

**CITY OF LAKEVILLE, MINNESOTA**  
**EXECUTIVE AUDIT SUMMARY**  
**YEAR ENDED DECEMBER 31, 2023**

June 5, 2024

To the City Council and Management  
City of Lakeville, Minnesota

We have prepared this management report in conjunction with our audit of the City of Lakeville, Minnesota's (the City) financial statements for the year ended December 31, 2023. The purpose of this report is to provide comments resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- 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.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 5, 2024

## AUDIT SUMMARY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2023, and the related notes to the financial statements. 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, in our Governance Communication Letter, 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, 2023:

- We issued an **unmodified** opinion on the City's basic financial statements.
- We issued an **unmodified** opinion on the City's compliance with major federal award programs.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be a significant deficiency.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

Overall, we found the City's financial records to be in excellent condition. This not only provides for an efficient year-end audit, but should also provide confidence in the interim financial data used to manage the City throughout the year.

## 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 include the General, special revenue, debt service, and capital project funds.

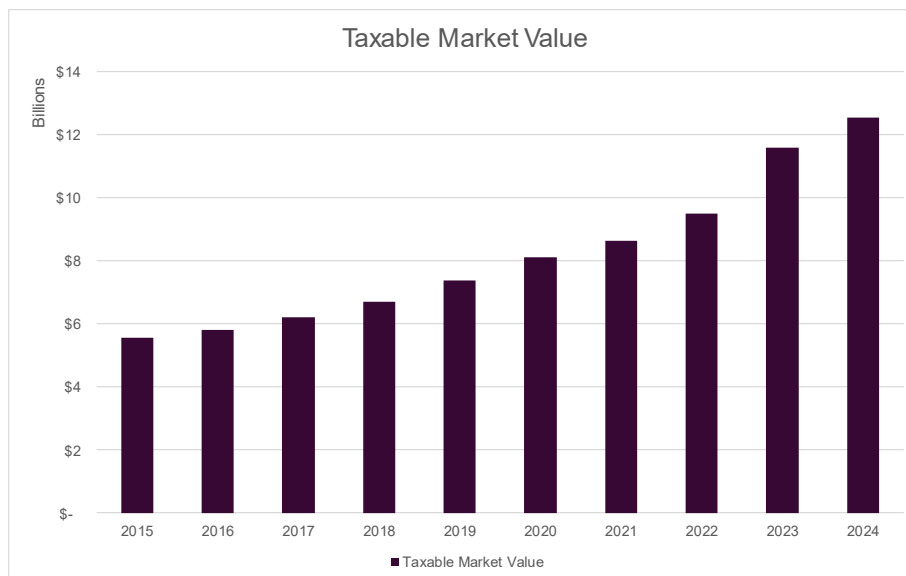
These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current 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 (the most recent comparative state-wide data available), local ad valorem property tax levies provided 44.0 percent of the total governmental fund revenues for cities over 2,500 in population, and 35.5 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2023 increased 4.2 percent compared to the prior year, and 7.5 percent for taxes payable in 2024. The taxable net tax capacity value of property in Minnesota cities increased about 17.7 percent for the 2023 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2023 were based on assessed market values as of January 1, 2022), so the trend of change in these tax capacity values lags somewhat behind the housing market and economy in general.

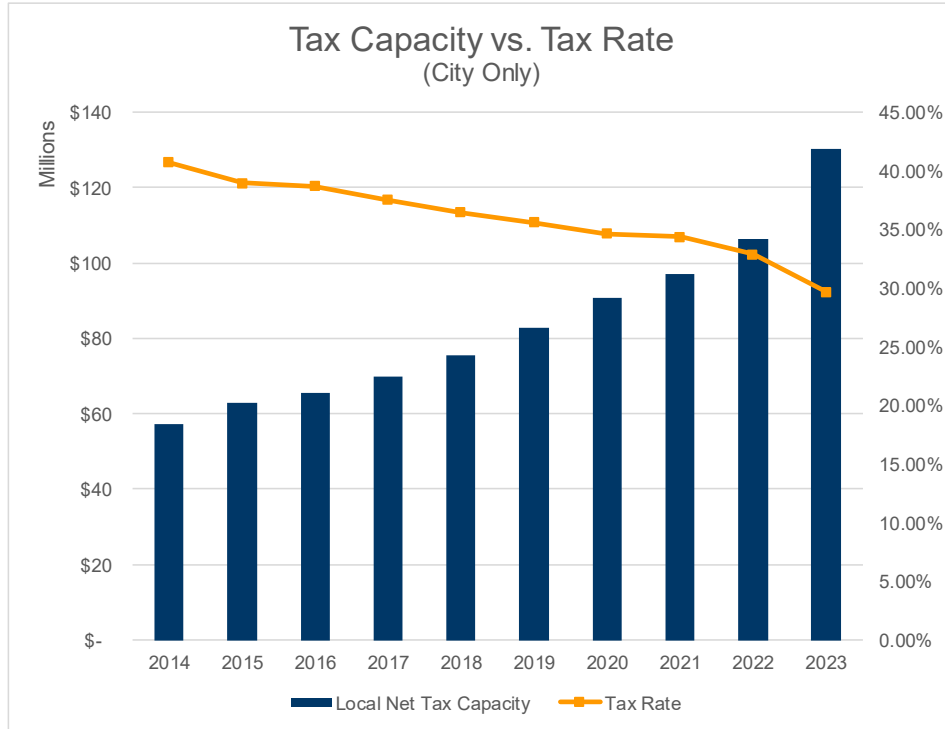
The total market value of property in Minnesota cities increased 16.0 percent for the 2023 levy year, following an increase of 17.0 percent for levy year 2022, and an increase of 17.0 percent for 2021.

The City's taxable market value increased 10.0 percent for taxes payable in 2022 and 22.0 percent for taxes payable in 2023. The following graph shows the City's changes in taxable market value over the past 10 years plus 2024:



