

Management Report
for
City of Victoria, Minnesota
December 31, 2022

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To the City Council and Management
City of Victoria, Minnesota

We have prepared this management report in conjunction with our audit of the City of Victoria, Minnesota's (the City) financial statements for the year ended December 31, 2022. 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 1, 2023

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AUDIT SUMMARY

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

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2022. 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 OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2022:

- We have issued an unmodified opinion 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. 87, *Leases*, during the year. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Deposit Sweep Account

Minnesota Statutes § 118A.03 requires banks holding local government entity deposits to protect the deposits from custodial credit risk (the risk of loss in the event of a bank failure) by providing adequate insurance, bond, or pledged collateral to cover amounts “on deposit at the close of the financial institution’s banking day.” Some banks utilize arrangements under which governmental entities’ deposit balances in excess of Federal Deposit Insurance Corporation limits are swept out of their depository accounts daily into other investments or to depository accounts at other banks.

An issue has arisen with some sweep account arrangements, caused by a lag between the timing of when the primary bank’s records show the funds being swept out of its account and when the receiving bank’s records acknowledge receipt of the funds. If the receiving bank’s records do not show the transferred funds arriving the same business day as the primary bank shows them being swept out, the funds in transit would legally still be considered in the custody of the primary depository at the end of the banking day. This would potentially subject any excess deposits to custodial credit risk and not complying with statutory requirements. The Minnesota Office of the State Auditor (OSA) has added audit requirements to test such sweep arrangements in their *Legal Compliance Audit Guide*. In addition, recent bank failures have placed additional emphasis on the importance of protecting local government deposits from custodial credit risk. We recommend the City review the terms of any sweep arrangement it has in place or is considering and verify that the financial institutions on both sides of the sweep transaction are recognizing the transfer of funds the same banking day.

Credit Card Transactions

Minnesota cities have the authority to make purchases using credit cards issued on behalf of their city. Credit card purchases are becoming more commonplace, especially with the proliferation of e-commerce, and have consequently been garnering increased scrutiny from oversight agencies. The statutes authorizing credit card use by cities restrict their use to purchases made on behalf of a city, do not permit personal use of the credit card by the card user, and specify they should only be used by employees authorized to make purchases. Employees are personally liable for unauthorized credit card purchases.

Purchases made with credit cards must comply with other applicable state laws, including the requirement that all claims presented for payment must be in writing and itemized. In its Statement of Position (SOP) on credit card use, the OSA has clarified that the statement from the credit card company lacks sufficient detail to comply with this requirement and, therefore, “public entities using credit cards must retain the invoices and receipts needed to support the items charged in the bill from the credit card company.” The SOP also states that the individual vendors providing the goods or services should be listed on the claims list provided to a city council for review and approval, rather than the credit card company.

While the authorized use of a credit card to make small purchases offers advantages, such as convenience and expedited purchasing, the ability of the credit card users to make a city liable for purchases that are improper or not in compliance with statutory requirements is an added risk related to such transactions. The OSA recommends that a robust credit card policy be established by public entities allowing credit card purchases, which clearly delineates the requirements for use, supporting documentation required, and the review and approval process for credit card purchases. The OSA also recommends that cities obtain signed written acknowledgement of the policy from all authorized card users.

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, 2022. However, the City implemented the following governmental accounting standard during the fiscal year:

- The City implemented GASB Statement No. 87, *Leases*. This standard changed the way lease transactions are reported by the City, but did not result in a restatement of net position in the current 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. These obligations are calculated using actuarial methodologies described in GASB Statement No. 68. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.
- The depreciation of capital assets involves estimates pertaining to useful lives.
- Value of Assets Held for Resale – Management's estimate of these assets is based on net realizable value (lower of cost or acquisition value).
- Compensated Absences – Management's estimate is based on current rates of pay and unused compensated absence balances.

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 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. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 1, 2023.

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-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

GOVERNMENTAL FUNDS OVERVIEW

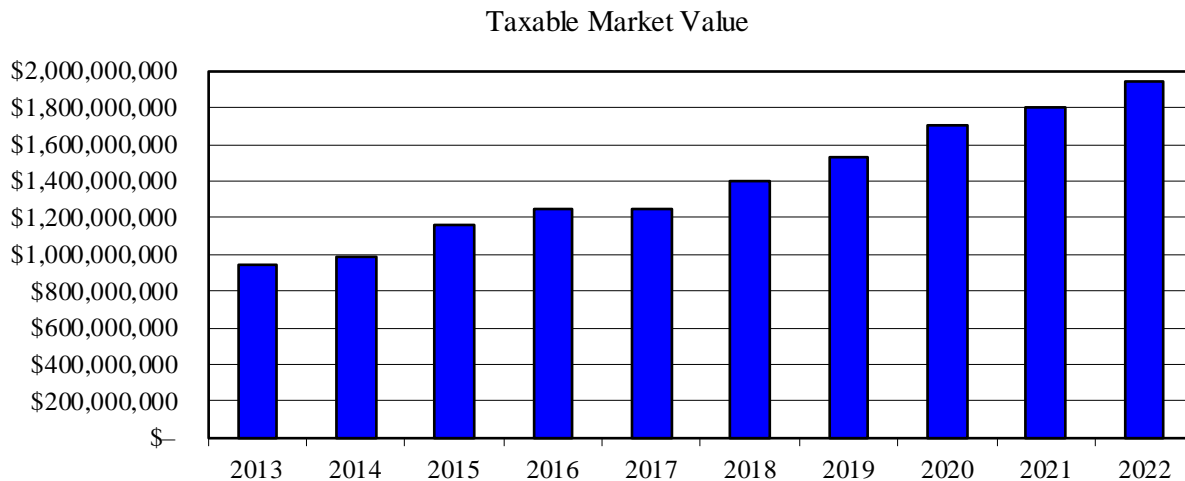
This section of the report provides you with an overview of the financial trends and activities of the City’s governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its 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 2021 fiscal year, 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 2022 increased 5.9 percent compared to the prior year, and 4.2 percent for taxes payable in 2023.

