

Management Report
for
City of Wayzata, Minnesota
December 31, 2024



Certified Public Accountants Business Consultants

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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, 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 12, 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, 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, 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. Our report included a paragraph emphasizing the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, during the year. Our opinion was not modified with respect to this matter.
- 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 no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2024, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported one finding in the prior year that was corrected by the City in the current year:

- Minnesota Statutes require prompt payment of local government bills within a standard payment period of 35 days from the receipt of goods and services for governing boards that meet at least once a month. If such obligations are not paid within the appropriate time period, local governments must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. In our prior year audit, we reported that 1 of 25 disbursements tested was not paid within the statutory time limit. Based on our testing, there is no similar finding in the current year.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2024. However, the City implemented the following governmental accounting standard during the fiscal year:

- As described in Note 1 of the notes to basic financial statements, the City implemented GASB Statement No. 101, *Compensated Absences*, during fiscal year ended December 31, 2024. This standard changed the recognition and measurement of the compensated absences liability reported by the City. This change resulted in a restatement, which decreased beginning net position in the government-wide Statement of Activities and Proprietary Funds Statement of Net Position by \$653,884 and \$164,048, respectively.

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/Amortization** – Management's estimates of depreciation/amortization expense are based on the estimated useful lives of the assets.
- **OPEB and Pension Benefits** – The City has recorded liabilities and activity for other post-employment benefits (OPEB) and pension benefits. Actuarial estimates of these obligations are calculated using actuarial methodologies described in GASB Statement Nos. 68 and 75. The actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, 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 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 12, 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 pension and OPEB-related 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 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.

GOVERNMENTAL FUNDS OVERVIEW

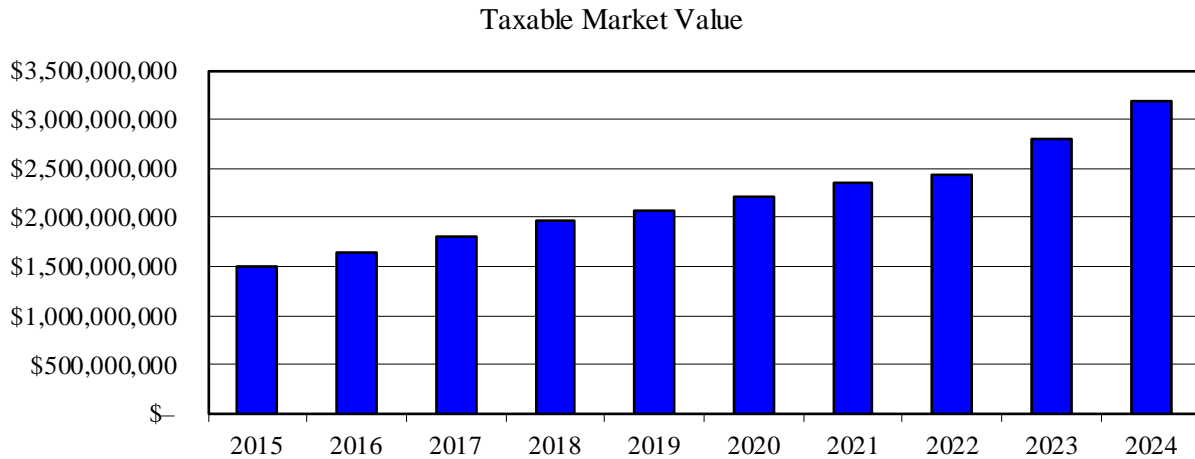
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its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

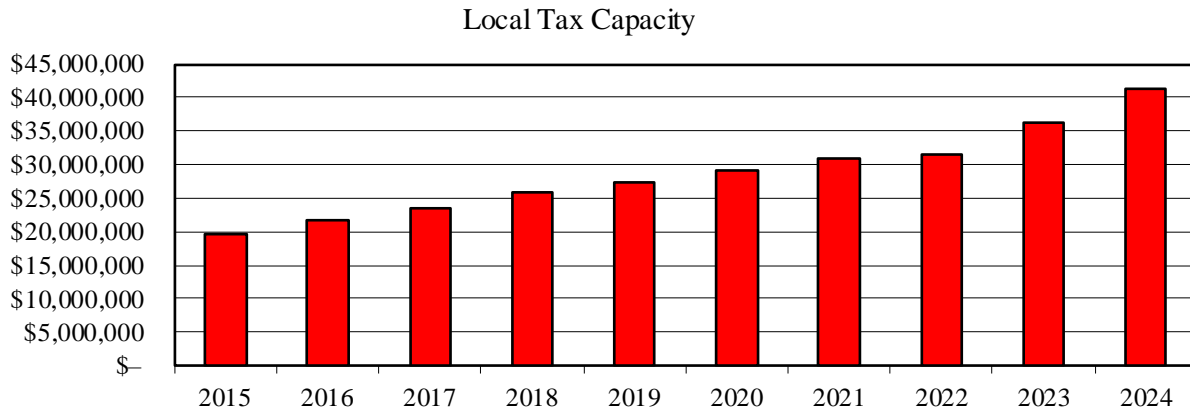
The taxable net tax capacity value of property in Minnesota cities increased about 8.4 percent for the 2024 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2024 were 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 taxable market value increased 15.3 percent for taxes payable in 2023 and 13.4 percent for taxes payable in 2024. 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 15.2 percent and 13.9 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 Wayzata		
	2022	2023	2024
Average tax rate			
City	19.5	19.5	19.2
County	34.5	34.5	34.7
School	23.8	23.8	19.8
Special taxing	8.1	8.1	7.9
Total	86.0	86.0	81.6

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, 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	\$ 22,132	\$ 1,118	\$ 21,014
Restricted	1,646,772	2,757,452	(1,110,680)
Committed	291,175	220,777	70,398
Assigned	7,923,670	8,105,650	(181,980)
Unassigned	<u>4,624,786</u>	<u>4,152,256</u>	<u>472,530</u>
Total governmental funds	<u>\$ 14,508,535</u>	<u>\$ 15,237,253</u>	<u>\$ (728,718)</u>
Total by fund			
General	\$ 4,937,352	\$ 4,421,885	\$ 515,467
Debt Service	1,154,925	1,493,324	(338,399)
Lakefront Improvement Capital Projects	(20,095)	1,092,554	(1,112,649)
Parks and Trails Capital Projects	2,342,309	1,425,101	917,208
Facilities and Infrastructure Capital Projects	1,365,721	1,170,247	195,474
Street Improvement Capital Projects	695,269	1,288,840	(593,571)
Nonmajor funds	<u>4,033,054</u>	<u>4,345,302</u>	<u>(312,248)</u>
Total governmental funds	<u>\$ 14,508,535</u>	<u>\$ 15,237,253</u>	<u>\$ (728,718)</u>