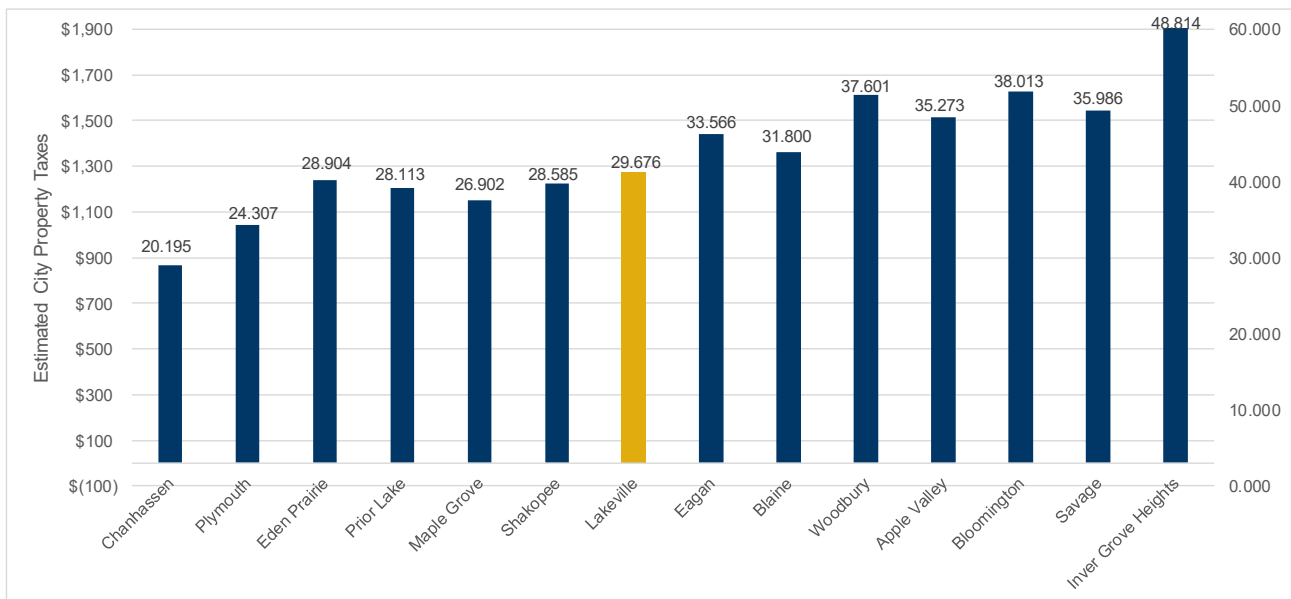
Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, 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 the City's tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates and exemptions. The City's tax capacity increased 22.3 percent and 9.5 percent for taxes payable in 2023 and 2022, respectively.

The following graph shows the City's change in tax capacities over the past 10 years:



Past reports included a comparison of property tax capacity rates between the City, seven-county metro area, and all cities state-wide average. The 2022 and 2023 comparison data was not available for the seven-county metro area nor all cities state-wide; therefore, the chart is not included this year.

The following chart provides a comparison of the City's 2023 tax capacity rate with other comparable cities:



This chart is based on the City of Lakeville's 2023 median home estimated market value of \$428,600 and estimated taxable market value of \$429,934. The City of Lakeville when compared to other local cities is right in the middle. This chart is an estimate of only the City's portion of taxes and excludes other taxing jurisdictions (i.e. schools, county, special districts).

## GOVERNMENTAL FUND BALANCES

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

	Fund Balance		Increase (Decrease)
	As of December 31,		
	2023	2022	
Fund Balances of Governmental Funds			
Total by Classification			
Nonspendable	\$ 279,568	\$ 254,180	\$ 25,388
Restricted	53,196,145	63,559,319	(10,363,174)
Committed	48,514,099	44,954,814	3,559,285
Assigned	1,528,414	2,711,000	(1,182,586)
Unassigned	18,684,638	18,420,050	264,588
Total governmental funds	<u>\$ 122,202,864</u>	<u>\$ 129,899,363</u>	<u>\$ (7,696,499)</u>
Total by Fund			
General	\$ 22,372,997	\$ 22,007,407	\$ 365,590
Debt Service	22,191,294	22,977,447	(786,153)
Capital Projects	76,100,864	83,365,524	(7,264,660)
Nonmajor Funds	1,537,709	1,548,985	(11,276)
Total governmental funds	<u>\$ 122,202,864</u>	<u>\$ 129,899,363</u>	<u>\$ (7,696,499)</u>

In total, the fund balances of the City's governmental funds decreased \$7,696,499 during the year ended December 31, 2023.

The majority of the decrease was due to the restricted fund balances of \$10.4 million, and assigned fund balances of \$1.2 million, which were partially offset by increases in committed fund balance of \$3.6 million. The decrease in restricted and assigned fund balances was due primarily to use of funds for their restricted or assigned purposes. The increase in the committed balance was primarily related to the collection of water, sanitary sewer, and storm water infrastructure trunk fees in the capital projects funds.

## 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 the 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 the City’s operation. Also, certain data on these tables may be classified differently than how they appear on the City’s financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

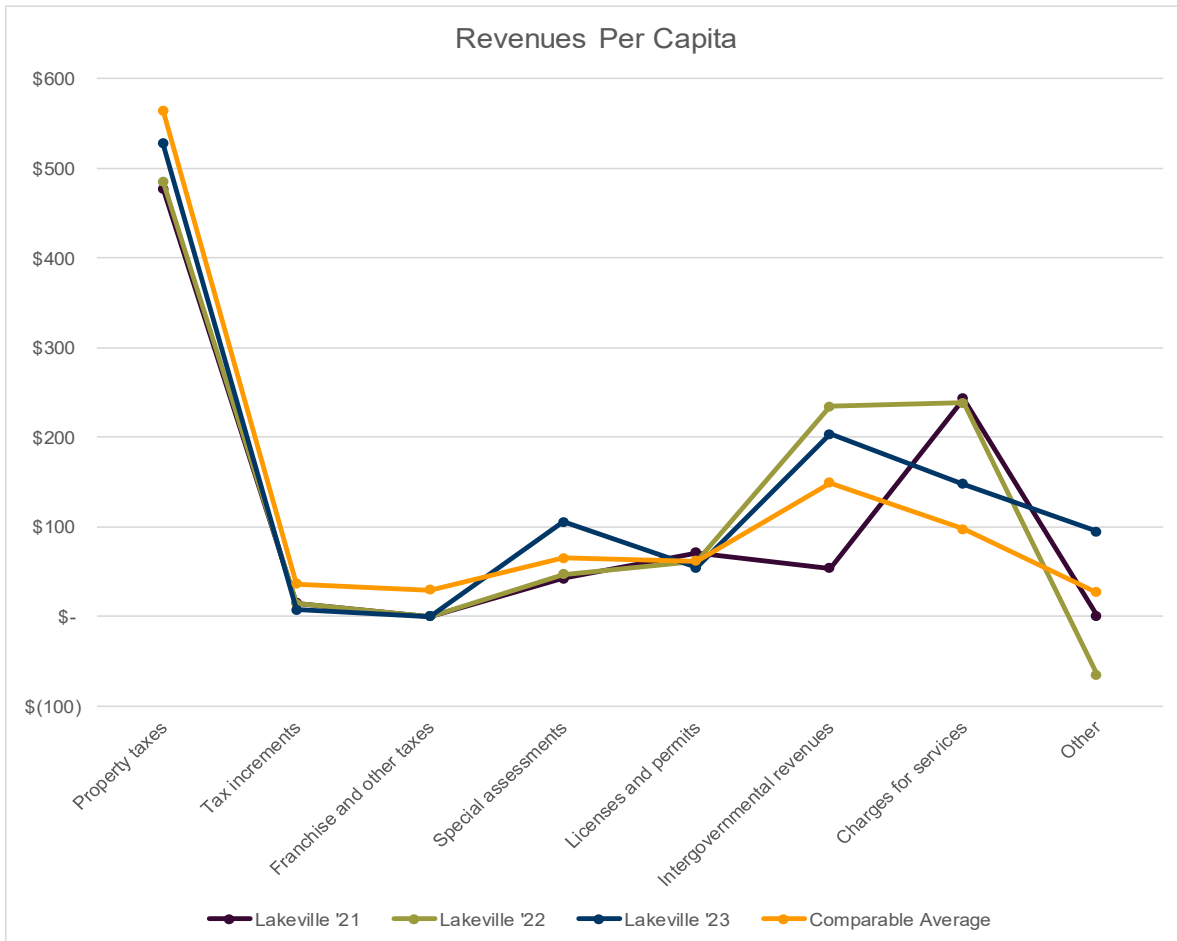
We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management’s Discussion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

Governmental Funds Revenue per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2021	2021	2022	2023
Population	20,000 - 100,000	72,135	73,828	75,217
Property taxes	\$ 557	\$ 477	\$ 485	\$ 527
Tax increments	49	15	14	7
Franchise and other taxes	53	-	-	-
Special assessments	56	42	47	105
Licenses and permits	53	71	61	54
Intergovernmental revenues	202	53	234	203
Charges for services	110	243	238	148
Other	26	1	(65)	94
Total Revenue	1,107	902	1,014	1,139

The City’s governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class, this is primarily due to less property tax revenue and the City does not receive local government aid (intergovernmental revenue), these are partially offset by significantly more licenses and charges for services when compared to other cities.