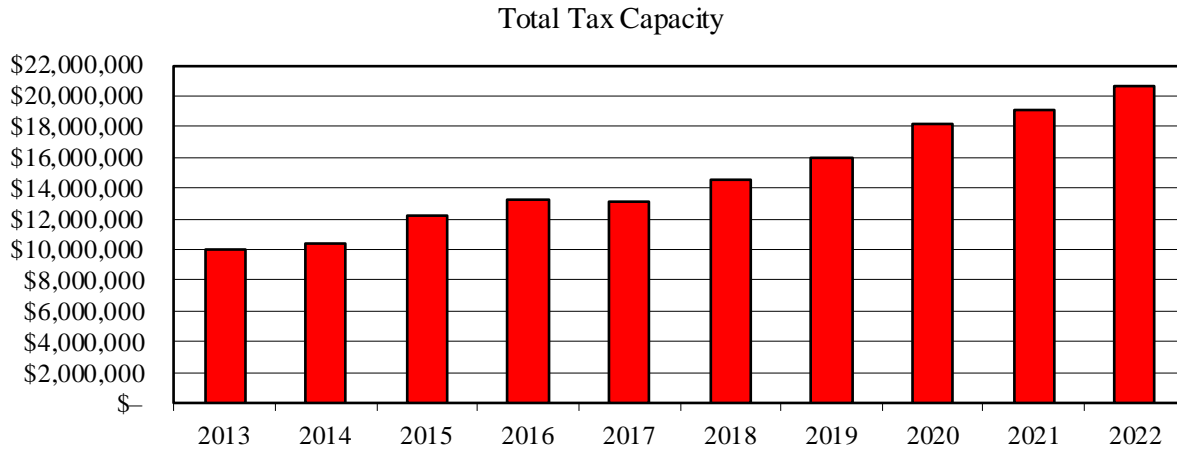
The total tax capacity value of property in Minnesota cities increased about 5.6 percent for the 2022 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2022 were based on assessed market values as of January 1, 2021), 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 5.3 percent for taxes payable in 2021 and 8.0 percent for taxes payable in 2022. 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 5.3 percent and 8.1 percent for taxes payable in 2021 and 2022, 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 Victoria		
	2020	2021	2022
Average tax rate			
City	32.1	32.2	31.2
County	35.2	34.6	34.2
School (ISD No. 112)	33.0	32.3	31.2
Special taxing entities	2.4	2.5	2.4
Total	<u>102.7</u>	<u>101.6</u>	<u>99.0</u>

The total average tax rate decreased from the prior year, with decreases in each of the rates presented above.

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, 2022, presented both by fund balance classification and by major fund:

Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Change
	<u>2022</u>	<u>2021</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 1,391,390	\$ 1,389,925	\$ 1,465
Restricted	3,661,522	5,189,648	(1,528,126)
Committed	3,944,966	4,025,179	(80,213)
Assigned	6,013,257	6,283,428	(270,171)
Unassigned	<u>1,246,808</u>	<u>1,152,522</u>	<u>94,286</u>
Total governmental funds	<u>\$ 16,257,943</u>	<u>\$ 18,040,702</u>	<u>\$ (1,782,759)</u>
Total by fund			
General	\$ 3,461,146	\$ 3,332,219	\$ 128,927
Victoria Recreation Center	1,081,167	1,068,483	12,684
Debt Service	2,595,017	3,926,709	(1,331,692)
Permanent Improvement Revolving	2,341,511	2,347,671	(6,160)
Nonmajor	<u>6,779,102</u>	<u>7,365,620</u>	<u>(586,518)</u>
Total governmental funds	<u>\$ 16,257,943</u>	<u>\$ 18,040,702</u>	<u>\$ (1,782,759)</u>

In total, the fund balances of the City's governmental funds decreased by \$1,782,759 during the year ended December 31, 2022. The decrease was mainly in restricted fund balance in the Debt Service Fund, due to refunding bonds issued in the prior year to refund outstanding bonds in 2022.