In total, the fund balances of the City's governmental funds decreased \$728,718 during the year ended December 31, 2024. The majority of the decrease was caused by the planned spend down of fund balance restricted for lakefront improvement capital projects, and a current year bond refunding that was partially financed with available debt service resources. The decrease in assigned fund balances was mainly due to the planned spend down of fund balances assigned for lakefront improvement and street improvement capital projects, offset by increases in fund balances assigned for parks and trails and other capital projects. Unassigned fund balance increased by \$472,530, mainly due to positive operating results in the General Fund.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

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

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City’s data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as a city’s stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year, due to the effect of inflation and changes in its operation. Also, certain data 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.

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

Governmental Funds Revenue per Capita				
With State-Wide Averages for Population Class				
Year	State-Wide	City of Wayzata		
	2022	2022	2023	2024
Population	2,500–10,000	4,437	4,549	4,549
Property taxes	\$ 586	\$ 1,185	\$ 1,266	\$ 1,402
Tax increments	37	–	–	–
Franchise and other taxes	56	38	36	35
Special assessments	51	108	105	104
Licenses and permits	43	132	163	194
Intergovernmental revenues	400	346	580	1,300
Charges for services	154	359	419	355
Other	32	(90)	378	460
Total revenue	<u>\$ 1,359</u>	<u>\$ 2,078</u>	<u>\$ 2,947</u>	<u>\$ 3,850</u>

The City’s total governmental funds revenue for 2024 was \$17,511,330, an increase of \$4,107,148 (30.6 percent), or about \$903 per capita, from the previous year. The majority of the increase was in intergovernmental revenues (\$720 per capita) and property tax revenues (\$136 per capita). Intergovernmental revenues increased \$3,274,196, mainly due to the City’s use of available state and county funding for Panoway project capital expenditures. Property taxes increased \$617,683, due to an increase in the adopted tax levy. The increase in other revenue sources (\$82 per capita) resulted primarily from donations for the Panoway project and improved earnings on investments.

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:

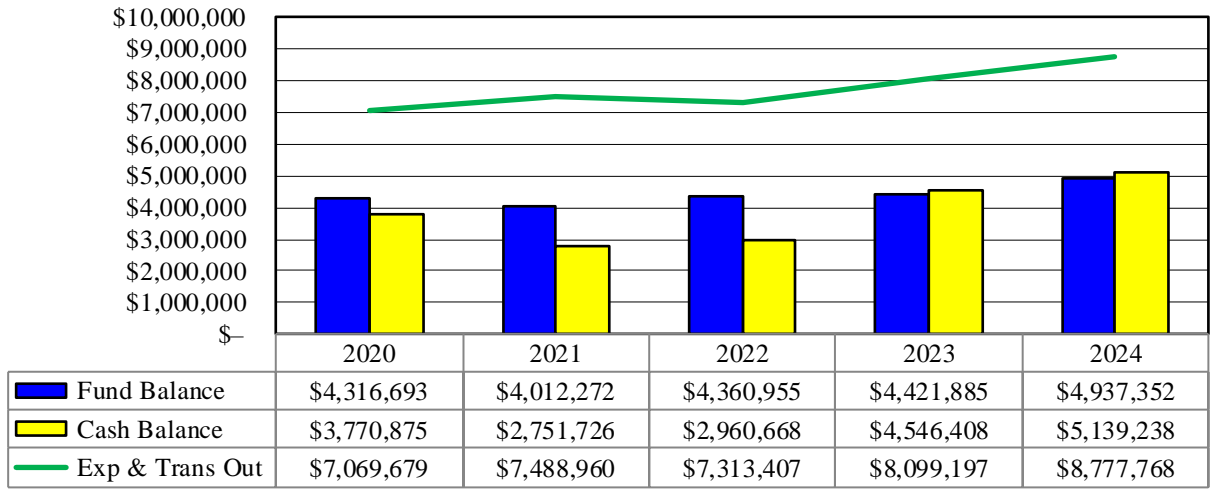
Governmental Funds Expenditures per Capita With State-Wide Averages for Population Class				
Year	State-Wide	City of Wayzata		
	2022	2022	2023	2024
Population	<u>2,500–10,000</u>	<u>4,437</u>	<u>4,549</u>	<u>4,549</u>
Current				
General government	\$ 172	\$ 421	\$ 414	\$ 458
Public safety	343	653	724	813
Public works	163	193	201	202
Culture and recreation	121	357	192	226
All other	<u>86</u>	<u>67</u>	<u>71</u>	<u>91</u>
Total current	885	1,691	1,602	1,790
Capital outlay and construction				
	509	436	2,057	2,072
Debt service				
Principal	163	222	240	242
Interest and fiscal	<u>43</u>	<u>94</u>	<u>109</u>	<u>162</u>
Total debt service	<u>206</u>	<u>316</u>	<u>349</u>	<u>404</u>
Total expenditures	<u>\$ 1,600</u>	<u>\$ 2,443</u>	<u>\$ 4,008</u>	<u>\$ 4,266</u>

The City’s total governmental funds expenditures for 2024 were \$19,412,191, an increase of \$1,176,942 (6.5 percent) from the prior year, or \$258 per capita. Increases in public safety salaries and services, park maintenance, insurance, and legal fees contributed to the \$188 per capita increase in current expenditures. Debt service principal and interest were also \$55 per capita higher than the prior year, primarily from debt issuance costs and available funds used in a current year refunding of general obligation temporary tax increment bonds sold in the previous year to help finance lakefront improvement projects.