Total governmental funds revenues were \$85.7 million in 2023, about \$6.9 million (8.7 percent) greater than the prior year. On a per capita basis, governmental fund revenue for 2023 was \$125 greater than the prior year. Property tax revenue was \$42 per capita higher than the previous year due to a levy increase. Intergovernmental revenues were \$6 per capita less than last year due to the level of state-aid fund street maintenance and improvement projects compared to the prior year. Licenses and permits were \$7 per capita less than last year due to a slight decrease in these revenues from 2022 and the increase in the City’s population, but there continues to be significant economic development and community growth in the City. Revenue in the “other” category shown above increased \$159 per capita, due primarily to increased investment returns.

Below is a chart of the City of Lakeville's 2023, 2022 and 2021 governmental funds revenue per capita as compared to the average per capita revenues for the governmental funds of several comparable cities for the year 2021. The comparable cities included in the average below (and in any other instances of a comparable city average included in this report) are Apple Valley, Blaine, Bloomington, Chanhassen, Eagan, Eden Prairie, Inver Grove Heights, Maple Grove, Plymouth, Prior Lake, Savage, Shakopee, and Woodbury.



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** – 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.

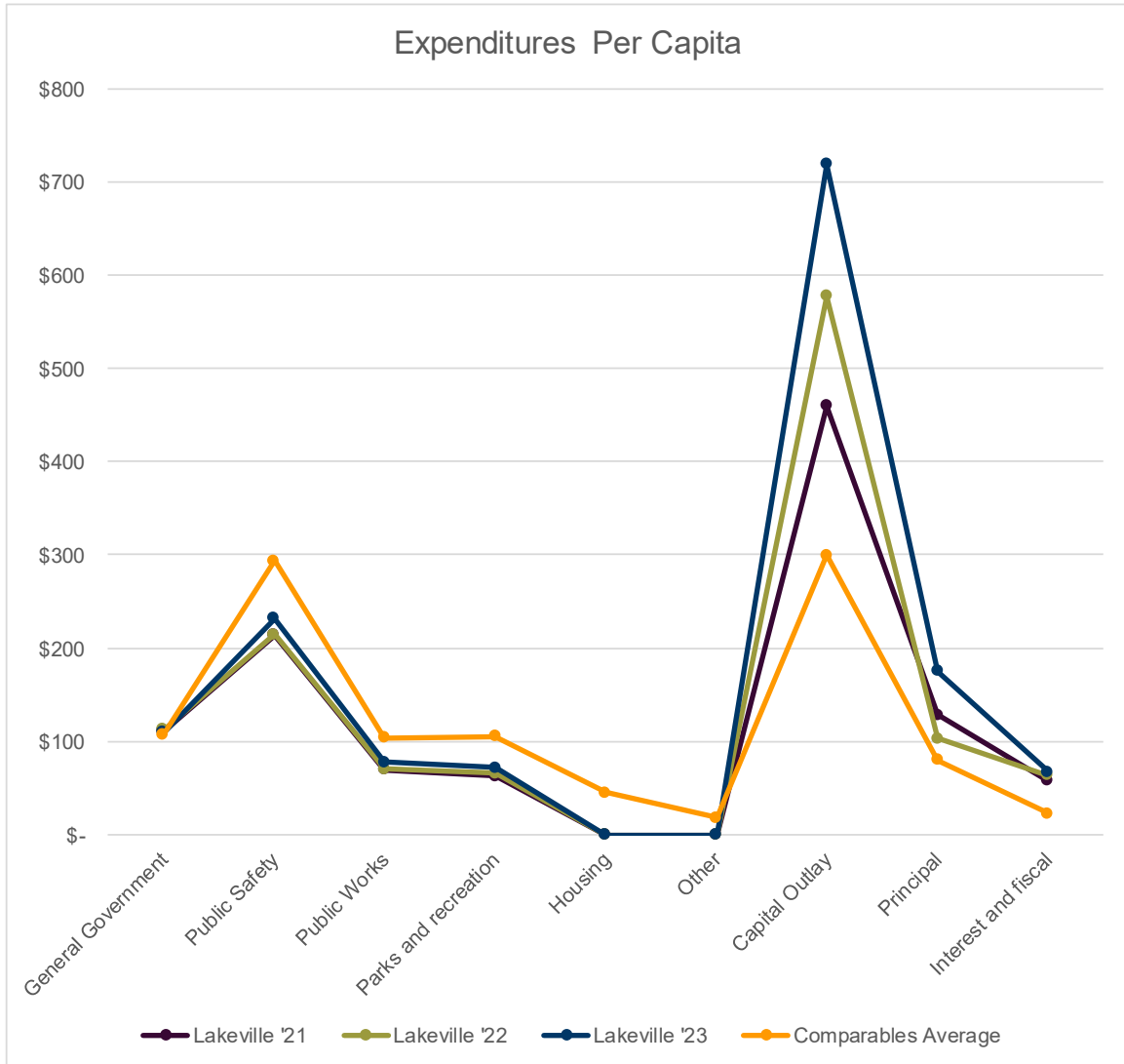
**Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

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

Governmental Fund Expenditures per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2021	2021	2022	2023
Population	20,000 - 100,000	72,135	73,828	75,217
<b>Current</b>				
General Government	\$ 116	\$ 111	\$ 113	\$ 110
Public Safety	327	214	215	232
Public Works	114	70	70	78
Parks and recreation	103	63	66	72
	<u>659</u>	<u>458</u>	<u>464</u>	<u>491</u>
<b>Capital Outlay</b>				
And construction	160	460	577	719
<b>Debt Service</b>				
Principal	110	128	103	175
Interest and fiscal	34	58	64	67
	<u>144</u>	<u>186</u>	<u>167</u>	<u>242</u>
Total Expenditures	<u>964</u>	<u>1,104</u>	<u>1,208</u>	<u>1,452</u>

Total expenditures in the City's governmental funds for 2023 were \$109.2 million, an increase of \$20.0 million (22.5 percent) from the previous year, or \$244 per capita. The increase was primarily due to capital outlay, which was \$142 per capita higher than the previous year, primarily due to several large street and utility improvement projects during 2023, and an increase in debt service expenditures of \$75 per capita.