GOVERNMENTAL FUND REVENUES

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

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

Governmental Funds Revenue per Capita						
With State-Wide Averages by Population Class						
Year Population	State-Wide			City of Victoria		
	December 31, 2021			2020	2021	2022
	2,500–10,000	10,000–20,000	20,000–100,000	10,546	10,900	11,384
Property taxes	\$ 560	\$ 529	\$ 557	\$ 561	\$ 579	\$ 582
Tax increments	38	36	49	40	20	30
Franchise and other taxes	52	66	53	37	38	35
Special assessments	59	41	56	40	30	26
Licenses and permits	45	46	53	66	57	59
Intergovernmental revenues	421	293	202	91	21	85
Charges for services	135	111	110	118	134	121
Other	60	39	26	52	52	169
Total revenue	\$ 1,370	\$ 1,161	\$ 1,106	\$ 1,005	\$ 931	\$ 1,107

The City's governmental fund revenues for 2022 were \$12,597,552, an increase of \$2,444,148 (24.1 percent) from the prior year. The City's per capita governmental funds revenue for 2022 was \$1,107, an increase of \$176 from the prior year, including the effect of a change in estimated population. The largest variances occurred in other revenues and intergovernmental revenues. Other revenues increased \$117 per capita, due to reimbursements from the county and developers to fund a street project in the current year. Intergovernmental revenues increased \$64 per capita, due to the recognition of coronavirus state and local fiscal recovery funds in the current year.

GOVERNMENTAL FUND EXPENDITURES

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

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

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

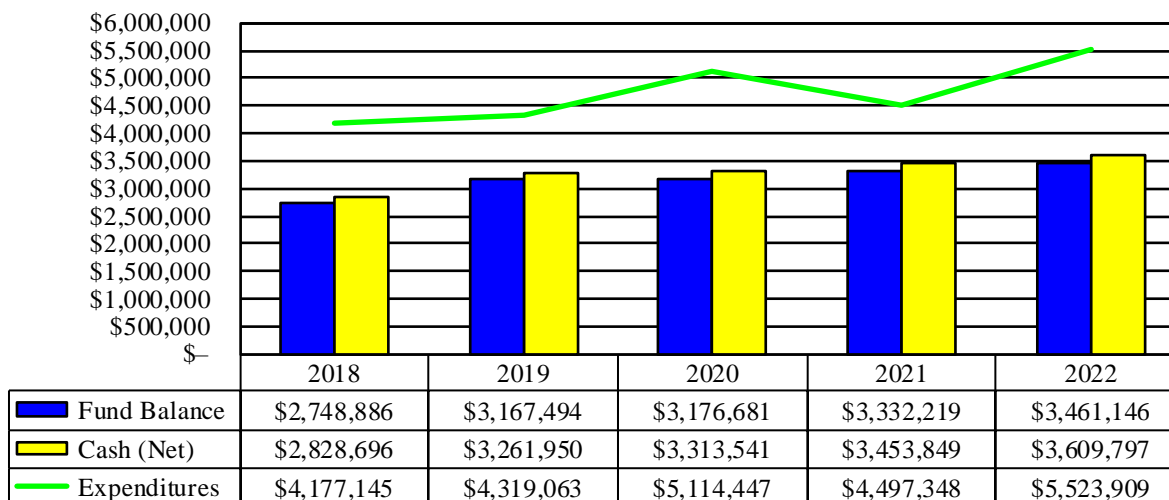
Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class							
Year	State-Wide			City of Victoria			
	December 31, 2021			2020	2021	2022	
Population	2,500–10,000	10,000–20,000	20,000–100,000	10,546	10,900	11,384	
Current							
General government	\$ 168	\$ 131	\$ 116	\$ 175	\$ 147	\$ 183	
Public safety	327	296	327	132	129	137	
Streets and highways	144	124	112	73	77	83	
Culture and recreation	108	124	107	98	109	115	
All other	101	79	77	2	–	4	
Total current	<u>848</u>	<u>754</u>	<u>739</u>	<u>480</u>	<u>462</u>	<u>522</u>	
Capital outlay and construction	525	407	317	587	162	447	
Debt service							
Principal	168	161	110	184	161	184	
Interest and fiscal charges	48	41	34	51	48	44	
Total debt service	<u>216</u>	<u>202</u>	<u>144</u>	<u>235</u>	<u>209</u>	<u>228</u>	
Total expenditures	<u>\$ 1,589</u>	<u>\$ 1,363</u>	<u>\$ 1,200</u>	<u>\$ 1,302</u>	<u>\$ 833</u>	<u>\$ 1,197</u>	

Total expenditures in the City's governmental funds for 2022 were \$13,620,841, an increase of \$4,534,375 (49.9 percent). The City's per capita governmental funds total expenditures increased \$364. This increase was mainly in capital outlay and construction, which increased \$285 per capita, due to the Highway 11 street improvement project, purchase of land for a future fire station, and construction of pickleball courts in the current year.

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 to reflect the change in the size of the General Fund operation over the same period.