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, culture and recreation, and economic development. 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 operating 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,

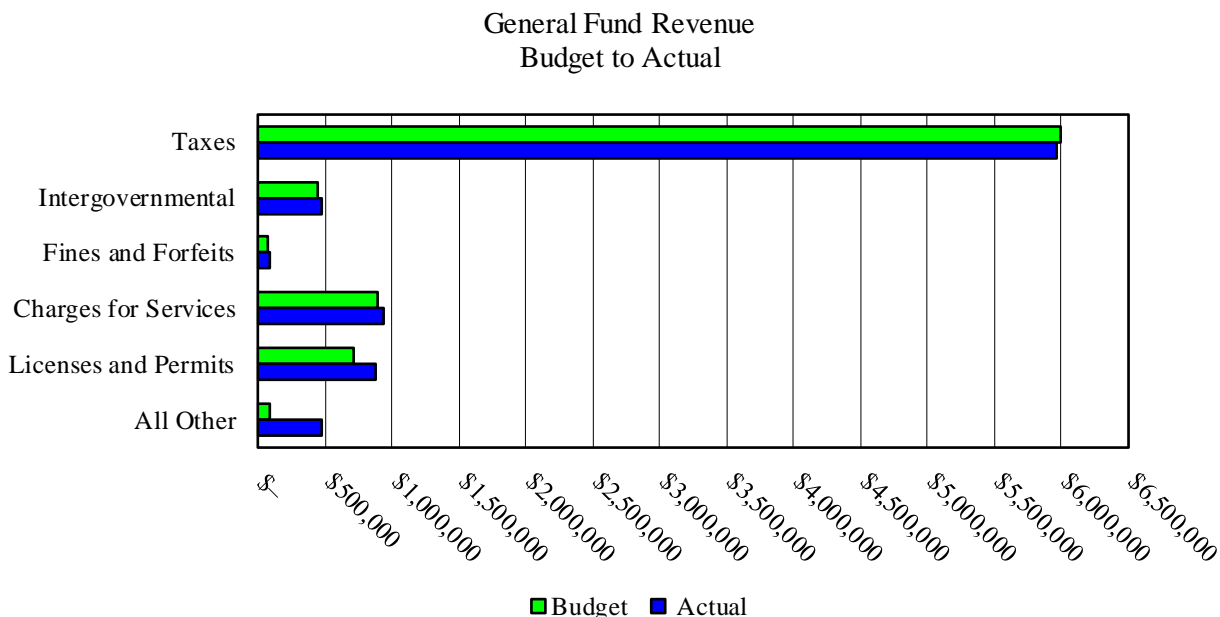


The City's General Fund cash and investments balance on December 31, 2024, was \$5,139,238, an increase of \$592,830 from the previous year. Total fund balance at year-end was \$4,937,352, which was an increase of \$515,467 from the prior year, as compared to a break-even budget. The unassigned portion of fund balance was \$4,644,881 at year-end, which represents 52.9 percent of the City's annual General Fund expenditures and transfers out, based on 2024 levels. Both the cash balance and the unassigned fund balance of the General Fund increased in 2024, 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.

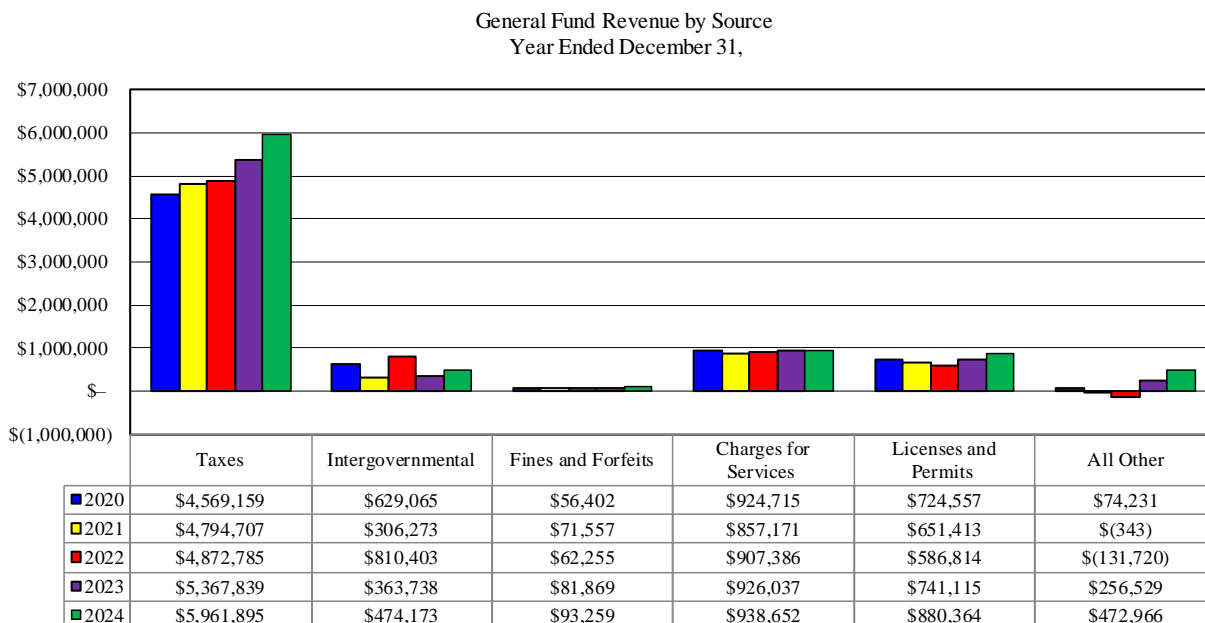
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year, other than the impact of seasonal services, such as snowplowing, street maintenance, and recreation activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 67.6 percent of the fund's total annual revenue. Approximately half of this revenue is received by the City in July and the rest in December. Consequently, the City needs adequate cash reserves to finance its everyday operations between these payments.

The following graph reflects the City’s General Fund revenue sources for 2024 compared to budget:



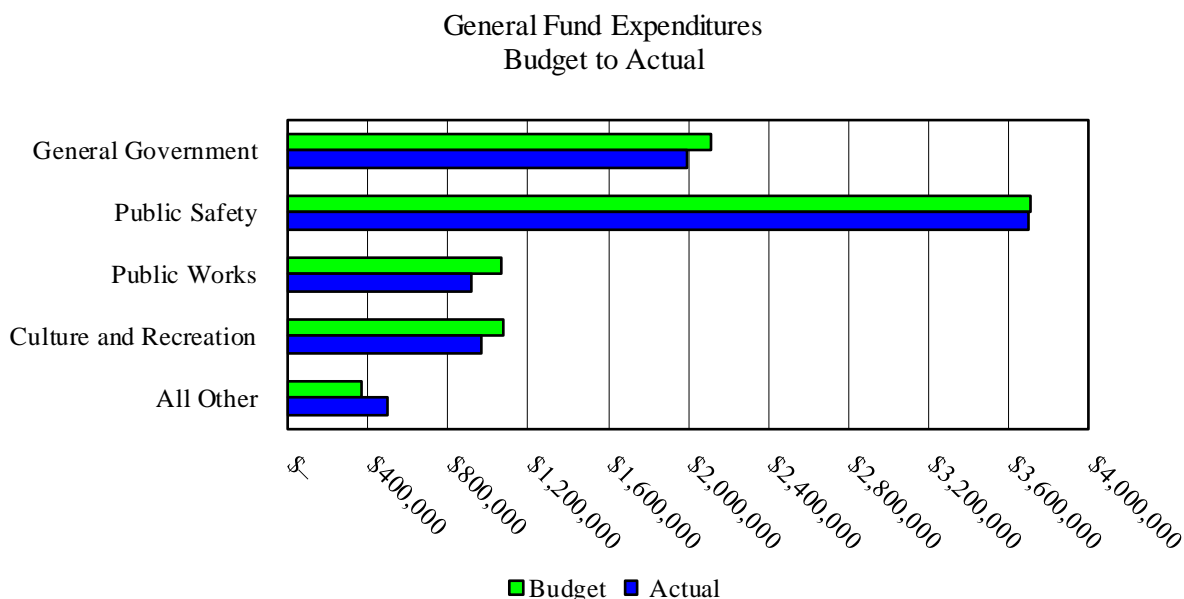
General Fund revenue for 2024 totaled \$8,821,309, which was \$618,347 (7.5 percent) higher than budget. License and permit revenues were \$167,364 over budget, as building permits exceeded budget. Other revenue, as shown above, exceeded budget by \$382,566, primarily from investment earnings, which were \$226,913 over budget due to improved interest rates and market conditions, along with contributions and donations, which were \$155,653 over budget.

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.



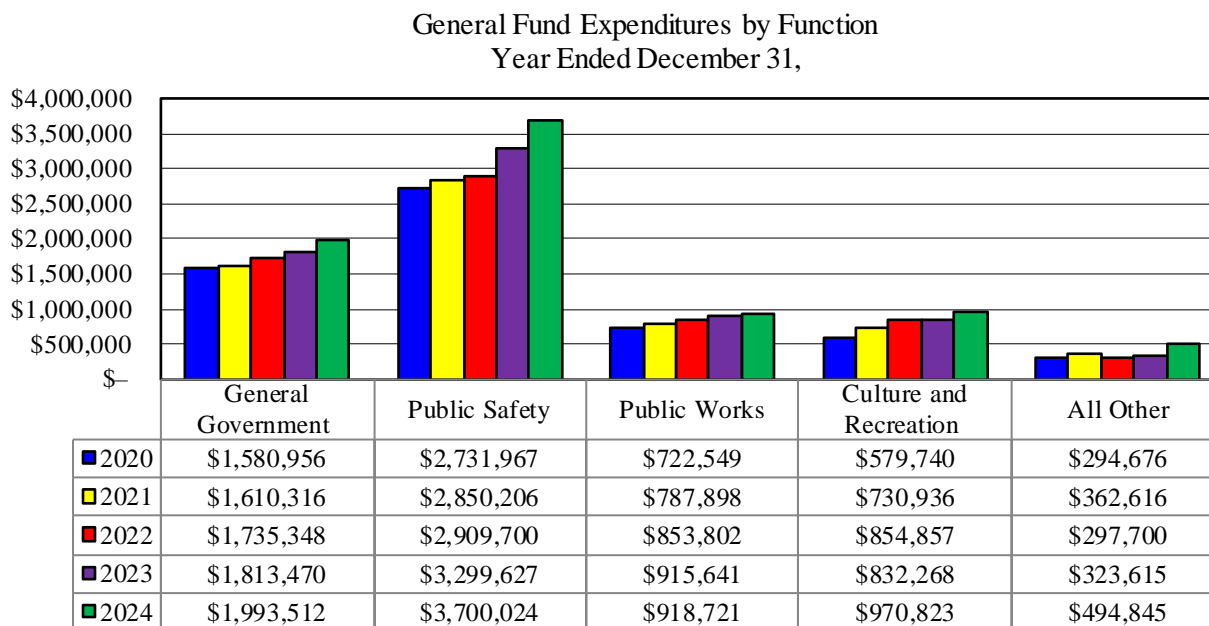
Total General Fund revenues increased \$1,084,182 (14.0 percent) from the previous year. Revenue from taxes was \$594,056 higher than last year, due to an increase in the certified levy. Licenses and permits were up \$139,249 from the prior year, mainly in building permits. Other revenues were \$216,437 higher than the previous year, primarily due to the increases in investment earnings and donations received.

The following graph illustrates the components of General Fund spending for 2024 compared to budget:



Total General Fund expenditures for 2024 totaled \$8,077,925, which was \$254,700 (3.1 percent) lower than budget, with the variance spread across most program areas shown above. Some of the more significant areas of cost savings were assessing and general government buildings (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 \$893,304 (12.4 percent) higher than the previous year, due to inflationary increases across most program areas shown above. The largest increase was in public safety (\$408,229), due to increases in salary and benefits and other purchased services. Increases in park maintenance, insurance, and legal fees also contributed to the overall increase.

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, 2024, presented both by classification and by fund:

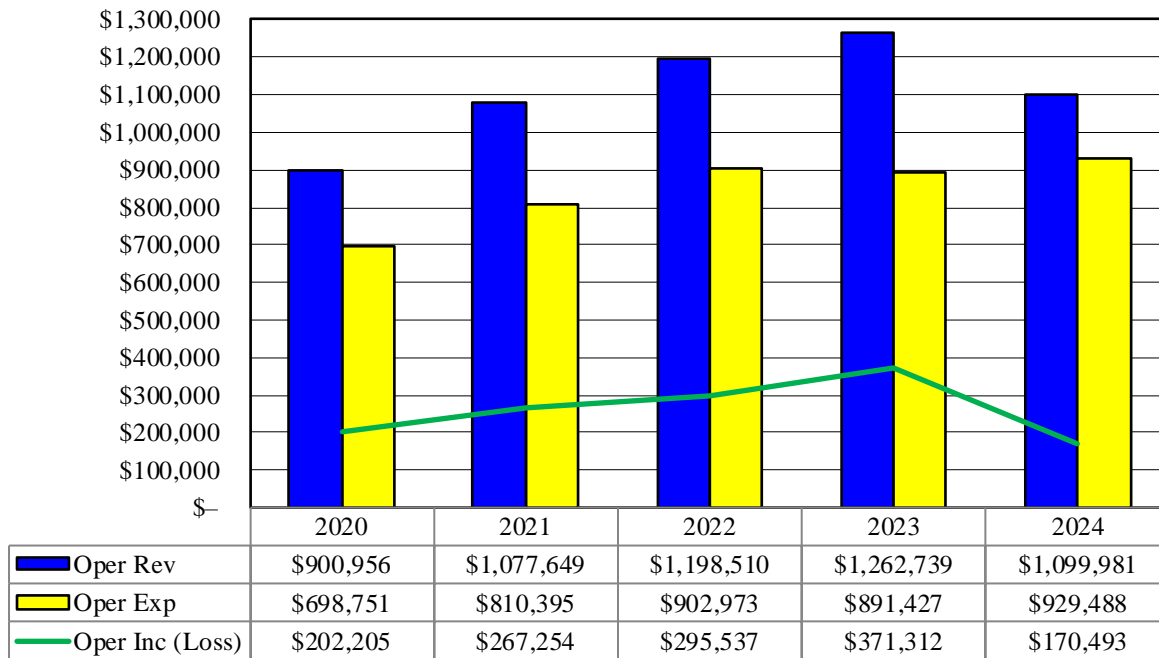
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	<u>2024</u>	<u>2023</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 14,126,806	\$ 13,744,175	\$ 382,631
Restricted	773,201	905,529	(132,328)
Unrestricted	<u>4,908,565</u>	<u>4,563,709</u>	<u>344,856</u>
Total enterprise funds	<u>\$ 19,808,572</u>	<u>\$ 19,213,413</u>	<u>\$ 595,159</u>
Total by fund			
Water	\$ 9,037,732	\$ 8,672,687	\$ 365,045
Sewer	5,416,785	5,215,185	201,600
Licensing	(222,747)	(198,429)	(24,318)
Liquor	1,003,375	1,228,517	(225,142)
Solid Waste	357,270	305,521	51,749
Marina	142,383	134,137	8,246
Stormwater	<u>4,073,774</u>	<u>3,855,795</u>	<u>217,979</u>
Total enterprise funds	<u>\$ 19,808,572</u>	<u>\$ 19,213,413</u>	<u>\$ 595,159</u>

In total, the net position of the City’s enterprise funds increased by \$595,159 from the prior year, including a \$164,048 reduction to beginning net position for the change in accounting principle discussed previously, and an increase of \$759,207 from current year operations. The enterprise funds all generated positive income before contributions and transfers for the year.

WATER FUND

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

Water Fund
Year Ended December 31,



The Water Fund ended 2024 with a total net position of \$9,037,732, which was an increase of \$394,080 from the prior year, excluding the change in accounting principle. The Water Fund had a net investment in capital assets of \$6,176,206, net position restricted for debt service of \$611,877, and unrestricted net position of \$2,249,649 at year-end.

Water Fund operating revenues for fiscal 2024 were \$1,099,981, a decrease of \$162,758 (12.9 percent) from the prior year, due to decreases in water consumption in 2024.

Operating expenses for 2024 were \$929,488, an increase of \$38,061 (4.3 percent) from the previous year, mainly in personnel costs.

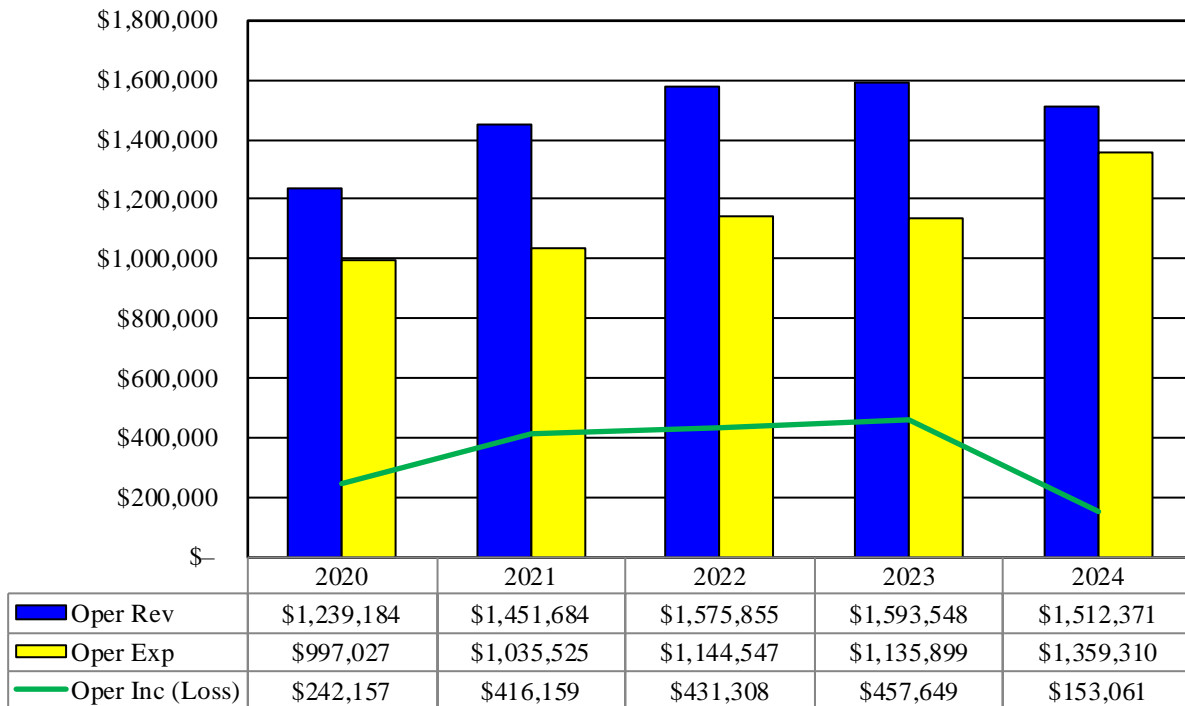
After nonoperating revenues and expenses (such as interest revenue and interest expense), the Water Fund had income (before contributions and transfers) of \$240,001.

The Water Fund received capital contributions of \$255,079 from special assessments and access charges to finance the water portion of street improvement projects. The Water Fund also transferred out \$70,000 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:

Sewer Fund
Year Ended December 31,



The Sewer Fund ended 2024 with a total net position of \$5,416,785, an increase of \$230,635 from the prior year, excluding the change in accounting principle. The Sewer Fund had a net investment in capital assets of \$3,307,441, net position restricted for debt service of \$161,324, and unrestricted net position of \$1,948,020 at year-end.