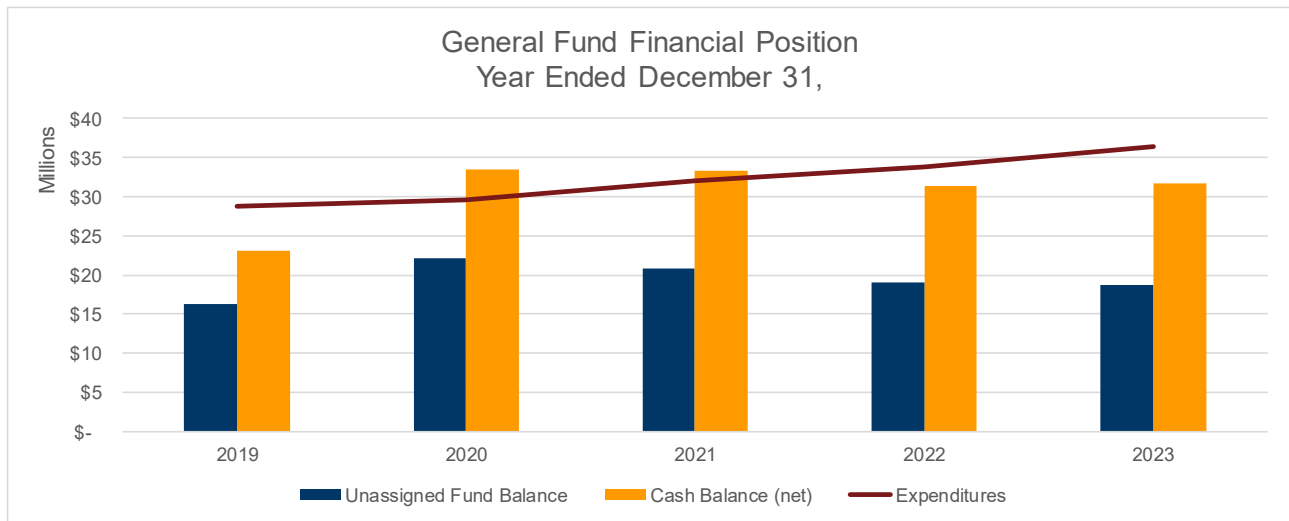
Below is a chart of the City of Lakeville’s 2023 governmental funds expenditures per capita as compared to the average per capita expenditures for the governmental funds of several comparable cities for the year 2021.



**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 parks and recreation.

The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.



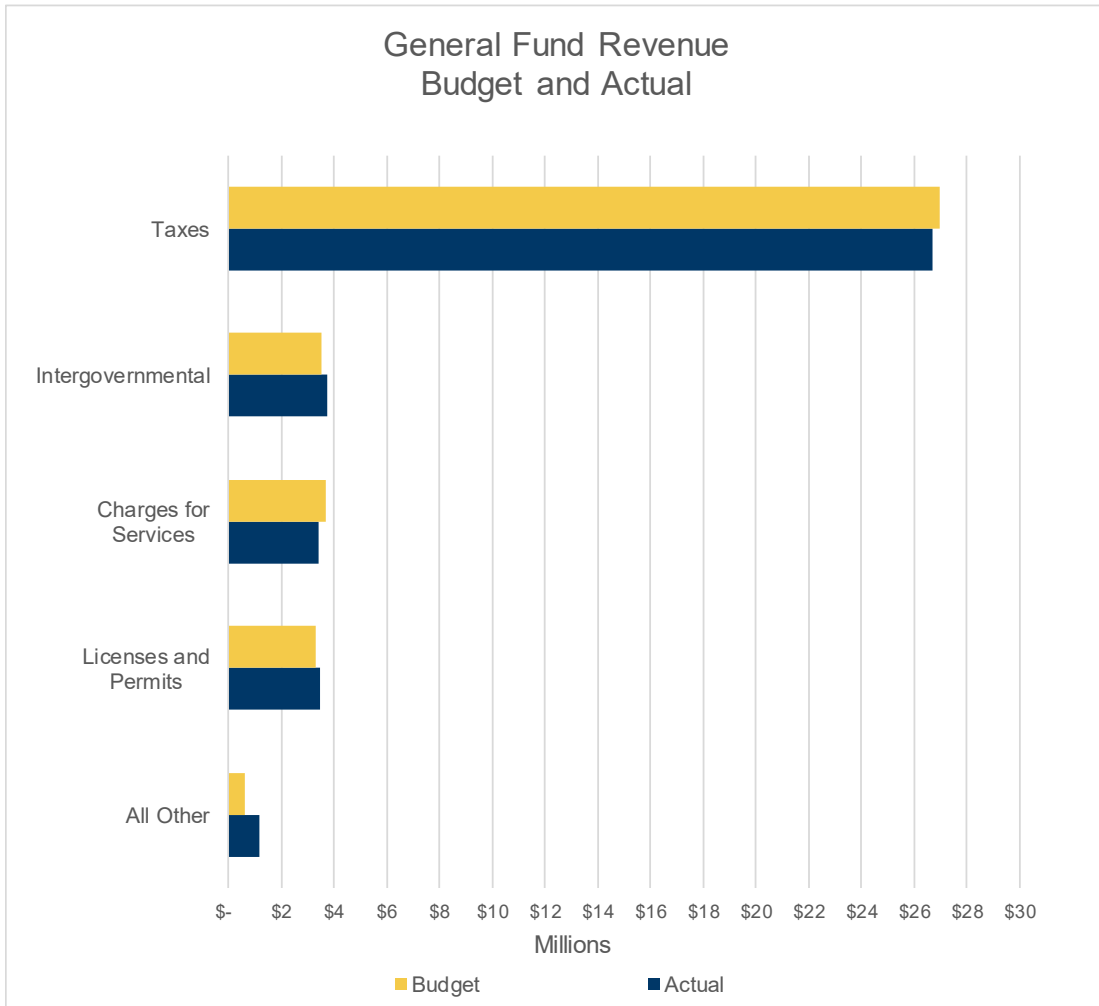
The City's General Fund cash and investments balance at December 31, 2023 was \$31,625,329, an increase of \$326,649. Total fund balance at December 31, 2023 was \$22,372,997, an increase of \$365,590 from the prior year, as compared to the final budget that projected a \$807,572 decrease in fund balance.

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 69 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.

The City's General Fund's unassigned fund balance at the end of the 2023 fiscal year represents approximately 51.5 percent of annual expenditures based on 2023 levels, compared to 56.4 percent at the end of the previous year.

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



General Fund revenue for 2023 was \$38,533,022, which was \$472,868 (1.2 percent) more than budget.

