

Management Report  
for  
City of Wayzata, Minnesota  
December 31, 2023

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PRINCIPALS

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

To the City Council and Management  
City of Wayzata, Minnesota

We have prepared this management report in conjunction with our audit of the City of Wayzata, 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 9, 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, the discretely presented component unit, 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. Due to the limited size of the City's finance department staff, the City has limited segregation of duties in certain areas.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We reported one finding based on our testing of the City's compliance with Minnesota laws and regulations. We noted that 1 of 25 general disbursements tested was not paid within the 35-day period as required by Minnesota Statutes § 471.425, Subd. 2.

### **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:

- The City has recorded liabilities and activity for pension benefits and other post-employment benefits (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.
- The City has recorded a liability for compensated absences payable. Management's estimate is based on current rates of pay, compensated absence balances, and the likelihood that sick leave will ultimately be paid at termination.
- The depreciation/amortization of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop these 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.

## **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 9, 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 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, as described in the table of contents, which accompanies the financial statements, but is 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, which accompanies the financial statements, but is 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

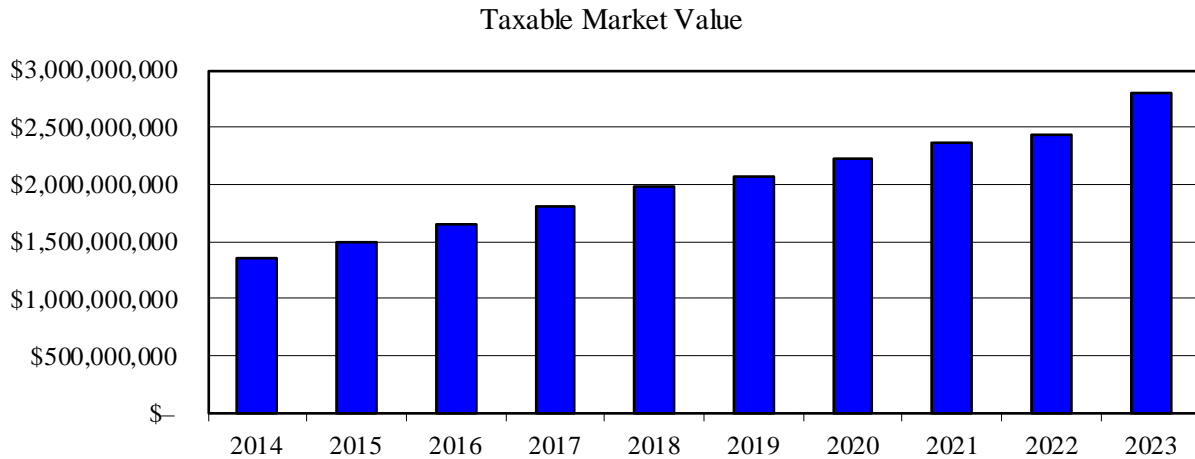
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital projects funds. These funds are used to account for the basic services the City provides to all of its 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.

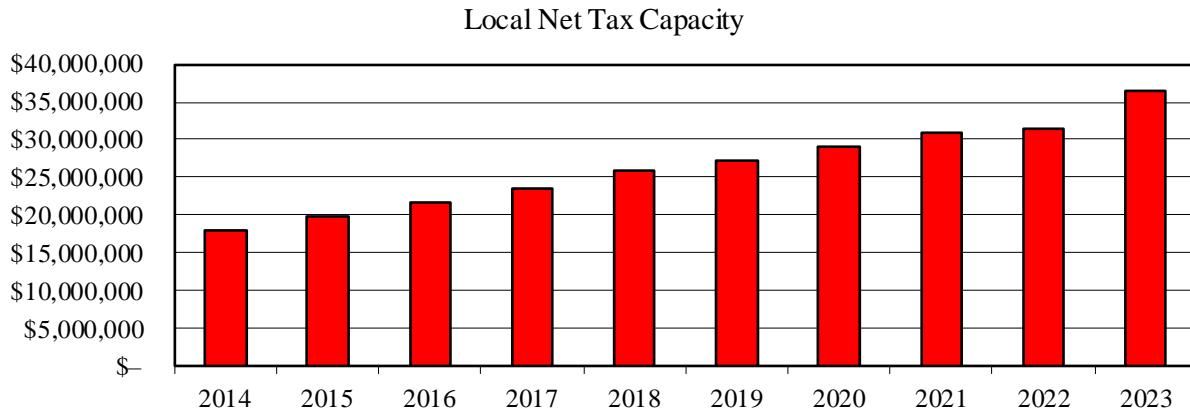
The taxable net tax capacity value of property in Minnesota cities increased about 17.7 percent for the 2023 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2023 were 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 taxable market value increased 2.8 percent for taxes payable in 2022 and 15.3 percent for taxes payable in 2023. The following graph shows the City's changes in taxable 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 2.3 percent and 15.2 percent for taxes payable in 2022 and 2023, 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:

<b>Rates Expressed as a Percentage of Net Tax Capacity</b>			
	City of Wayzata		
	2021	2022	2023
<b>Average tax rate</b>			
City	20.6	21.4	19.5
County	38.2	38.5	34.5
School	26.9	29.3	23.8
Special taxing	9.2	9.2	8.1
<b>Total</b>	<b>94.9</b>	<b>98.4</b>	<b>86.0</b>

The City’s portion of the tax capacity rates for Wayzata residents decreased, as did the total rate applied to Wayzata residents for all taxing entities, due primarily to the significant increases in tax capacity from the previous levy year.

