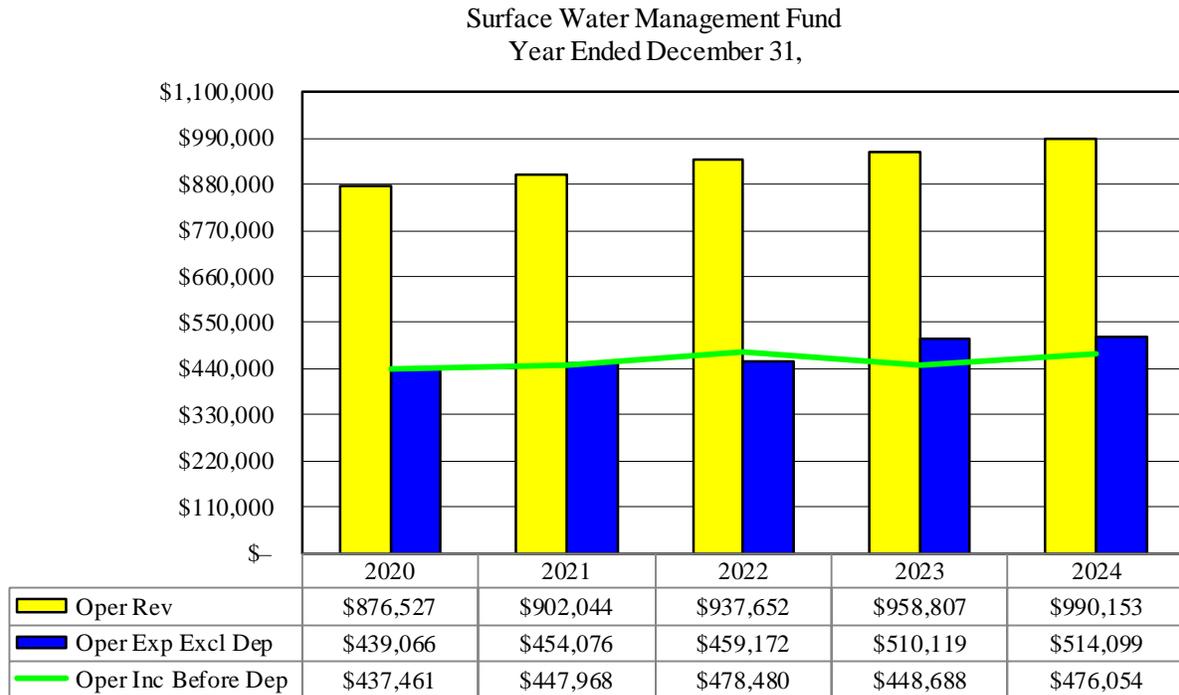


The Sewer Fund ended 2024 with a net position of \$8,570,273, an increase of \$459,396 from the prior year. Of total net position, \$7,029,154 represents the net investment in capital assets, leaving \$1,541,119 of unrestricted net position.

Sewer Fund operating revenues for 2024 were \$2,429,894, an increase of \$35,396 compared to last year, largely due to rate and consumption increases. Operating expenses for 2024 (excluding depreciation of \$228,932) were \$1,748,669, an increase of \$111,079 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:

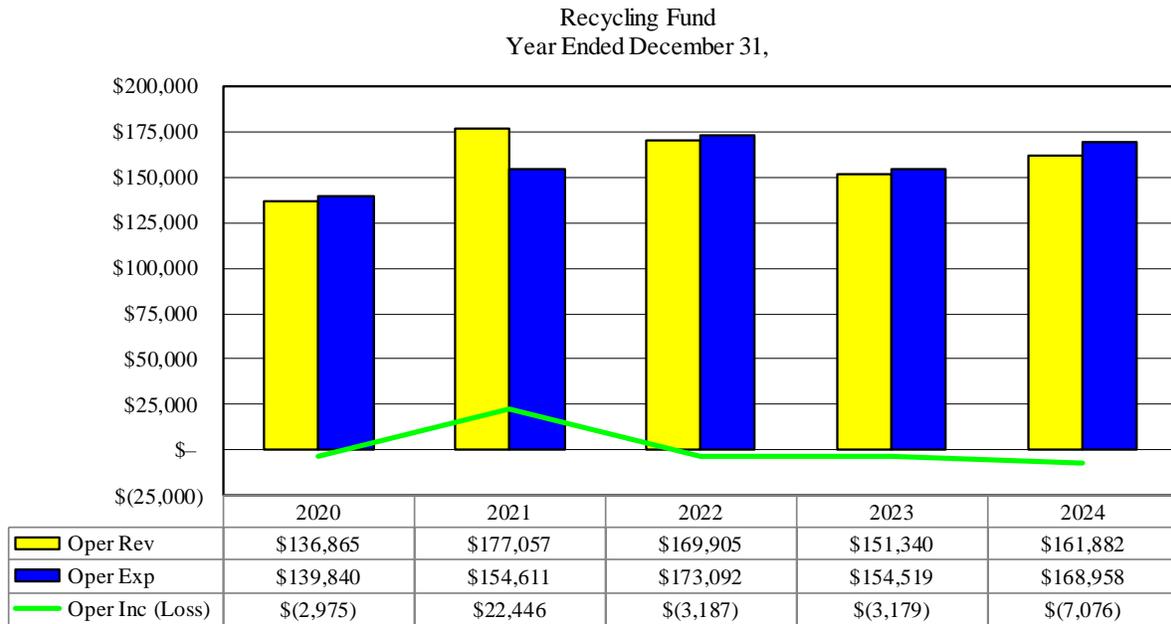


The Surface Water Management Fund ended 2024 with a net position of \$6,079,069, an increase of \$288,106 from the prior year. Of this, \$5,239,487 represents the net investment in capital assets, leaving \$839,582 of unrestricted net position.

Surface Water Management Fund operating revenues for 2024 were \$990,153, an increase of \$31,346 from last year. Operating expenses for 2024 (excluding depreciation of \$164,241) were \$514,099, or \$3,980 more than the prior year.

RECYCLING FUND

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



The Recycling Fund ended 2024 with an unrestricted net position of \$265,867, an increase of \$25,444 from the prior year.

Recycling Fund operating revenues for 2024 were \$161,882, an increase of \$10,542 from the prior year. Operating expenses for 2024 were \$168,958, an increase of \$14,439 from the prior year.

The Recycling Fund also received \$22,041 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, 2024 and 2023, for governmental activities and business-type activities (utility fund operations):

	As of December 31,		Change
	2024	2023	
Net position			
Governmental activities			
Net investment in capital assets	\$ 29,966,362	\$ 28,247,394	\$ 1,718,968
Restricted	1,506,861	2,103,290	(596,429)
Unrestricted	10,231,472	10,499,248	(267,776)
Total governmental activities	<u>41,704,695</u>	<u>40,849,932</u>	<u>854,763</u>
Business-type activities			
Net investment in capital assets	19,805,933	18,887,277	918,656
Unrestricted	6,338,765	6,079,346	259,419
Total business-type activities	<u>26,144,698</u>	<u>24,966,623</u>	<u>1,178,075</u>
Total net position	<u>\$ 67,849,393</u>	<u>\$ 65,816,555</u>	<u>\$ 2,032,838</u>

Net position for governmental activities increased by \$854,763 in 2024, as presented above. The net investment in capital assets increased \$1,718,968, mainly due to significant investments made in street infrastructure 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 decreased \$596,429, due to decreases in the amounts restricted for public safety and tax increment purposes. The decrease in unrestricted net position is due to operating results in the current year and the use of unrestricted resources to finance capital spending.

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, 2024 and 2023:

	2024		2023	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 1,662,855	\$ 456,870	\$ (1,205,985)	\$ (1,082,368)
Public safety	3,305,431	489,723	(2,815,708)	(1,870,072)
Public works	1,445,074	1,359,310	(85,764)	(647,375)
Parks and recreation	1,061,167	108,012	(953,155)	(1,042,527)
Economic development	364,361	806	(363,555)	(139,932)
Business-type activities				
Water	2,558,358	2,900,153	341,795	416,045
Sewer	1,982,052	2,504,264	522,212	623,583
Surface water management	678,340	995,039	316,699	285,272
Recycling	168,958	183,923	14,965	23,491
Total net (expense) revenue	<u>\$ 13,226,596</u>	<u>\$ 8,998,100</u>	(4,228,496)	(3,433,883)
General revenues				
General property taxes			5,364,181	4,570,332
Tax increments (abatements)			(15,968)	36,365
Franchise taxes			85,074	92,096
Unrestricted investment earnings			828,047	927,279
Total general revenues			<u>6,261,334</u>	<u>5,626,072</u>
Change in net position			<u>\$ 2,032,838</u>	<u>\$ 2,192,189</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.

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. 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 disclosures should also include any actions taken by the government to mitigate the risk.

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

GASB STATEMENT NO. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. In addition, this statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This statement defines unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence, and requires governments to display the inflows and outflows related to each unusual or infrequent item separately.

This statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in the notes to RSI.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 104, *DISCLOSURE OF CERTAIN CAPITAL ASSETS*

The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

This statement also requires additional disclosures for capital assets held for sale. A capital asset is considered held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. Capital assets held for sale are required to be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.