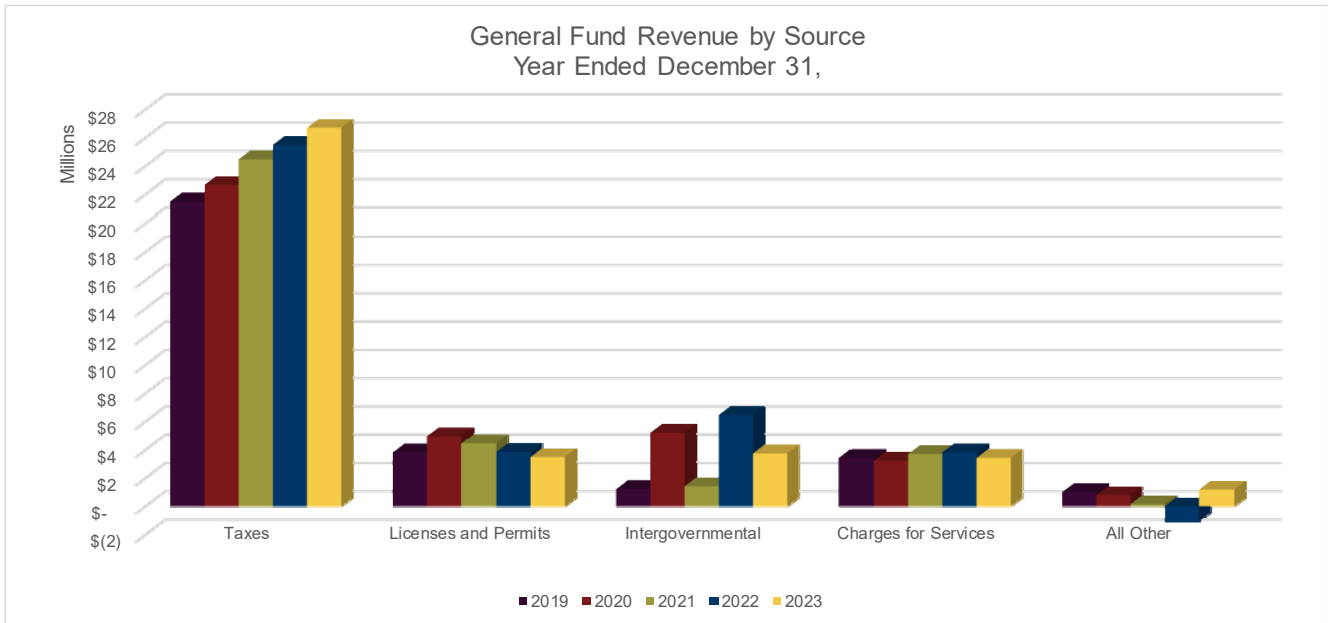
Licenses and permits revenue was over budget by \$173,469, primarily due to the number of residential building and construction-related permits issued exceeding conservative budget estimates for growth.

Charges for services revenue was under budget \$264,489, primarily due to decrease in engineering-related services in connection with developer construction administration.

Intergovernmental revenues exceeded estimates by \$235,510 due to the City's share of the state aid contributions to PERA.

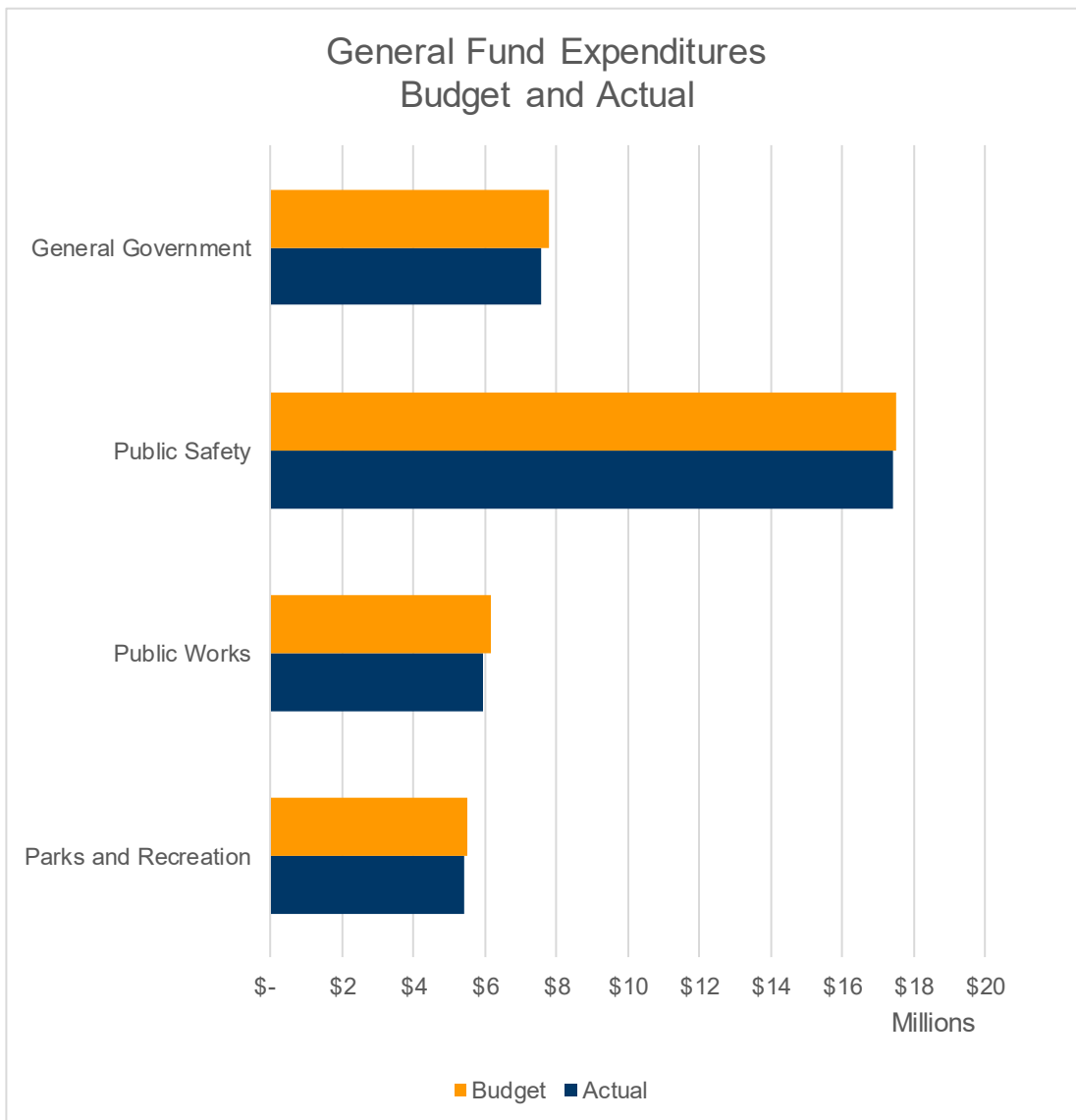
The total of all remaining other revenues were greater than the total of the budget of all remaining other revenues primarily due to improved investment market conditions. The City's management employs prudent investment practices and cash management techniques to maximize investment income while protecting the City's treasury. Investments are typically held to maturity.

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.