General Fund Financial Position
Year Ended December 31,



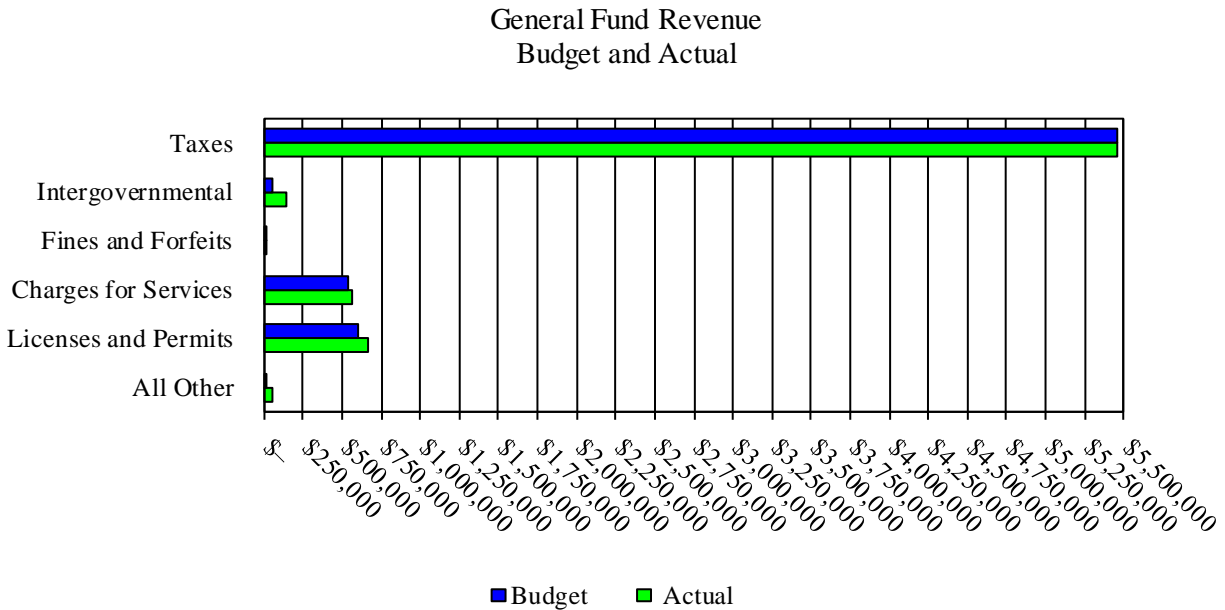
The City's General Fund cash and investment balance (net of borrowing) at December 31, 2022 was \$3,609,797, an increase of \$155,948 from the previous year. Total fund balance at December 31, 2022 was \$3,461,146, an increase of \$128,927 from the prior year.

As the graph illustrates, 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. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

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. Taxes comprise about 78.3 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

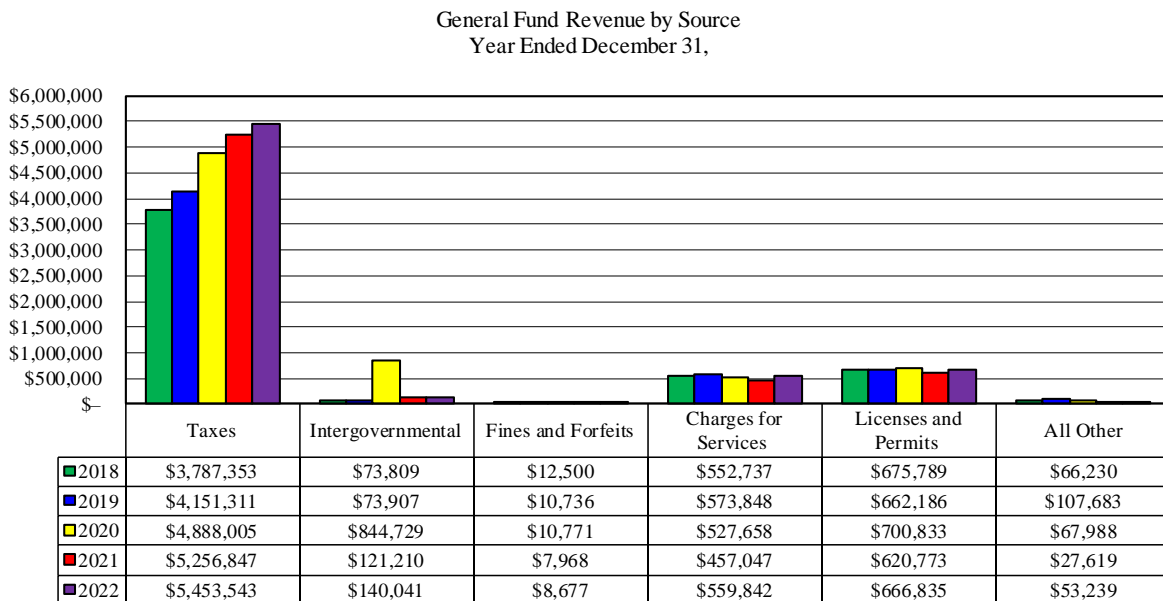
Current city policy allows the fund balance in the General Fund to grow to 30.0 percent of the subsequent year's budgeted expenditures. At December 31, 2022, the unassigned fund balance for the General Fund was 30.0 percent of the subsequent year's budgeted expenditures. The City should review the level of fund balance on an ongoing basis to determine the optimal level for efficient operations.