## 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:

<b>Governmental Funds Change in Fund Balance</b>			
	Fund Balance as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 1,118	\$ 1,581,092	\$ (1,579,974)
Restricted	2,757,452	1,136,872	1,620,580
Committed	220,777	132,589	88,188
Assigned	8,105,650	7,564,893	540,757
Unassigned	<u>4,152,256</u>	<u>2,539,874</u>	<u>1,612,382</u>
Total governmental funds	<u>\$ 15,237,253</u>	<u>\$ 12,955,320</u>	<u>\$ 2,281,933</u>
Total by fund			
General	\$ 4,421,885	\$ 4,360,955	\$ 60,930
Debt Service	1,493,324	1,120,329	372,995
Lakefront Improvement Capital Projects	1,092,554	202,794	889,760
Street Improvement Capital Projects	1,288,840	1,124,577	164,263
Nonmajor funds	<u>6,940,650</u>	<u>6,146,665</u>	<u>793,985</u>
Total governmental funds	<u>\$ 15,237,253</u>	<u>\$ 12,955,320</u>	<u>\$ 2,281,933</u>

In total, the fund balances of the City's governmental funds increased \$2,281,933 during the year ended December 31, 2023. The majority of the increase was fund balances restricted for lakefront improvement capital projects and for other capital purposes in the nonmajor capital projects funds. The decrease in nonspendable fund balances and increase in unassigned fund balances was mainly due to the City amending a loan agreement providing cash flow financing to its Downtown Tax Increment Financing (TIF) District. The loan receivable, which had originally been recorded in the General Fund, was moved to the Water and Sewer Enterprise Funds under the revised loan agreement in 2023.

## 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 for cities with comparable populations.

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.

The per capita information presented in this report excludes the Wayzata Housing and Redevelopment Authority (HRA), the City’s discretely presented component unit.

<b>Governmental Funds Revenue per Capita</b>				
With State-Wide Averages for Population Class				
Year	State-Wide	City of Wayzata		
	2021	2021	2022	2023
Population	2,500–10,000	4,481	4,437	4,437
Property taxes	\$ 560	\$ 1,155	\$ 1,185	\$ 1,298
Tax increments	38	–	–	–
Franchise and other taxes	52	35	38	37
Special assessments	59	107	108	108
Licenses and permits	45	145	132	167
Intergovernmental revenues	421	211	346	595
Charges for services	135	328	359	429
Other	60	140	(90)	387
Total revenue	\$ 1,370	\$ 2,121	\$ 2,078	\$ 3,021

The City’s total governmental funds revenue for 2023 was \$13,404,182, an increase of \$4,185,834 (45.4 percent), or about \$943 per capita from the previous year. The majority of the increase was in other revenues (\$477 per capita) and intergovernmental revenues (\$249 per capita). The increase in the “other” revenue category was primarily from an increase in investment income of \$1,864,757, due to improved interest rates and an increase in the fair value of the City’s investment portfolio. Intergovernmental revenues increased \$1,104,727, mainly due to the City’s use of available state and county funding for Panoway project capital 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, which 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 state-wide averages for cities with comparable populations, are presented in the following table:

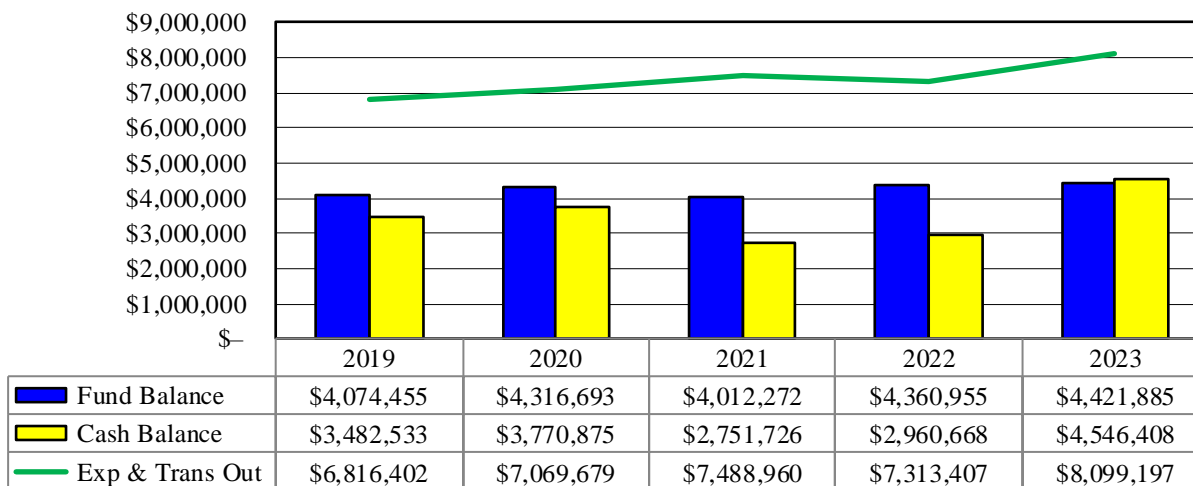
<b>Governmental Funds Expenditures per Capita</b> With State-Wide Averages for Population Class				
Year	State-Wide	City of Wayzata		
	2021	2021	2022	2023
Population	2,500–10,000	4,481	4,437	4,437
<b>Current</b>				
General government	\$ 168	\$ 379	\$ 421	\$ 424
Public safety	327	635	653	742
Public works	144	176	193	206
Culture and recreation	108	208	357	197
All other	101	81	67	73
Total current	<u>848</u>	<u>1,479</u>	<u>1,691</u>	<u>1,642</u>
Capital outlay and construction	525	546	436	2,109
<b>Debt service</b>				
Principal	168	182	222	246
Interest and fiscal	48	101	94	112
Total debt service	<u>216</u>	<u>283</u>	<u>316</u>	<u>358</u>
Total expenditures	<u>\$ 1,589</u>	<u>\$ 2,308</u>	<u>\$ 2,443</u>	<u>\$ 4,109</u>

The City’s total governmental funds expenditures for 2023 were \$18,235,249, an increase of \$7,398,841 (68.3 percent) from the prior year, or \$1,666 per capita. The majority of this increase was in capital outlay and construction expenditures, which were \$1,673 per capita higher than last year, primarily due to construction activity related to the Panoway project.