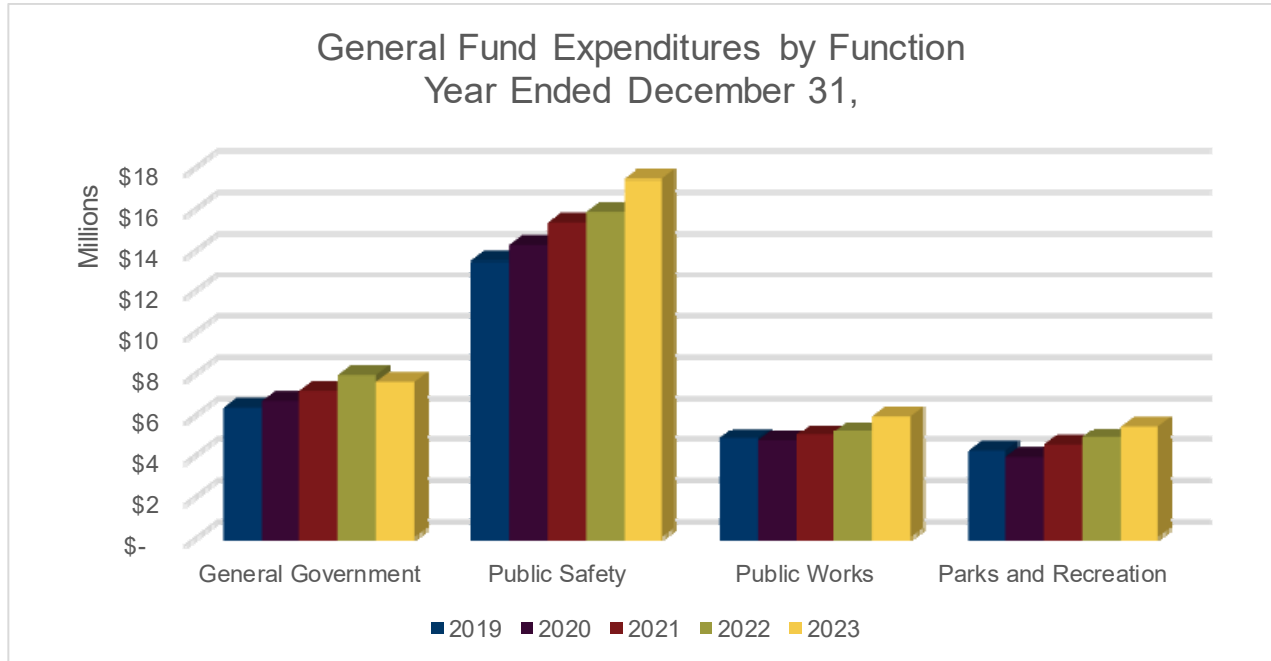
Overall, General Fund revenues stayed consistent, only decreasing \$1,715 (0.004 percent) from the previous year. Property tax revenue was \$1,212,530 more than last year due to a 11.7 percent increase in the property tax levy. Intergovernmental revenue decreased \$2,720,521 due to the City’s receipt of \$5.1 million in American Rescue Plan Act in 2022, of which \$4.9 million was recognized in the General Fund, which was not replicated in 2023. Revenue from charges for services decreased \$393,224 due primarily to a decrease in public works fees for engineering-related services. Licenses and permits decreased \$353,339 due primarily to a decrease in building permits during 2023. Finally, revenue in the “all other” category as shown above was \$2,252,839 greater than last year, primarily due to an increase in investment returns, related to the improvements in fair market value.

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



Total General Fund expenditures for 2023 were \$36,365,376, which was \$620,640 (1.7 percent) under the final budget. General Fund expenditures were under budget in every functional area, as shown in the graph above. General government expenditures were \$228,673 under budget, with the largest savings in information technology and human resources. Parks and recreation expenditures were \$67,197 under budget, mainly in park maintenance with offsetting budget overages at the Arts Center. Public works costs were under budget by \$241,600, primarily due to personnel services savings in both engineering and construction services. These savings are due to less street maintenance and construction services being needed than planned. Public safety expenditures were \$83,170 under budget, primarily in fire personnel services.

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



Total General Fund expenditures for 2023 were \$2,601,377 (7.7 percent) higher than the previous year, with the increases primarily occurring in public safety and public works. The majority of the increase was in personnel costs, which was due to 5 new positions added in police, transition of forestry division from the enterprise utility account to the general fund, contractual wage increases, inflationary benefit cost increases, higher costs of police security services and fire, offset with savings from employee vacancies and leave without pay and lower hours for seasonal positions, compared to the prior year.

## ENTERPRISE FUNDS OVERVIEW

The City maintains two 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, street light, and environmental resources) Utility Fund and Liquor Fund.

### ENTERPRISE FUNDS FINANCIAL POSITION

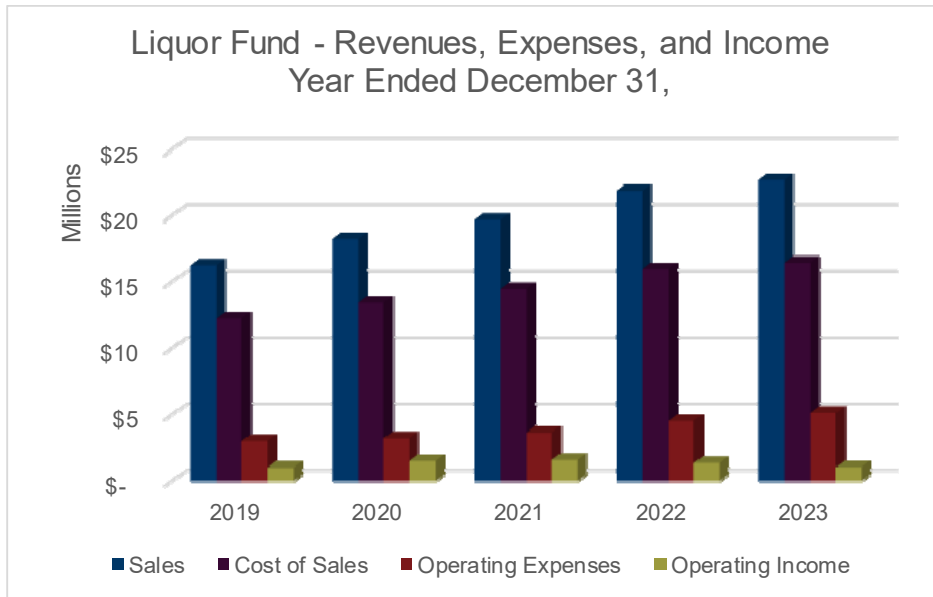
The following table summarizes the changes in the financial position of the City’s enterprise funds during the years ended December 31, 2023 and 2022, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position As of December 31,		Increase (Decrease)
	2023	2022	
Net Position of enterprise funds			
Total by classification			
Net Investment in capital assets	\$ 188,259,693	\$ 180,563,445	\$ 7,696,248
Unrestricted	32,808,653	28,622,452	4,186,201
Total Enterprise Funds	<u>\$ 221,068,346</u>	<u>\$ 209,185,897</u>	<u>\$ 11,882,449</u>
Total by Fund			
Liquor	\$ 12,869,552	\$ 12,950,872	\$ (81,320)
Utility	208,198,794	196,235,025	11,963,769
Total Enterprise Funds	<u>\$ 221,068,346</u>	<u>\$ 209,185,897</u>	<u>\$ 11,882,449</u>

In total, the net position of the City’s enterprise funds increased by \$11,882,449 during the year ended December 31, 2023. The Liquor Fund net position decreased by \$81,320. Liquor fund net transfers out were \$1.32 million. The increases in both the net investment in capital assets and the net position of the Utility Enterprise Fund were primarily due to capital infrastructure contributions of \$10.8 million received from developers, other government agencies, and the City’s governmental funds.