The following graph reflects the City’s General Fund revenue sources for 2022 compared to budget:



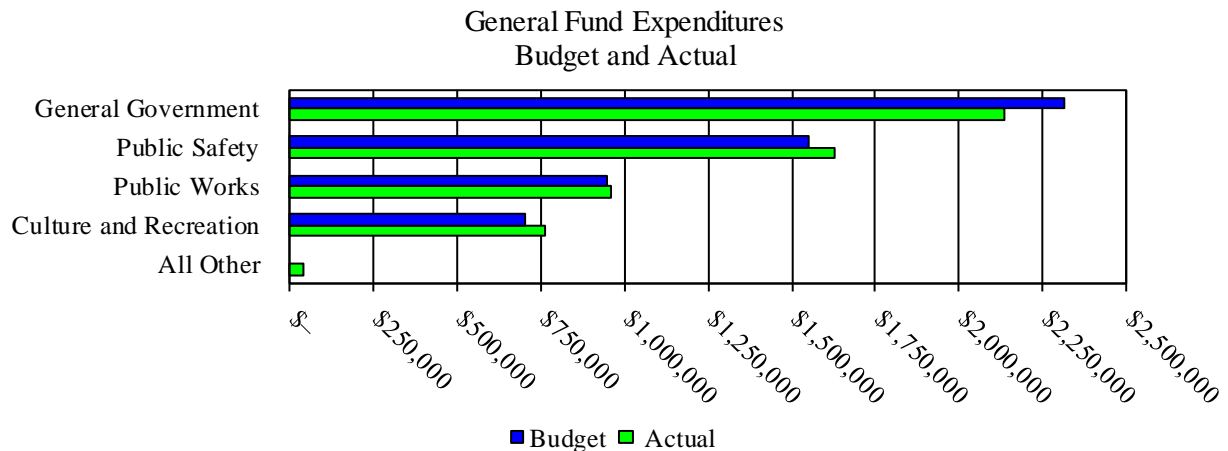
Total General Fund revenues for 2022 were \$6,882,177, an increase of \$390,713 from the previous year, and were \$191,266 (2.9 percent) over budget. The largest variances were in intergovernmental revenues and licenses and permits, which were over budget \$81,510 and \$58,835, respectively. Intergovernmental revenues were over budget, due to more police aid and fire grants than anticipated in the budget. Licenses and permits revenues were over budget, due to more than anticipated building activity.

The following graph presents the City’s General Fund revenues by source for the last five years. The graph reflects the City’s reliance on property taxes and other local sources of revenue.



The increase in General Fund revenues was mainly in taxes and charges for services. Tax revenues increased \$196,696, due to an increase in the property tax levy approved by the City Council for 2022. The increased charges for services of \$102,795, are a result of more plan check fees with increased building activity.

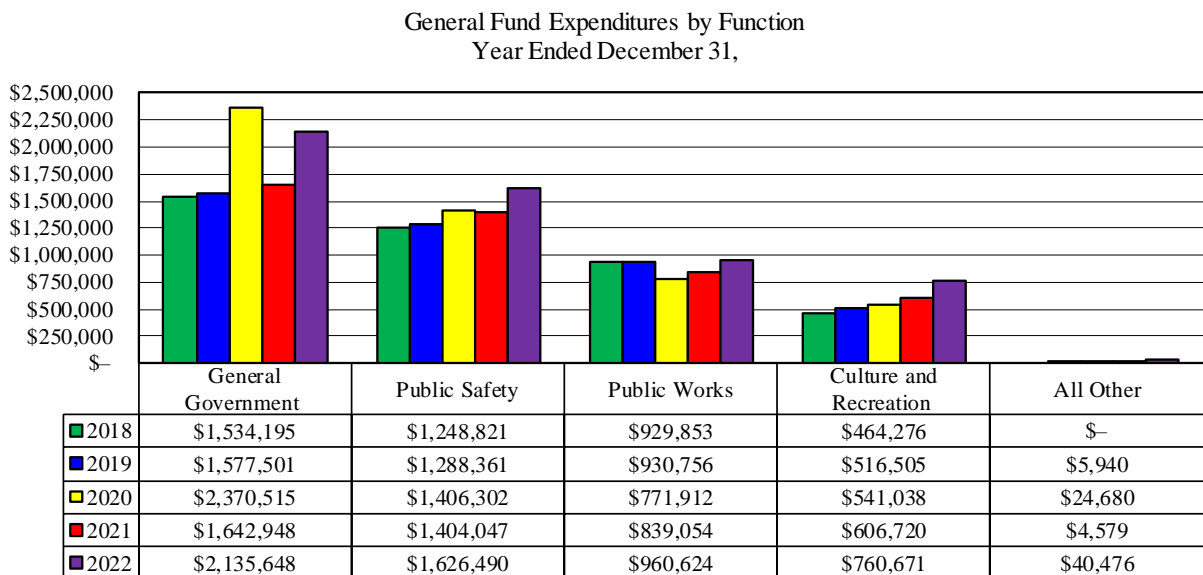
The following graph illustrates the components of General Fund spending for 2022 compared to budget:



General Fund expenditures for 2022 were \$5,523,909, an increase of \$1,026,561 from the previous year and were \$4,889 (0.1 percent) more than budget. General government expenditures were \$178,735 under budget, due to less than anticipated mayor and City Council, city administration, communications, professional services, information technology, and planning and zoning expenditures. Culture and recreation expenditures were \$55,045 over budget, mainly in parks maintenance and parks and recreation departments. Public safety expenditures were \$77,080 over budget, mainly in the building inspection department with more building activity than anticipated. Economic development expenditures were \$40,476 over budget, due to more than anticipated activity.