Sewer Fund operating revenue for fiscal 2024 was \$1,512,371, a decrease of \$81,177 (5.1 percent) from the prior year.

Operating expenses for 2024 were \$1,359,310, an increase of \$223,411 (19.7 percent), primarily due to increased utilities (mainly wastewater charges from Metropolitan Council Environmental Services).

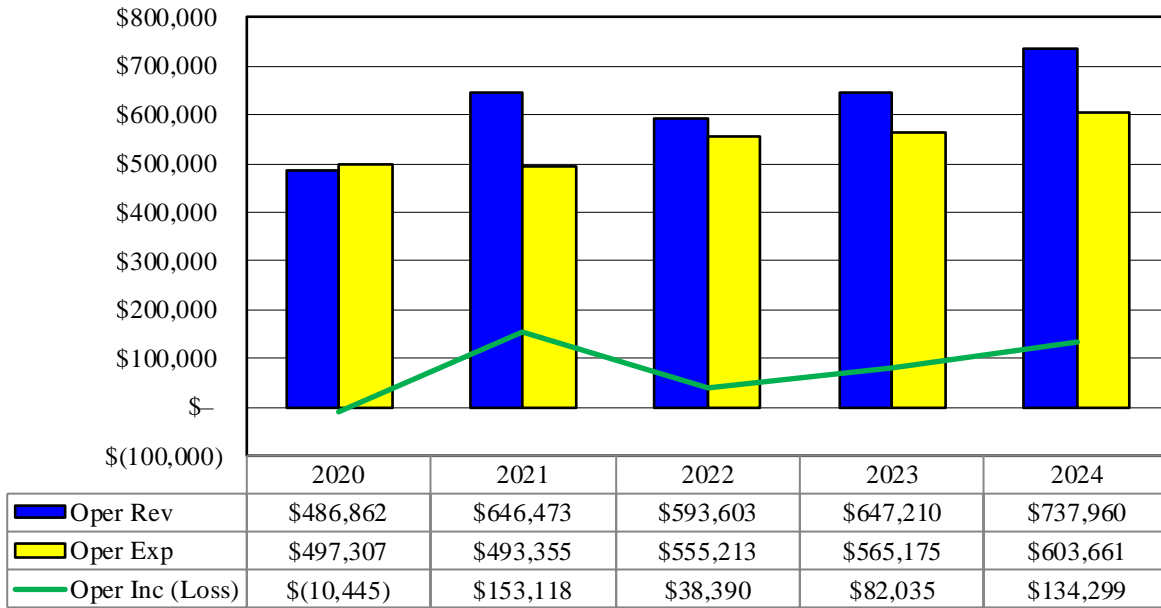
After nonoperating revenues and expenses, the Sewer Fund had income before contributions and transfers of \$255,158.

The Sewer Fund received \$106,477 of contributed capital from special assessments and access charges to finance the sewer portion of street improvement projects. The Sewer Fund also transferred out \$100,000 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 2024 with an unrestricted deficit net position of \$222,747, a decrease of \$3,851 from the prior year, excluding the change in accounting principle.

Licensing Fund operating revenues for 2024 were \$737,960, an increase of \$90,750 (14.0 percent) from the prior year, due to an increase in charges for services.

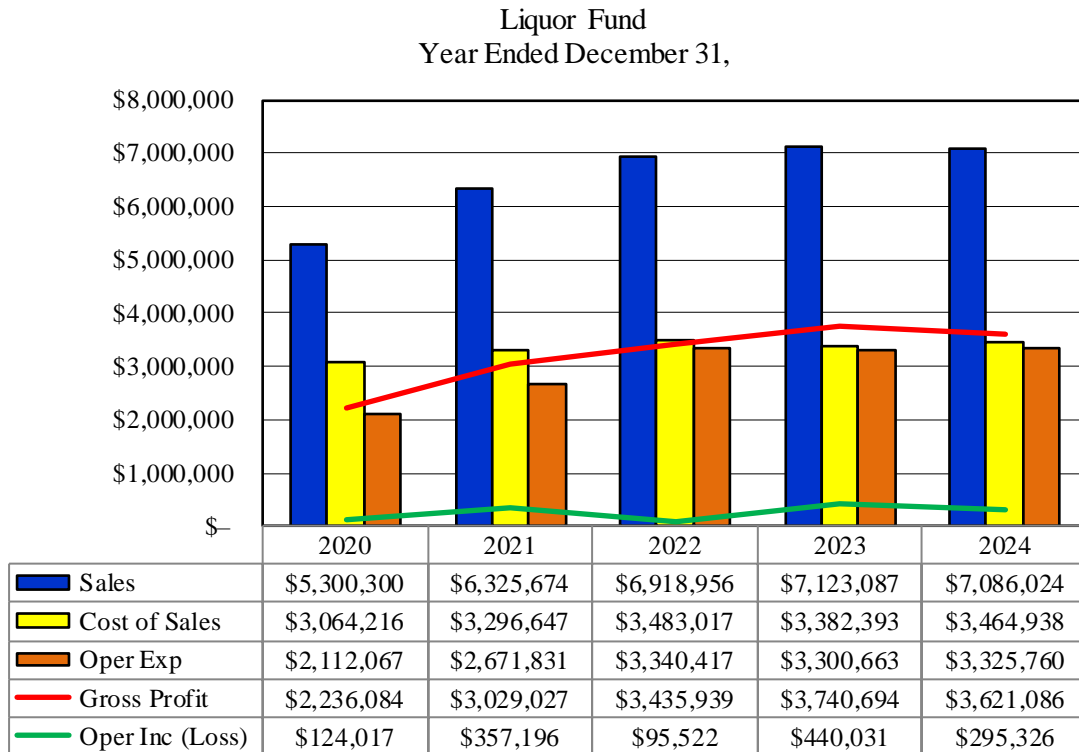
Operating expenses for 2024 were \$603,661, an increase of \$38,486 (6.8 percent) from last year, mainly in salaries and benefits.

After nonoperating revenues, the Licensing Fund had net income before transfers of \$150,947.

The Licensing Fund transferred out \$73,798 to finance parks and trails improvements, \$25,000 for facilities and infrastructure, 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 2024 with a net position of \$1,143,006, a decrease of \$139,631 from the prior year, excluding the change in accounting principle. The Liquor Fund's net investment in capital assets was \$1,472,127, leaving a deficit unrestricted net position of \$468,752 at year-end.