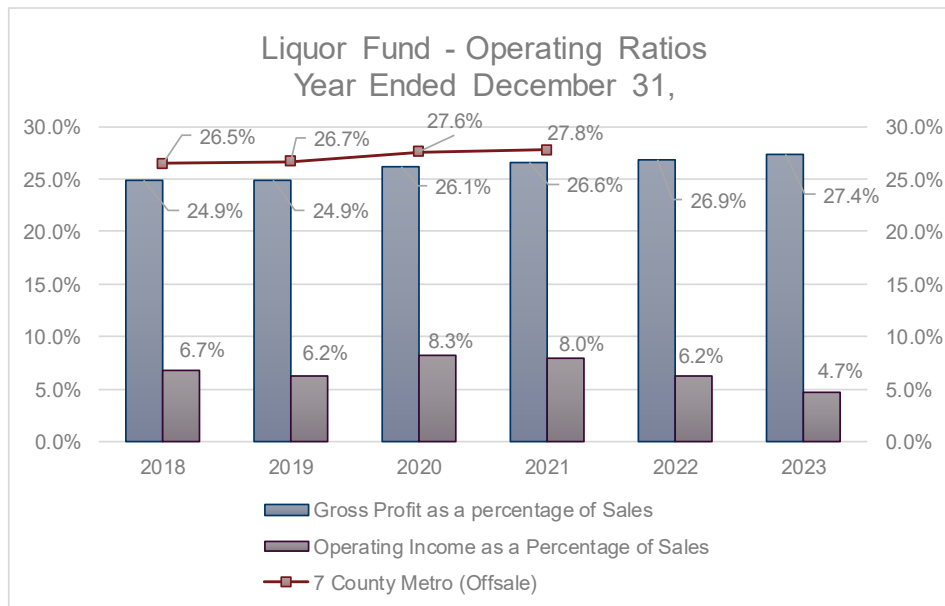
**LIQUOR FUND**

The following graphs present five years of operating results for the Liquor Fund:



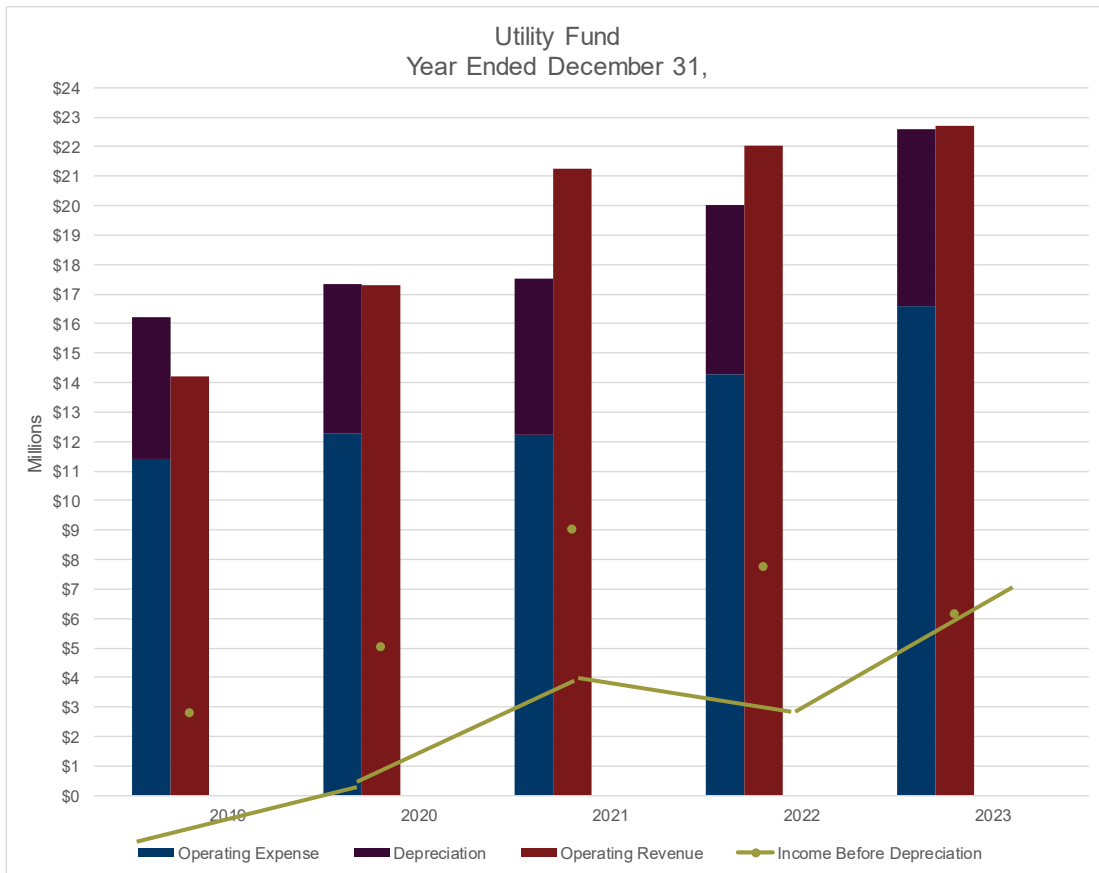
The Liquor Fund ended 2023 with a net position of \$12,869,552, a decrease of \$81,320 from prior year operations. Of liquor store fund net position, \$9,724,701 represents net investment in capital assets leaving an unrestricted net position of \$3,144,851.

Gross liquor sales for 2023 were \$22,692,555 an increase of \$797,575 (3.6 percent) from 2022. The Liquor Fund generated a gross profit of \$6,217,600 in 2023, or about 27.4 percent, of gross sales. Operating expenses for 2023 were \$5,155,829, an increase of \$622,828 (13.7 percent) from the prior year. Net operating income for 2023 was \$1,061,771, or about 4.7 percent, of gross sales. The increase in gross sales and the resulting increase in the gross profit ratio shown below were primarily attributable to increased sales volume. The Liquor Fund also made net transfers out of \$1,323,783 to support the General Fund, for debt service, and for various capital needs.



## UTILITY FUND

The following graph presents five years of comparative operating results for the City's (water, sewer, street light, and environmental resources) Utility Fund:



The Utility Fund ended 2023 with net position of \$208,198,794, an increase of \$11,963,769 from current year operations. Of the net position balance, \$178,534,992 represents the City's net investment in utility capital assets, leaving \$29,663,802 of unrestricted net position.

Utility Fund operating revenue was \$22,715,704 for 2023, an increase of \$683,775 (3.1 percent), mainly due to increase in water usage and sewer discharge coupled with an increase in rates.

Operating expenses (including depreciation and amortization of \$6,007,119) were \$22,593,991, which represents an increase of \$2,557,723 (12.8 percent). The increase was primarily attributable to increases in charges and services for maintenance projects, the Met Council disposal charges, personnel services, and depreciation.