The City also transferred out \$200,341 more than budgeted to other funds for capital projects and equipment, in accordance with its fund balance policy.

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



The increase in General Fund expenditures was mainly in the general government and public safety functions. General government expenditures increased in personal service costs in the communications, financial administration, planning and zoning, and city administration departments with positions added in the current year. The increase in public safety expenditures is due to increased supplies in the fire department and increased building inspection personal service costs.

ENTERPRISE FUNDS OVERVIEW

The City maintains several enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which include the Water Fund, Sewer Fund, and the Storm Water Management Fund.

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, 2022, presented both by classification and by fund:

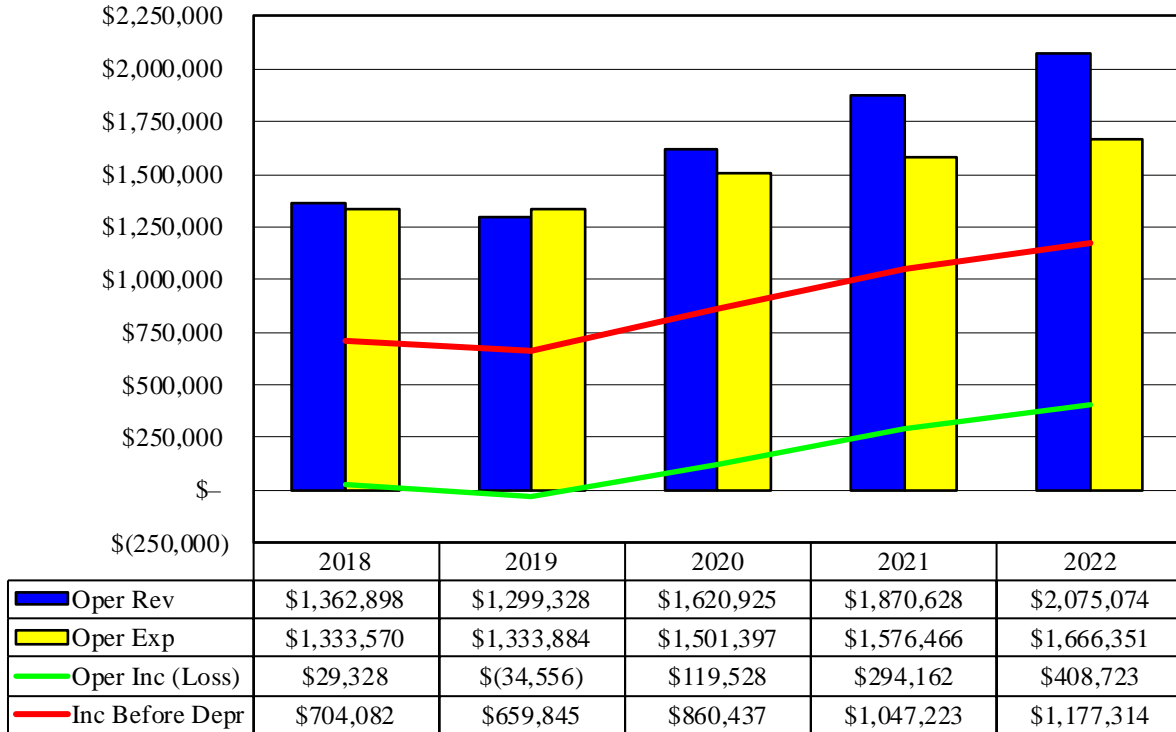
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	2022	2021	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 47,634,481	\$ 46,123,579	\$ 1,510,902
Unrestricted	<u>9,469,979</u>	<u>8,186,767</u>	<u>1,283,212</u>
Total enterprise funds	<u>\$ 57,104,460</u>	<u>\$ 54,310,346</u>	<u>\$ 2,794,114</u>
Total by fund			
Water	\$ 24,041,472	\$ 22,702,020	\$ 1,339,452
Sewer	17,747,270	17,194,693	552,577
Storm water management	<u>15,315,718</u>	<u>14,413,633</u>	<u>902,085</u>
Total enterprise funds	<u>\$ 57,104,460</u>	<u>\$ 54,310,346</u>	<u>\$ 2,794,114</u>

In total, the net position of the City's enterprise funds increased by \$2,794,114 during the year ended December 31, 2022. Net investment in capital assets increased \$1,510,902, due to continued investment in utility infrastructure and developer contributions. Unrestricted net position increased \$1,283,212, due to positive operating results in the enterprise funds.

WATER FUND

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

Water Fund
Year Ended December 31,



The Water Fund ended 2022 with a total net position of \$24,041,472, an increase of \$1,339,452 from the prior year. Of this, \$20,209,889 represents the investment in capital assets, leaving an unrestricted net position of \$3,831,583.