## 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 culture 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,

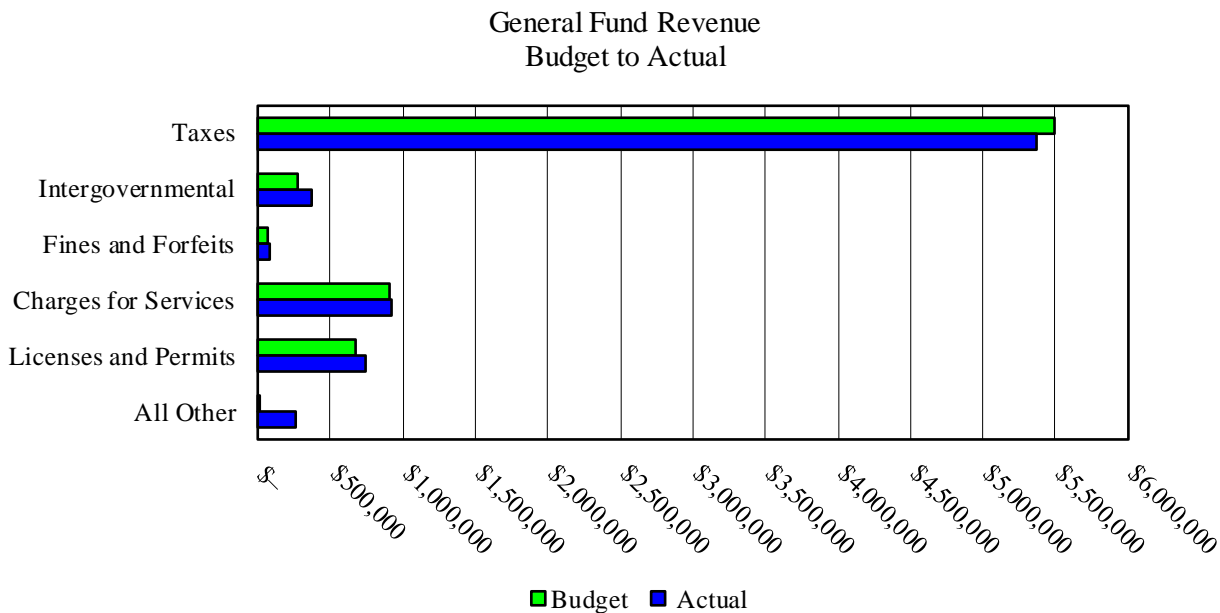


The City's General Fund cash and investments balance on December 31, 2023, was \$4,546,408, an increase of \$1,585,740 from the previous year. Total fund balance at year-end was \$4,421,885, which was an increase of \$60,930 from the prior year, as compared to a break-even budget. The unassigned portion of fund balance was \$4,152,256 at year-end, which represents 51.3 percent of the City's annual General Fund expenditures and transfers out, based on 2023 levels. Both the cash balance and the unassigned fund balance of the General Fund increased in 2023, due to positive operating results.

The City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, 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.

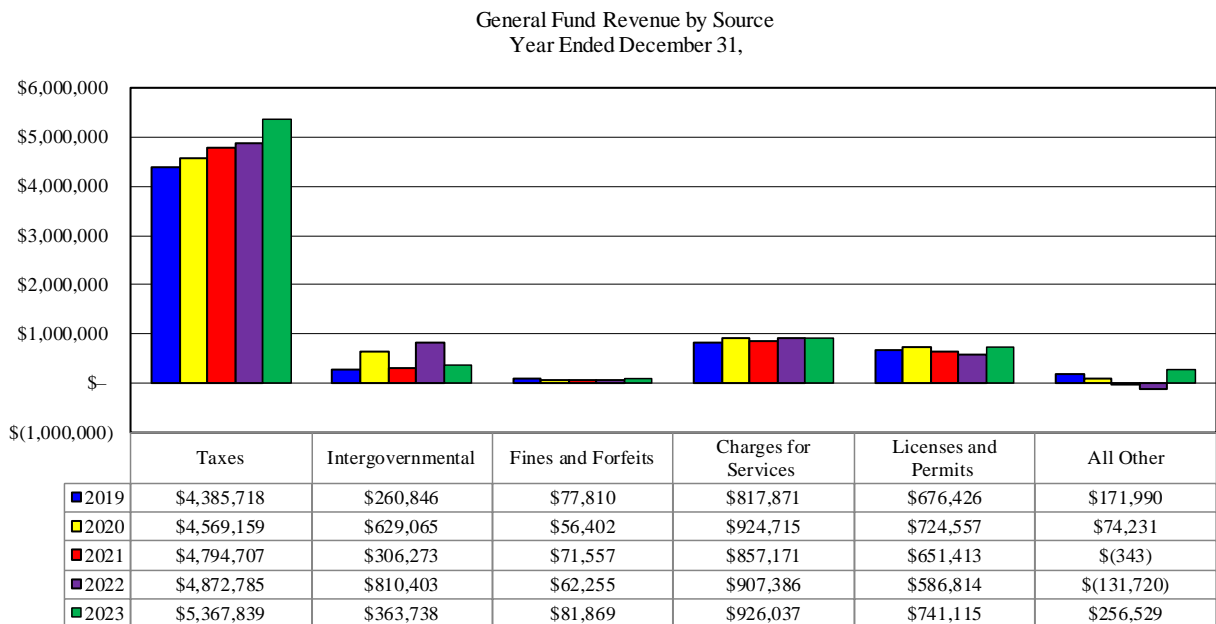
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year, other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Property taxes comprise about 69.4 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City at mid-year and the rest at year-end. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The following graph reflects the City’s General Fund revenue sources for 2023 compared to budget:



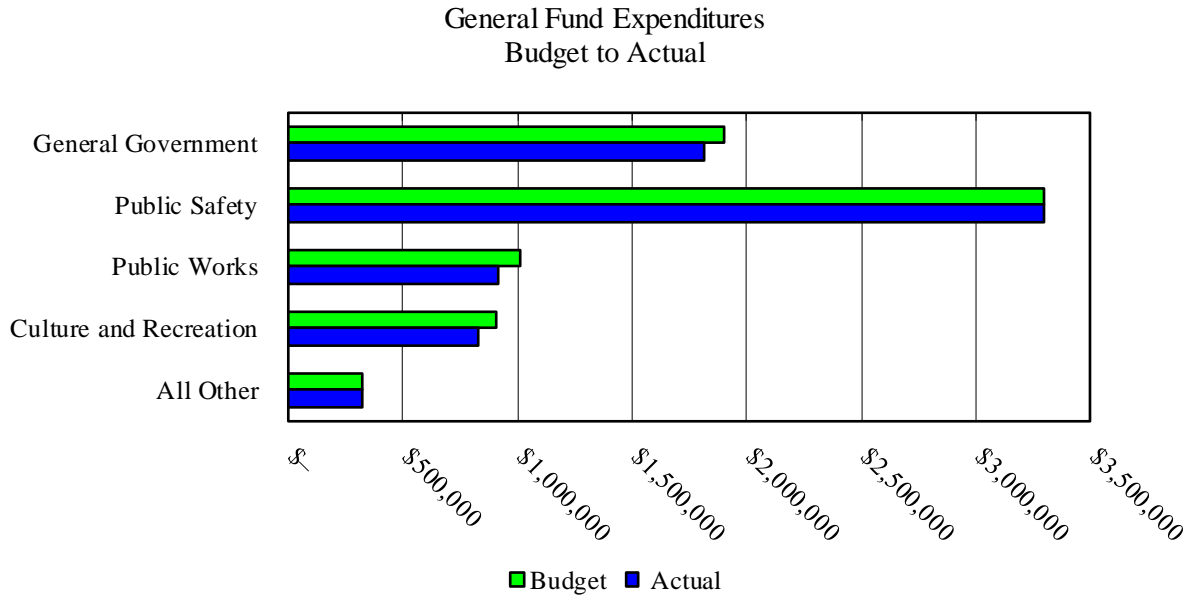
General Fund revenue for 2023 totaled \$7,737,127, which was \$301,610 (4.1 percent) higher than budget. Revenue from taxes was \$121,012 under budget, mainly due to property tax abatements and adjustments. Intergovernmental revenues were \$93,738 over budget, primarily from public safety aid in excess of budget estimates. Other revenue, as shown above, exceeded budget by \$244,029, primarily from investment earnings, which were \$194,799 over budget due to improved interest rates and market conditions.

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 and other local sources of revenue.



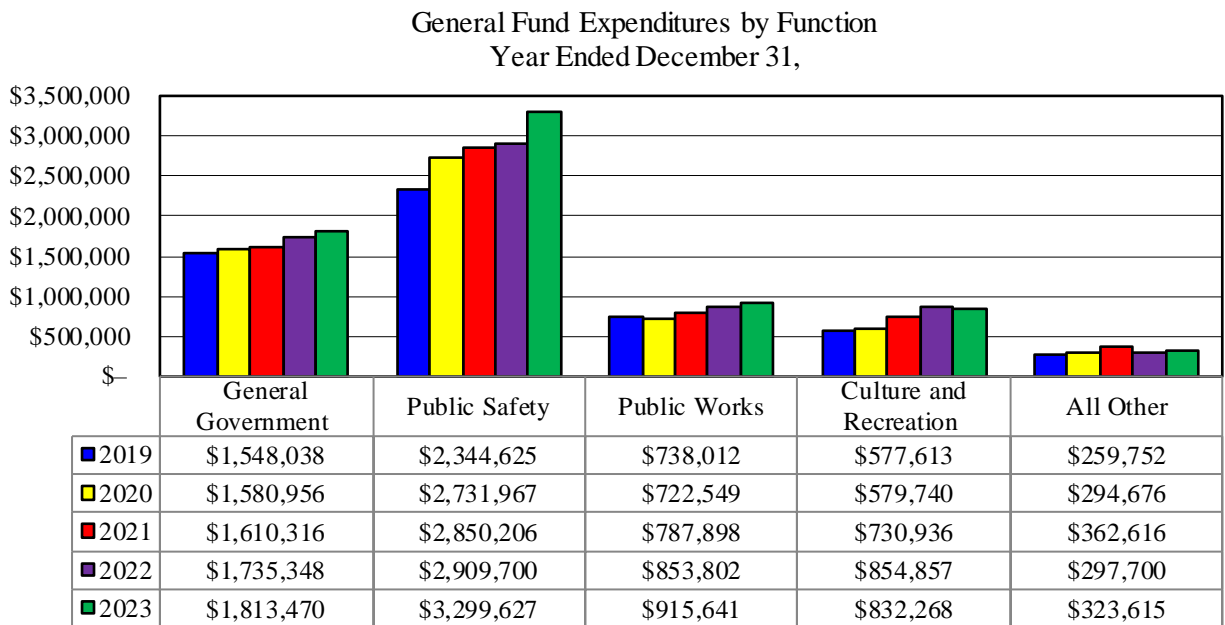
Total General Fund revenues increased \$629,204 (8.9 percent) from the previous year. Revenue from taxes was \$495,054 higher than last year, due to an increase in the certified levy. Licenses and permits were up \$154,301 from the prior year, mainly in building permits. Other revenues were \$388,249 higher than the previous year, primarily due to the increase in investment earnings.

The following graph illustrates the components of General Fund spending for 2023 compared to budget:



Total General Fund expenditures for 2023 totaled \$7,184,621, which was \$259,320 (3.5 percent) lower than budget, with the variance spread across most program areas shown above. Some of the more significant areas of cost savings were administration and finance (general government), personnel costs for streets and engineering (public works), and parks, recreation, and forestry (culture and recreation).

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



Total General Fund expenditures were \$533,214 (8.0 percent) higher than the previous year, due to inflationary increases across most program areas shown above. The largest increase was in public safety (\$389,927), due to increases in salary and benefits and other purchased services.

## ENTERPRISE FUNDS OVERVIEW

The City maintains a number of 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, Licensing, Liquor, Solid Waste, Marina, and Stormwater 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, 2023, presented both by classification and by fund:

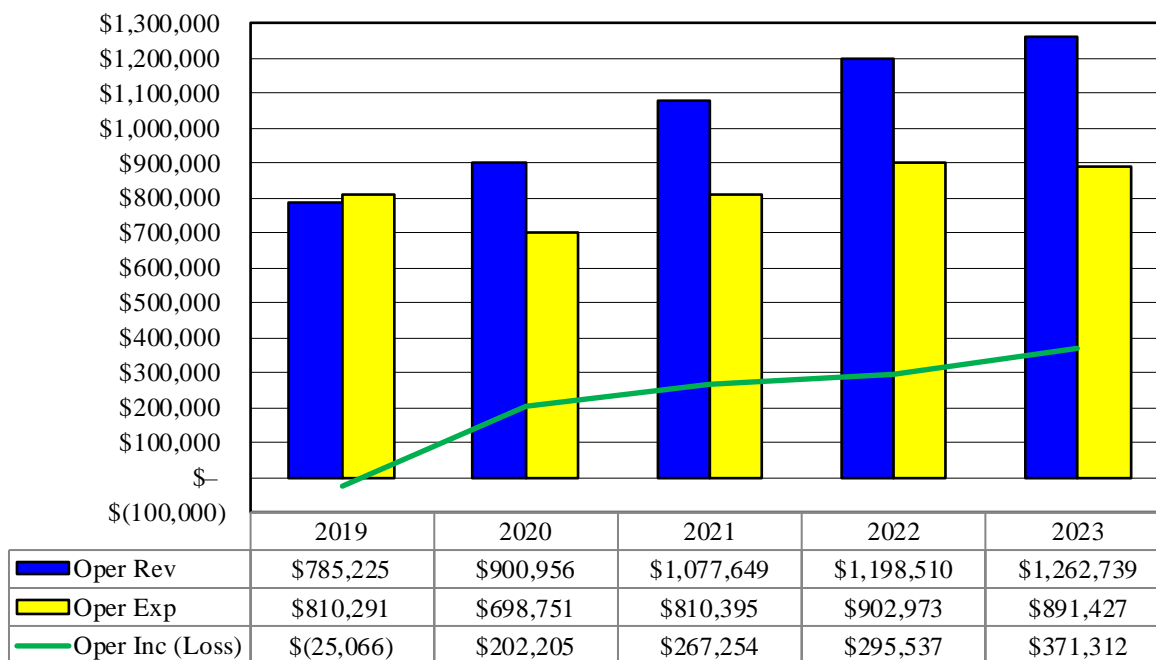
<b>Enterprise Funds Change in Financial Position</b>			
	Net Position as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 13,744,175	\$ 13,817,816	\$ (73,641)
Restricted	905,529	1,043,276	(137,747)
Unrestricted	<u>4,563,709</u>	<u>2,705,458</u>	<u>1,858,251</u>
Total enterprise funds	<u>\$ 19,213,413</u>	<u>\$ 17,566,550</u>	<u>\$ 1,646,863</u>
Total by fund			
Water	\$ 8,672,687	\$ 8,230,103	\$ 442,584
Sewer	5,215,185	4,682,630	532,555
Licensing	(198,429)	(263,339)	64,910
Liquor	1,228,517	938,296	290,221
Solid Waste	305,521	264,249	41,272
Marina	134,137	–	134,137
Stormwater	<u>3,855,795</u>	<u>3,714,611</u>	<u>141,184</u>
Total enterprise funds	<u>\$ 19,213,413</u>	<u>\$ 17,566,550</u>	<u>\$ 1,646,863</u>

In total, the net position of the City’s enterprise funds increased by \$1,646,863 during the year ended December 31, 2023. All of the City’s enterprise funds had positive operating results for the year, with the largest increases in the Water, Sewer, and Liquor Funds.

## 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 total net position of \$8,672,687, which was an increase of \$442,584 from the prior year. The Water Fund had a net investment in capital assets of \$5,874,575, net position restricted for debt service of \$698,955, and unrestricted net position of \$2,099,157 at year-end.

Water Fund operating revenues for fiscal 2023 were \$1,262,739, an increase of \$64,229 (5.4 percent) from the prior year, due to increases in both water rates and water consumption in 2023.

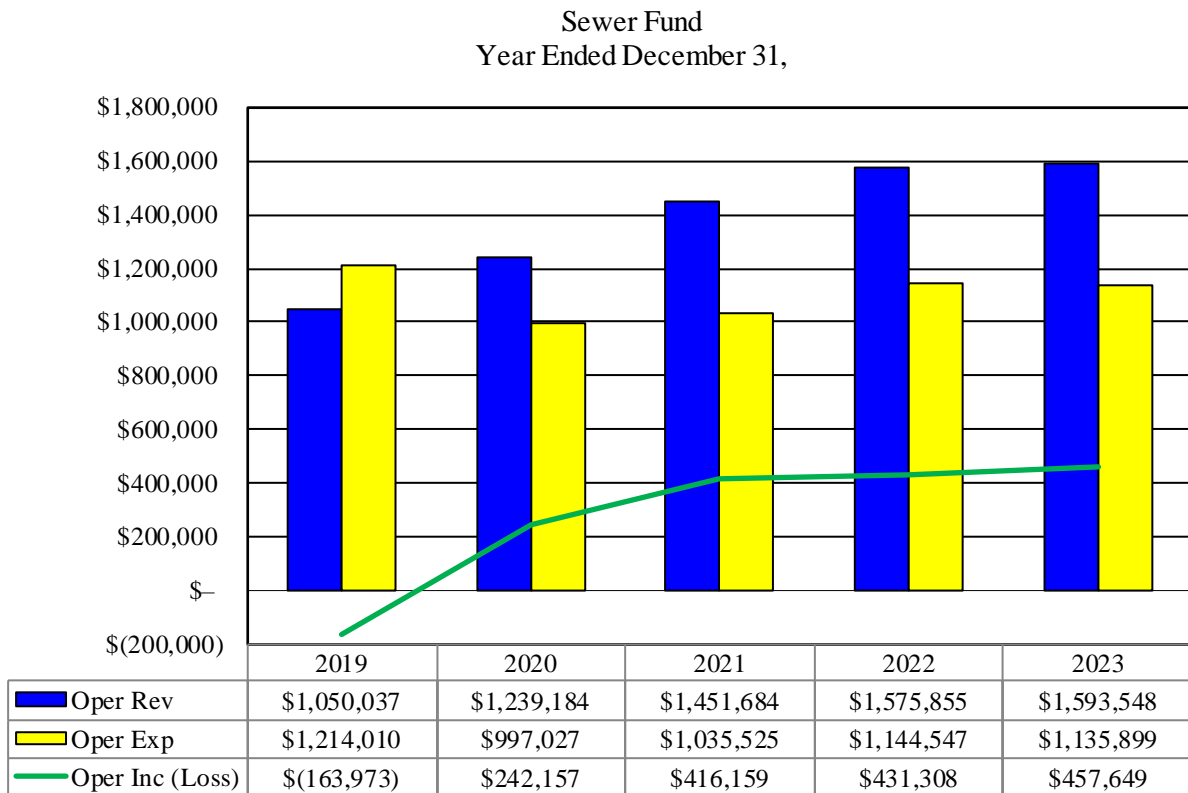
Operating expenses for 2023 were \$891,427, a decrease of \$11,546 (1.3 percent) from the previous year, mainly in personnel costs.