Liquor Fund gross sales for 2024 were \$7,086,024, a decrease of \$37,063 from the prior year. Gross sales for the liquor store increased \$2,448 (0.7 percent), while decreasing by \$39,511 (1.1 percent) for the bar and grill. Gross profits for 2024 decreased \$119,608 (3.2 percent) overall.

Operating expenses of \$3,325,760 represented an increase of \$25,097 (0.8 percent) from the prior year, primarily due to an increase in other services and charges.

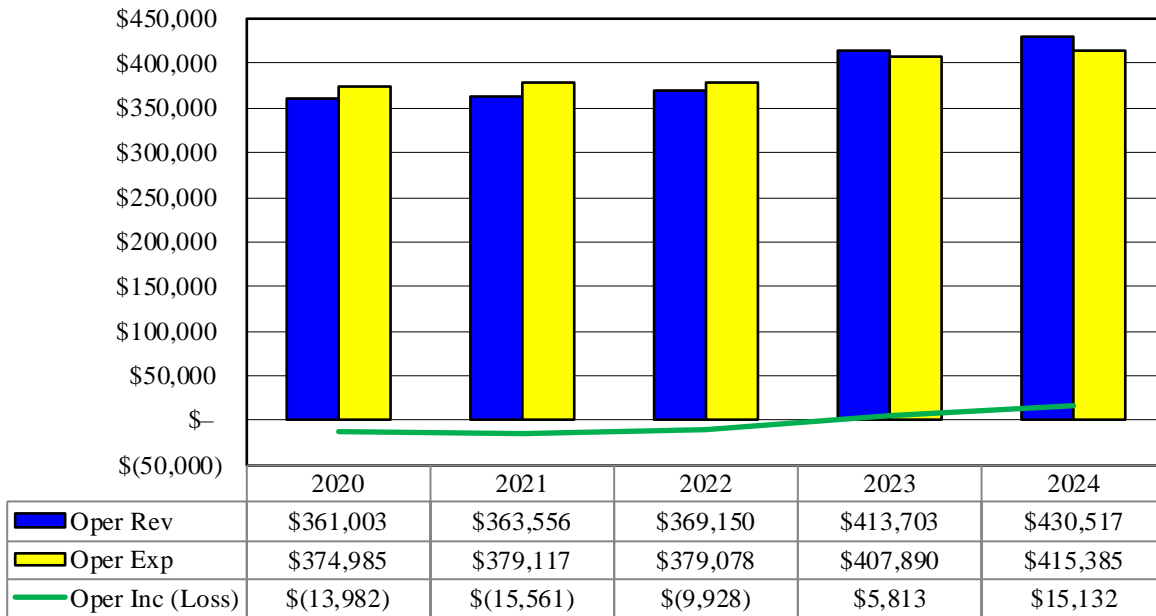
After nonoperating revenues and expenses, the Liquor Fund had income before contributions and transfers of \$405,977.

The Liquor Fund transferred out \$340,608 to finance parks and trails improvements, and \$205,000 to support the General Fund.

SOLID WASTE FUND

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

Solid Waste Fund
Year Ended December 31,



The Solid Waste Fund ended 2024 with an unrestricted net position of \$357,270, an increase of \$51,749 from the prior year.

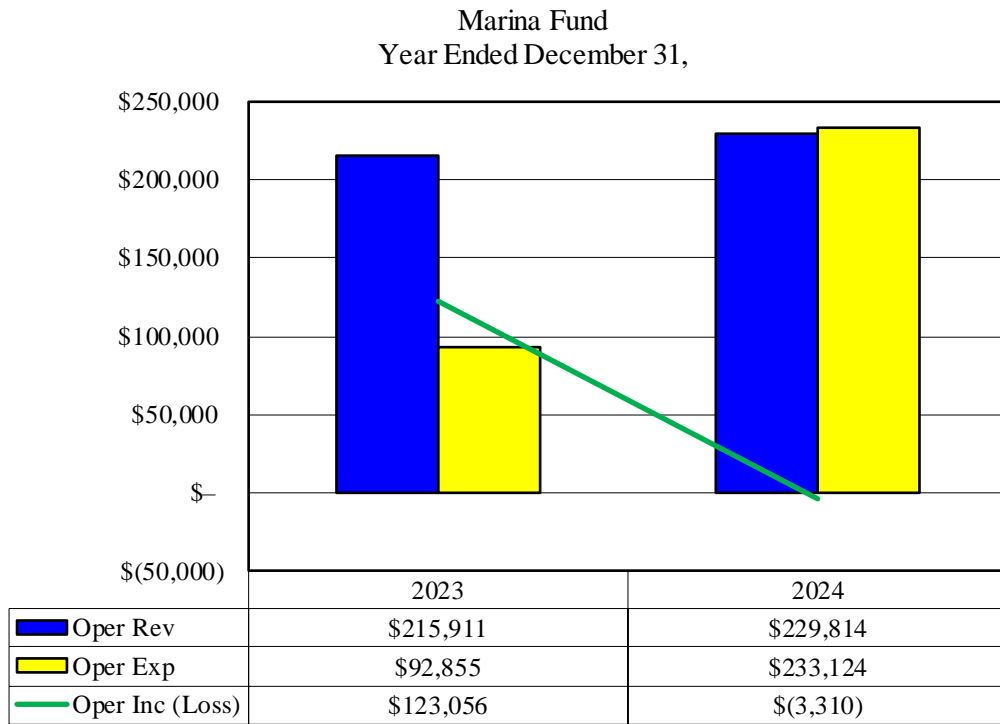
Operating revenues for 2024 were \$430,517, an increase of \$16,814 (4.1 percent) from last year.

Operating expenses for 2024 were \$415,385, an increase of \$7,495 (1.8 percent) from the previous year.

After nonoperating revenues, the Solid Waste Fund had an increase in net position of \$51,749.

MARINA FUND

The following graph presents two years of operating results for the Marina Fund, created in 2023:



The Marina Fund ended 2024 with an unrestricted net position of \$142,383, an increase of \$8,246 from the prior year.

Operating revenues for 2024 were \$229,814, an increase of \$13,903 (6.4 percent) from last year.