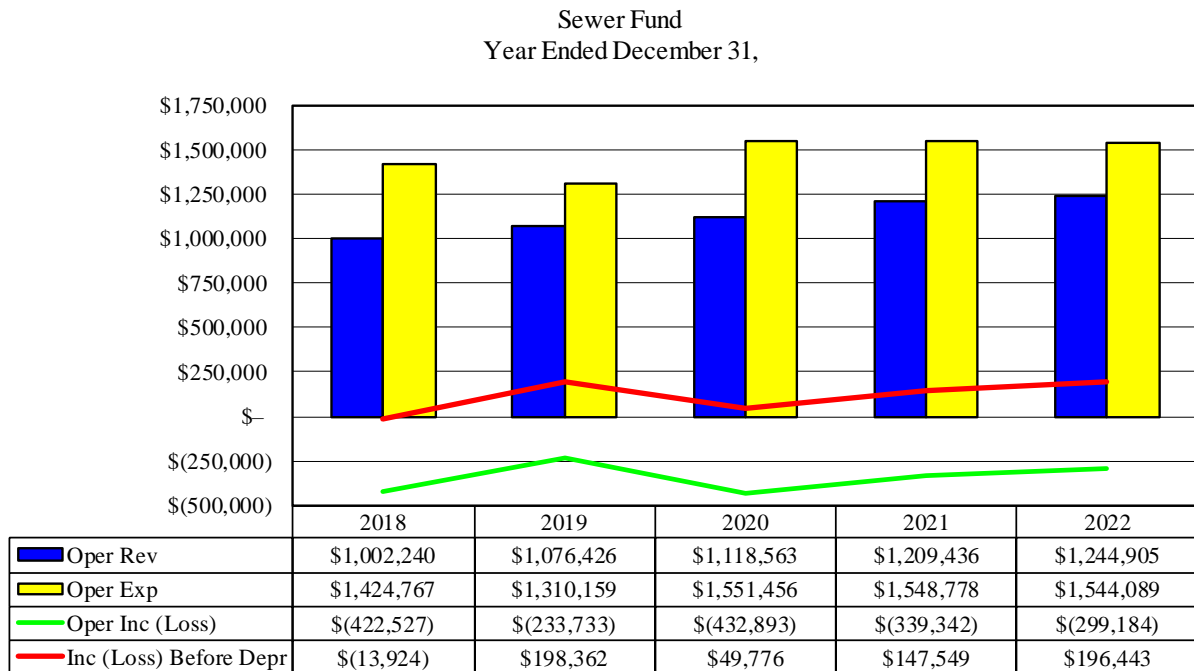
Operating revenue in the Water Fund increased \$204,446 (10.9 percent) from the prior year. This was due to an increase in water consumption and connections.

Water Fund operating expenses for 2022 increased \$89,885 (5.7 percent) from the previous year, mainly in personnel services, purchased utilities, and materials and supplies.

The Water Fund continued to recognize significant capital contributions in the current year, due to development within the City.

SEWER FUND

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



The Sewer Fund ended 2022 with a total net position of \$17,747,270, an increase of \$552,577 from the prior year. Of this, \$13,582,778 represents the investment in capital assets, leaving unrestricted net position of \$4,164,492.

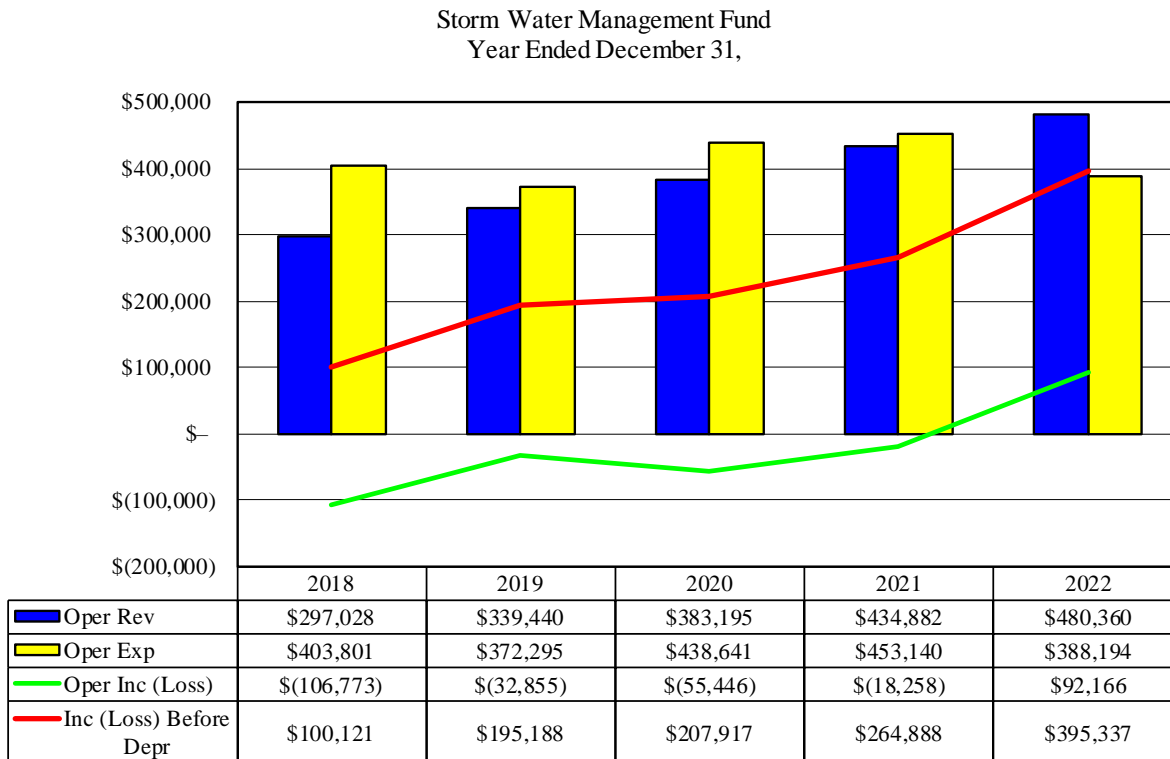
Operating revenue in the Sewer Fund increased \$35,469 (2.9 percent) from the prior year, due to an increase in consumption and connections.