After nonoperating revenues and expenses (such as interest revenue and interest expense), the Water Fund had income (before contributions and transfers) of \$430,445.

The Water Fund received capital contributions of \$105,139 from special assessments and access charges to finance the water portion of street improvement projects. The Water Fund also transferred out \$62,000 to finance equipment purchases, and \$31,000 to support the General Fund.

## SEWER FUND

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



The Sewer Fund ended 2023 with a total net position of \$5,215,185, an increase of \$532,555 from the prior year. The Sewer Fund had a net investment in capital assets of \$3,155,397, net position restricted for debt service of \$206,574, and unrestricted net position of \$1,853,214 at year-end.

Sewer Fund operating revenue for fiscal 2023 was \$1,593,548, an increase of \$17,693 (1.1 percent) from the prior year.

Operating expenses for 2023 were \$1,135,899, a decrease of \$8,648 (0.8 percent), mainly due to decreased personnel costs.

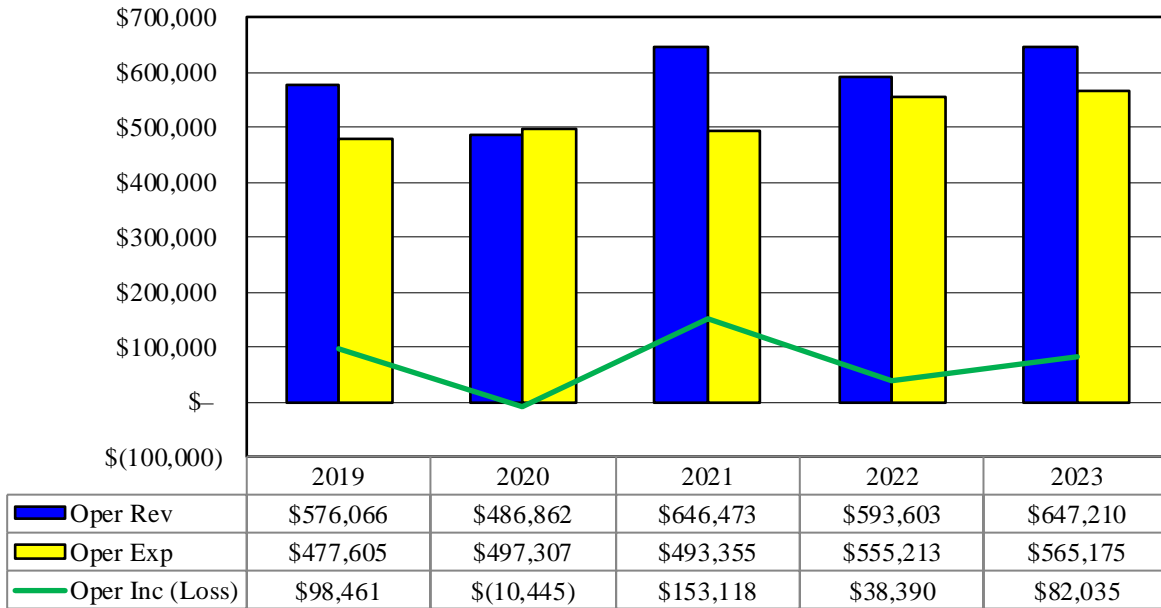
After nonoperating revenues and expenses, the Sewer Fund had income before contributions and transfers of \$598,456.

The Sewer Fund received \$58,099 of contributed capital from special assessments and access charges to finance the sewer portion of street improvement projects. The Sewer Fund also transferred out \$93,000 to finance equipment purchases, and \$31,000 to support the General Fund.

**LICENSING FUND**

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

Licensing Fund  
Year Ended December 31,



The Licensing Fund ended 2023 with an unrestricted deficit net position of \$198,429, an improvement of \$64,910 from the prior year.

Licensing Fund operating revenues for 2023 were \$647,210, an increase of \$53,607 (9.0 percent) from the prior year, due to an increase in passport revenue, along with the City receiving a one-time state DVS reimbursement.

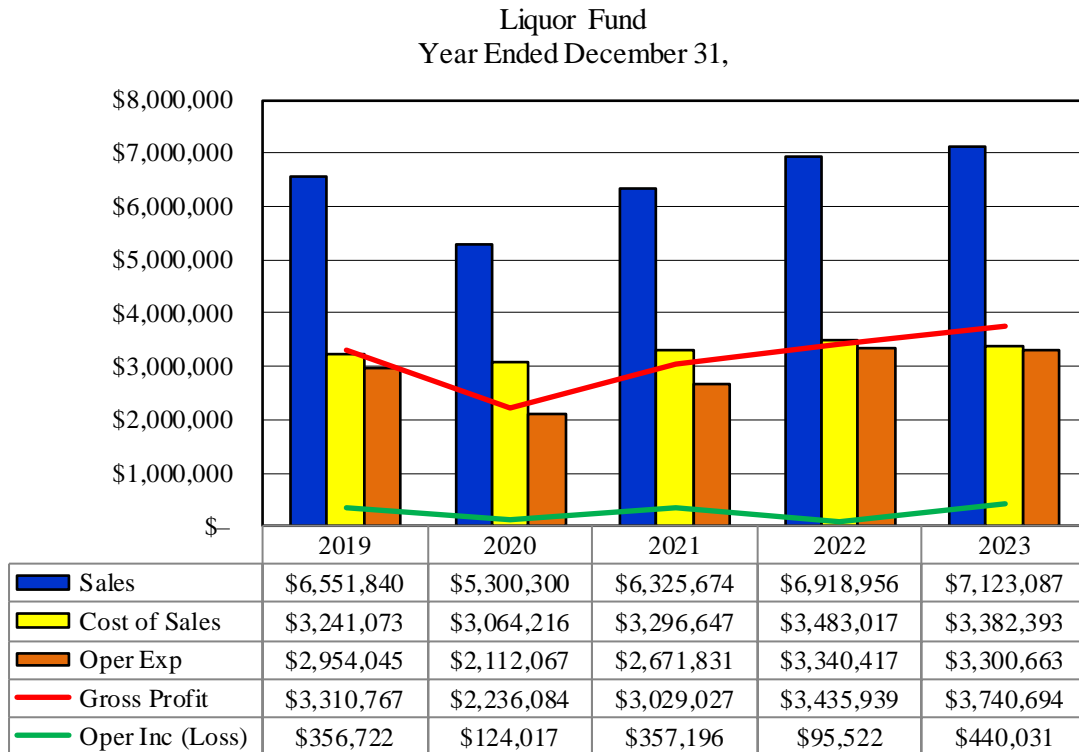
Operating expenses for 2023 were \$565,175, an increase of \$9,962 (1.8 percent) from last year, mainly in salaries and benefits.