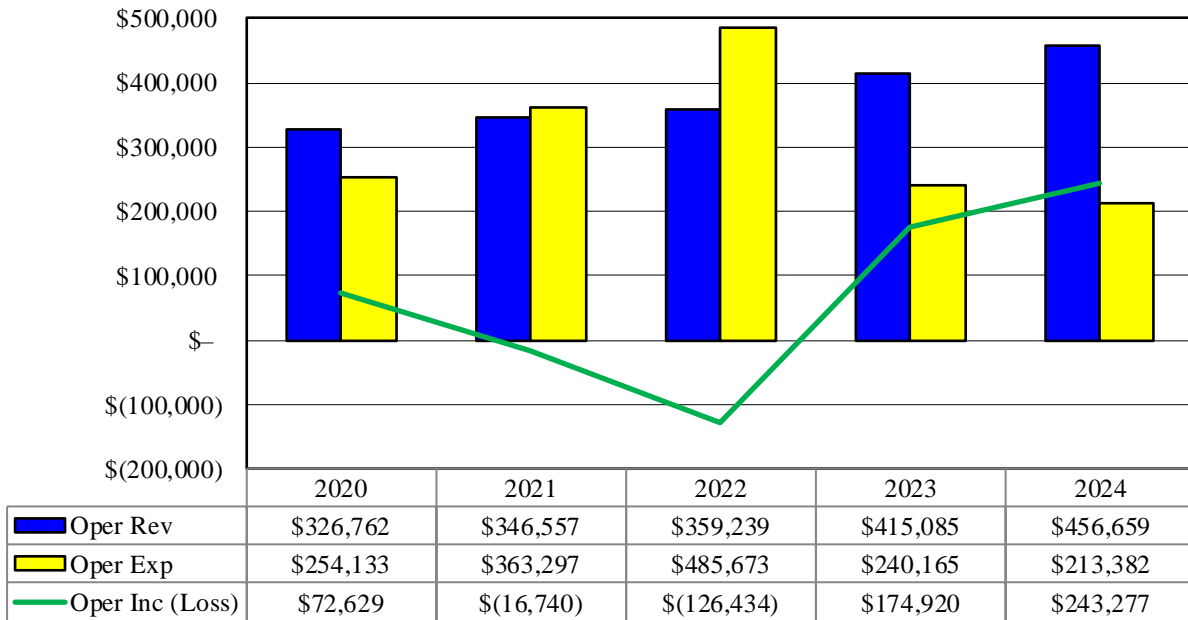
Operating expenses for 2024 were \$233,124, an increase of \$140,269 (151.1 percent) from the previous year, mainly in contracted services.

After nonoperating revenues, the Marina Fund had an increase in net position of \$8,246.

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 2024 with a total net position of \$4,073,774, an increase of \$217,979 from the prior year. The Stormwater Fund’s net investment in capital assets was \$3,171,032 at year-end, leaving an unrestricted net position of \$902,742.

Stormwater Fund operating revenue for 2024 was \$456,659, an increase of \$41,574 (10.0 percent) from last year.

Operating expenses for 2024 were \$213,382, a decrease of \$26,783 (11.2 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 \$282,979.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

	As of December 31,		Change
	2024	2023	
Net position – primary government			
Governmental activities			
Net investment in capital assets	\$ 46,994,401	\$ 44,365,097	\$ 2,629,304
Restricted	3,564,784	4,833,073	(1,268,289)
Unrestricted	8,614,870	8,651,972	(37,102)
Total governmental activities	<u>59,174,055</u>	<u>57,850,142</u>	1,323,913
Business-type activities			
Net investment in capital assets	14,126,806	13,744,175	382,631
Restricted	773,201	905,529	(132,328)
Unrestricted	4,908,565	4,563,709	344,856
Total business-type activities	<u>19,808,572</u>	<u>19,213,413</u>	595,159
Total net position – primary government	<u>\$ 78,982,627</u>	<u>\$ 77,063,555</u>	<u>\$ 1,919,072</u>
Net position – HRA component unit			
Net investment in capital assets	\$ 2,092,900	\$ 2,092,900	\$ –
Restricted	995,193	990,838	4,355
Unrestricted	(839,429)	(988,345)	148,916
Total net position – HRA component unit	<u>\$ 2,248,664</u>	<u>\$ 2,095,393</u>	<u>\$ 153,271</u>

The City (excluding the HRA) ended 2024 with a combined total net position of \$78,982,627, an increase of \$1,919,072 from the prior year, including a \$653,884 reduction to beginning net position for the change in accounting principle discussed previously, and an increase of \$2,572,956 from current year operations. The City's net investment in capital assets increased \$3,011,935 between the governmental and business-type activities, primarily due the significant Panoway project additions in 2024. Decreases in restrictions for debt service, lakefront improvements, and public safety contributed to a combined decrease of \$1,400,617 in restricted net position. The combined increase in unrestricted net position of \$307,754 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 \$2,248,664, an increase of \$153,271.

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, 2024:

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Change Primary Government</u>	<u>Net Change Component Unit – HRA</u>
Primary government				
Governmental activities				
General government	\$ 2,630,279	\$ 900,698	\$ (1,729,581)	\$ –
Public safety	4,298,880	1,586,447	(2,712,433)	–
Public works	3,176,591	1,885,609	(1,290,982)	–
Culture and recreation	1,949,007	1,646,725	(302,282)	–
Interest on long-term debt	682,123	–	(682,123)	–
Business-type activities				
Water	998,793	1,360,107	361,314	–
Sewer	1,364,099	1,624,942	260,843	–
Licensing	603,661	746,023	142,362	–
Liquor	6,817,410	7,166,316	348,906	–
Solid Waste	415,385	449,899	34,514	–
Marina	233,124	230,445	(2,679)	–
Stormwater	213,382	457,739	244,357	–
Total – primary government	<u>\$ 23,382,734</u>	<u>\$ 18,054,950</u>	<u>(5,327,784)</u>	<u>–</u>
Component unit – HRA	<u>\$ 3,832,405</u>	<u>\$ –</u>	<u>–</u>	<u>(3,832,405)</u>
General revenues				
Property taxes and tax increments			6,349,850	3,943,261
Franchise taxes			159,387	–
Unrestricted grants and contributions			244,779	–
Investment earnings			1,138,479	42,415
Gain on sale of capital assets			8,245	–
Total general revenues			<u>7,900,740</u>	<u>3,985,676</u>
Change in net position			<u>\$ 2,572,956</u>	<u>\$ 153,271</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. It also shows that the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses, for the most part.

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.