Sewer Fund operating expenses for 2022 decreased \$4,689 (0.3 percent) from the previous year. The largest operating expense of this fund is Metropolitan Council Environmental Services (MCES) for sewer service charges. MCES disposal charges in 2022 increased \$114,211 from the prior year. This was offset by a decrease in professional services of \$161,098, due to decreased contractual services.

The Sewer Fund continued to recognize significant capital contributions in the current year, due to development within the City.

STORM WATER MANAGEMENT FUND

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



The Storm Water Management Fund ended 2022 with a total net position of \$15,315,718, an increase of \$902,085 from the prior year. Of this, \$13,841,814 represents the investment in capital assets, leaving unrestricted net position of \$1,473,904.

Operating revenue in the Storm Water Management Fund increased \$45,478 (10.5 percent) from the prior year, due to an approved rate increase.

Storm Water Management Fund operating expenses for 2022 decreased \$64,946 (14.3 percent) from the previous year, mainly in professional services.

The Storm Water Management Fund continued to recognize significant capital contributions in the current year, due to development within the City.

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, 2022 and 2021, for governmental activities and business-type activities:

	As of December 31,		Change
	2022	2021	
Net position			
Governmental activities			
Net investment in capital assets	\$ 35,511,515	\$ 30,419,393	\$ 5,092,122
Restricted	6,494,082	7,057,965	(563,883)
Unrestricted	11,009,268	11,492,082	(482,814)
Total governmental activities	<u>53,014,865</u>	<u>48,969,440</u>	4,045,425
Business-type activities			
Net investment in capital assets	47,634,481	46,123,579	1,510,902
Unrestricted	9,469,979	8,186,767	1,283,212
Total business-type activities	<u>57,104,460</u>	<u>54,310,346</u>	2,794,114
Total net position	<u>\$ 110,119,325</u>	<u>\$ 103,279,786</u>	<u>\$ 6,839,539</u>

The City ended 2022 with a combined total net position of \$110,119,325, an increase of \$6,839,539 from the prior year. The increase in governmental activities is mainly in net investment in capital assets, due to continued investment in infrastructure and increased developer contributions.

The business-type activities net position increased in the current year as previously discussed.

STATEMENT OF ACTIVITIES

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

The following table presents the change in the net position of the City for the years ended December 31, 2022 and 2021:

	2022			2021
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 2,255,227	\$ 7,408	\$ (2,247,819)	\$ (1,759,424)
Public safety	1,941,235	1,083,436	(857,799)	(420,564)
Public works	2,651,447	3,136,636	485,189	(68,878)
Culture and recreation	1,965,998	1,320,745	(645,253)	(207,458)
Economic development	366,503	–	(366,503)	(189,843)
Interest and fiscal charges	368,307	–	(368,307)	(440,150)
Business-type activities				
Water	1,701,660	3,046,996	1,345,336	1,455,347
Sewer	1,613,202	2,171,114	557,912	888,673
Storm water management	388,194	1,292,408	904,214	773,511
Total net (expense) revenue	<u>\$ 13,251,773</u>	<u>\$ 12,058,743</u>	(1,193,030)	31,214
General revenues				
Property taxes			6,623,688	6,304,236
Tax increments			316,014	236,125
Franchise taxes			401,464	409,154
Grants and contributions not restricted to specific programs			425,975	3,296
Other general revenues			156,208	128,226
Investment earnings (charges)			(74,172)	(16,343)
Gain on sale of assets			183,392	269,793
Total general revenues			<u>8,032,569</u>	<u>7,334,487</u>
Change in net position			<u>\$ 6,839,539</u>	<u>\$ 7,365,701</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows that the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources. The increase in grants and contributions not restricted to specific programs is due to the recognition of coronavirus state and local fiscal recovery funds in the current year.

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. 96, *SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS*

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

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

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

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

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

GASB STATEMENT NO. 99, *OMNIBUS 2022*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, SBITA term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to refer to resource flows statements.

The requirements of this statement that are effective are as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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.

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