After nonoperating revenues, the Licensing Fund had net income before transfers of \$145,910.

The Licensing Fund transferred out \$25,000 to finance general construction projects, and \$56,000 to support the General Fund.

## LIQUOR FUND

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



The Liquor Fund ended 2023 with a net position of \$1,228,517, an increase of \$290,221 from the prior year. The Liquor Fund's net investment in capital assets was \$1,411,197, leaving a deficit unrestricted net position of \$182,680 at year-end.

Liquor Fund gross sales for 2023 were \$7,123,087, an increase of \$204,131 from the prior year. Gross sales for the liquor store decreased \$34,528 (1.0 percent), while increasing by \$238,659 (6.6 percent) for the bar and grill. Gross profits for 2023 increased \$304,755 (8.9 percent) overall.

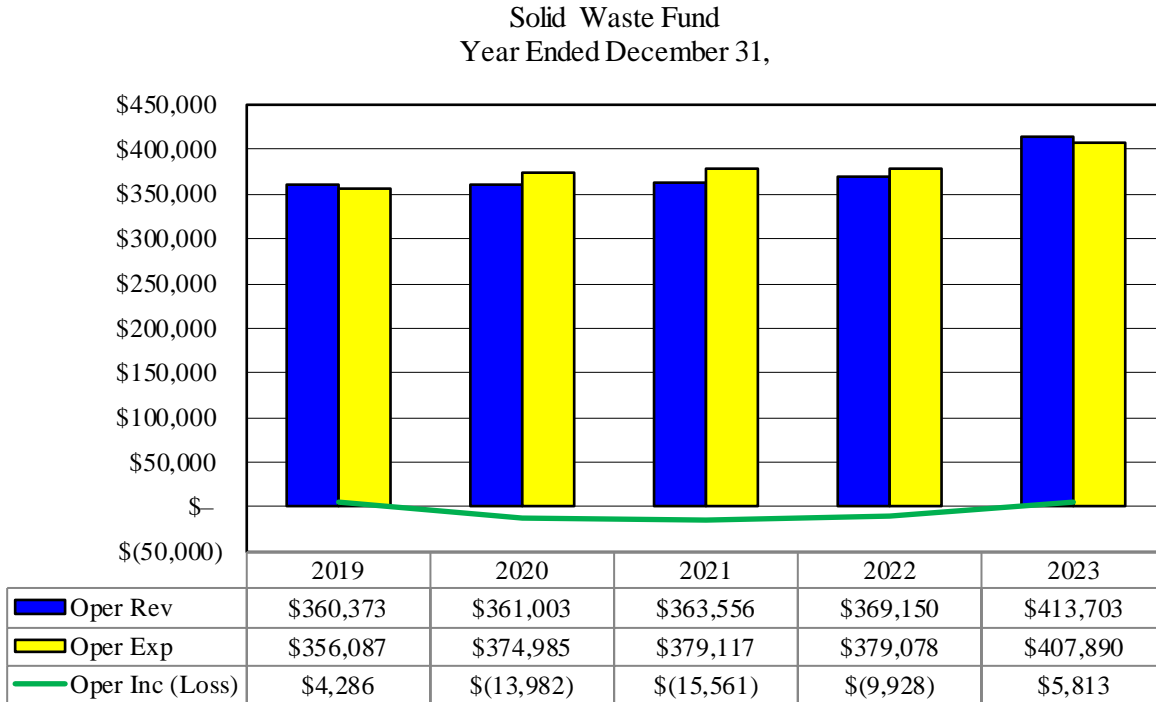
Operating expenses of \$3,300,663 represented a decrease of \$39,754 (1.2 percent) from the prior year, primarily due to a decrease in salary and benefit expense.

After nonoperating revenues and expenses, the Liquor Fund had income before contributions and transfers of \$485,221.

The Liquor Fund transferred out \$195,000 to support the General Fund.

## SOLID WASTE FUND

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



The Solid Waste Fund ended 2023 with an unrestricted net position of \$305,521, an increase of \$41,272 from the prior year.

Operating revenues for 2023 were \$413,703, an increase of \$44,553 (12.1 percent) from last year.

Operating expenses for 2023 were \$407,890, an increase of \$28,812 (7.6 percent) from the previous year.

After nonoperating revenues, the Solid Waste Fund had an increase in net position of \$41,272.

## MARINA FUND

The City created a new enterprise fund in 2023 to account for its marina operation, which had been accounted for in the Parks and Trails Capital Projects Fund in previous years.