The Utility Fund also received capital contributions of \$10,782,592 in 2023 from developers, other governmental agencies, and the City's governmental funds.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

### STATEMENT OF NET POSITION

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

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

	As of December 31,		Increase (Decrease)
	2023	2022	
Net Position			
Governmental Activities			
Net Investment in capital assets	\$ 240,978,608	\$ 218,867,352	\$ 22,111,256
Restricted	73,224,358	82,302,974	(9,078,616)
Unrestricted	17,814,210	16,378,884	1,435,326
Total governmental activities	<u>\$ 332,017,176</u>	<u>\$ 317,549,210</u>	<u>\$ 14,467,966</u>
Business-type activities			
Net Investment in capital assets	\$ 188,259,693	\$ 180,563,445	\$ 7,696,248
Unrestricted	32,950,342	28,938,525	4,011,817
Total business-type activities	<u>221,210,035</u>	<u>209,501,970</u>	<u>11,708,065</u>
Total net position	<u><u>\$ 553,227,211</u></u>	<u><u>\$ 527,051,180</u></u>	<u><u>\$ 26,176,031</u></u>

The total net position of the City increased \$26.2 million during the 2023 fiscal year. Of the increase, \$14.5 million came from governmental activities and \$11.7 million from business-type activities. One of the primary reasons for the increases in both the governmental and business-type activities was the amount of infrastructure contributed by developers and governmental activities during 2023, which totaled about \$10.8 million, and large increases in investment income, which increased \$14.8 million total between governmental and business-type activities.

Governmental activities restricted net position decreased \$9.1 million from the prior year after the net result of several factors, but mostly related to net debt service activity.

## STATEMENT OF ACTIVITIES

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

The following table presents the change in the net position of the City for the years ended December 31, 2023 and 2022:

	2023			2022
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 9,899,710	\$ 6,969,321	\$ (2,930,389)	\$ (2,659,890)
Public safety	20,139,088	5,491,030	(14,648,058)	(12,077,019)
Public works	29,136,552	27,222,019	(1,914,533)	13,819,697
Parks and recreation	10,117,834	3,689,971	(6,427,863)	(1,360,358)
Interest on long-term debt	2,903,304	-	(2,903,304)	(3,966,703)
Business-type activities				
Liquor	21,726,194	22,692,718	966,524	1,251,170
Utility	22,854,878	29,483,858	6,628,980	14,004,115
Total net (expense) revenue	<u>\$ 116,777,560</u>	<u>\$ 95,548,917</u>	<u>(21,228,643)</u>	<u>9,011,012</u>
General Revenues				
Property taxes and tax increments			40,247,761	36,822,483
Investment earnings			7,156,913	(7,691,324)
Total general revenues			<u>47,404,674</u>	<u>29,131,159</u>
Change in net position			<u>26,176,031</u>	<u>38,142,171</u>
Net position , beginning			<u>527,051,180</u>	<u>488,909,009</u>
Net position - ending			<u>\$ 553,227,211</u>	<u>\$ 527,051,180</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, while its business-type activities are financed predominately through program revenues.

The difference in 2022 and 2023 net change in public works is mainly due to decreased operating and capital grants and contributions,

The net difference in parks and recreations is due to 2023 increased expenses and decreased charges for services.

## LEGISLATIVE UPDATES

With the 2024 legislative session done and with one party in control of the House, Senate, and the Governor's office, there was a lot of movement in St. Paul and several significant things were completed this year. The following is a summary of recent legislation affecting Minnesota cities in 2023/2024 and into the future:

**Housing** – No limitations on local zoning and land use authority for residential development were passed this session. While legislators on both sides of the aisle committed to discussing zoning and land use preemption during the interim and redoubling efforts next session, none of the language included in the Missing Middle Housing bill, People Over Parking bill, or multifamily by right in commercial districts bill was passed.

**Cannabis Legalization** – The Legislature passed a bill that makes changes to the cannabis regulatory structure. The bill provides that a city or county seeking to establish a municipal cannabis store must be granted a license, but the municipal establishment would not count against the cap on the number of licensed cannabis retailers in the jurisdiction.

**Taxes** – While some tax provisions were included in the final omnibus bill, most substantive provisions being considered were removed from the final agreement. The local sales tax general authority proposals that were in the House and Senate bills were not included in the bill that passed, and the local sales tax moratorium remains in place for another year.

**Emergency Medical Services** – The House and Senate passed a bill that replaces the Emergency Medical Services Regulatory Board with a new agency called the Office of Emergency Medical Services, establishes an alternative emergency medical services response model pilot program, and provides \$24 million in emergency aid for rural ambulance services.

**Elections** – An omnibus elections bill was passed and signed into law that allocates more funds to the Voting Operations, Technology, and Election Resources (VOTER) Account, and establishes a Minnesota Voting Rights Act. A standalone bill to authorize local governments to implement ranked choice voting failed in the House and was not taken up by the Senate.

**Metro Area Comprehensive Plan** – Language supported by the League of Minnesota Cities to clarify that comprehensive plans approved by the Metropolitan Council do not require environmental review on plan provisions was included in the final large omnibus bill.

**Earned Sick and Safe Time Modifications** – Several modifications to the 2023 ESST law will go to the governor, including an exemption for volunteer and paid on-call firefighters, and restrictions on use for employees with duties related to public safety during weather events and for essential employees under certain circumstances.

**Opioid Settlement** – In August 2021, the Minnesota Attorney General's Office joined a \$26 billion multistate settlement agreement with certain pharmaceutical distributors and received final approval from the distributors on February 25, 2022. With the first settlement the City of Lakeville was allocated \$582,715. Since then, a "second wave" of settlements have been approved and the City is estimated to be receiving \$474,302. Please note that the "second wave" amounts are contingent on achieving maximum participation in the settlements. These settlement payments started in 2022 and will be lasting for several years. The first three payments of the Distributor settlement have already been distributed, with a prepayment scheduled for early 2024 and the next annual payment scheduled for July 2024. Payments 1 through 5 of the Johnson & Johnson settlement have already been distributed, with the next payment scheduled for July 2026. Additional information can be found at the following link <https://www.ag.state.mn.us/opioids/>

## ACCOUNTING AND AUDITING UPDATES

**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. This Statement is effective for periods beginning after June 15, 2023.

**GASB Statement No. 101 “Compensated Absences”** – the primary objective of this Statements 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 is effective for fiscal periods beginning after June 15, 2023.

**Implementation Guide No. 2021-1** – the GASB issued this implementation guide made amendments to the capitalization policy question and answer that was previously issued in Implementation Guide 2015-1. In response to the above question, Implementation guide 2015-1 stated that it *may be appropriate* for a government to establish a capitalization policy that would require capitalization of certain types of assets with individual acquisition costs that are less than the threshold for an individual asset. This answer also noted that computers, classroom furniture, and library books are common assets that may not meet the capitalization policy on an individual basis but might be considered material collectively. While the question itself remains unchanged—now Question 5.1 in Implementation Guide 2021-1—the answer has been amended to state that a government *should* capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Therefore, the City may have to start capitalizing more group purchases of assets that otherwise might have individually been under the City’s previous capitalization policy thresholds. This amended guidance is effective for reporting periods beginning after June 15, 2023.

**GASB Statement No. 102 “Certain Risk Disclosures”** – the primary 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. This Statement is effective for periods beginning after June 15, 2024.

**GASB Statement No. 103 “Financial Reporting Model Improvements”** – the primary objective of this Statements 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. Areas impacted include the MD&A, Proprietary fund Statement of Revenues, Expenses, and Changes in Fund net Position, and Budgetary Comparison Information. This Statement is effective for fiscal periods beginning after June 15, 2025.