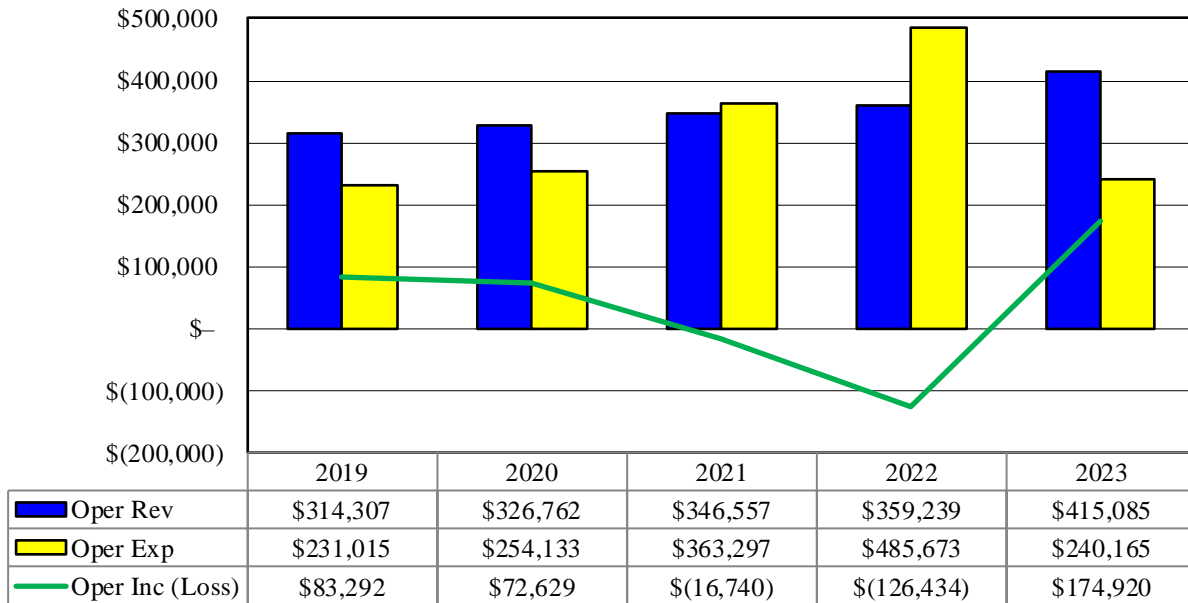
The Marina Fund ended its first year of operation with an unrestricted net position of \$134,137.

Operating revenues for 2023 were \$215,911, while operating expenses were \$92,855. After nonoperating revenues, the Marina Fund had an increase in net position of \$134,137.

## STORMWATER FUND

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

Stormwater Fund  
Year Ended December 31,



The Stormwater Fund ended 2023 with a total net position of \$3,855,795, an increase of \$141,184 from the prior year. The Stormwater Fund's net investment in capital assets was \$3,303,006 at year-end, leaving an unrestricted net position of \$552,789.

Stormwater Fund operating revenue for 2023 was \$415,085, an increase of \$55,846 (15.5 percent) from last year, mainly due to an increase in rates.

Operating expenses for 2023 were \$240,165, a decrease of \$245,508 (50.6 percent) from last year, mainly due to a reduction in maintenance services.

After nonoperating revenues and expenses, the Stormwater Fund had income before contributions and transfers of \$206,184.

The Stormwater Fund transferred out \$55,000 to finance street improvement construction projects, and \$10,000 to support the General Fund.

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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: net investment in capital assets, restricted, and unrestricted.

The following table presents the City's components of net position as of December 31, 2023 and 2022:

	As of December 31,		Change
	2023	2022	
Net position – primary government			
Governmental activities			
Net investment in capital assets	\$ 44,365,097	\$ 40,058,333	\$ 4,306,764
Restricted	4,833,073	3,878,130	954,943
Unrestricted	<u>8,651,972</u>	<u>8,384,498</u>	<u>267,474</u>
Total governmental activities	<u>57,850,142</u>	<u>52,320,961</u>	<u>5,529,181</u>
Business-type activities			
Net investment in capital assets	13,744,175	13,817,816	(73,641)
Restricted	905,529	1,043,276	(137,747)
Unrestricted	<u>4,563,709</u>	<u>2,705,458</u>	<u>1,858,251</u>
Total business-type activities	<u>19,213,413</u>	<u>17,566,550</u>	<u>1,646,863</u>
Total net position – primary government	<u>\$ 77,063,555</u>	<u>\$ 69,887,511</u>	<u>\$ 7,176,044</u>
Net position – HRA component unit			
Net investment in capital assets	\$ 2,092,900	\$ 2,092,900	\$ –
Restricted	990,838	1,391,743	(400,905)
Unrestricted	<u>(988,345)</u>	<u>(1,306,499)</u>	<u>318,154</u>
Total net position – HRA component unit	<u>\$ 2,095,393</u>	<u>\$ 2,178,144</u>	<u>\$ (82,751)</u>

The City (excluding the HRA) ended 2023 with a combined total net position of \$77,063,555, an increase of \$7,176,044 from the prior year. The City's net investment in capital assets increased \$4,233,123 between the governmental and business-type activities, primarily due the significant Panoway construction project additions in 2023. Increases in restrictions for lakefront improvements, parks and trails, and public safety contributed to a combined increase of \$817,196 in restricted net position. The combined increase in unrestricted net position of \$2,125,725, was mainly due to operating results in the City's enterprise funds, as previously discussed.

The City's HRA discretely presented component unit ended the year with a total net position of \$2,095,393, a decrease of \$82,751.

## 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 net position of the City (primary government), and the HRA (discretely presented component unit) for the year ended December 31, 2023:

	Expenses	Program Revenues	Net Change Primary Government	Net Change Component Unit – HRA
Primary government				
Governmental activities				
General government	\$ 2,411,453	\$ 871,004	\$ (1,540,449)	\$ –
Public safety	3,795,090	1,478,929	(2,316,161)	–
Public works	3,807,110	2,036,347	(1,770,763)	–
Culture and recreation	1,158,350	5,102,381	3,944,031	–
Interest on long-term debt	579,243	–	(579,243)	–
Business-type activities				
Water	968,669	1,367,897	399,228	–
Sewer	1,141,889	1,712,441	570,552	–
Licensing	565,175	690,112	124,937	–
Liquor	6,712,530	7,140,279	427,749	–
Solid Waste	407,890	429,988	22,098	–
Marina	92,855	215,913	123,058	–
Stormwater	240,165	415,089	174,924	–
Total – primary government	<u>\$ 21,880,419</u>	<u>\$ 21,460,380</u>	<u>(420,039)</u>	<u>–</u>
Component unit – HRA	<u>\$ 4,040,487</u>	<u>\$ –</u>	<u>–</u>	<u>(4,040,487)</u>
General revenues				
Property taxes and tax increments			5,752,198	3,859,771
Franchise taxes			165,730	–
Unrestricted grants and contributions			414,655	–
Investment earnings			1,263,500	97,965
Total general revenues			<u>7,596,083</u>	<u>3,957,736</u>
Change in net position			<u>\$ 7,176,044</u>	<u>\$ (82,751)</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations and those of the HRA on general revenues, such as property taxes, tax increments, and unrestricted grants. The large positive change in the culture and recreation program area was due to the grant funding used for Panoway project capital improvements in the current year. It also shows that the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses.

## 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.