



City of St. Joseph

Communications Letter

December 31, 2023

City of St. Joseph
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

Honorable Mayor, Members
of the City Council and Management
City of St. Joseph
St. Joseph, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Joseph, Minnesota, as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- ◆ *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- ◆ *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated May 7, 2024, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the Members of the City Council, management, others within the City and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Bergan KDV Ltd.

St. Cloud, Minnesota
May 7, 2024

City of St. Joseph Material Weakness

Improve Segregation of Accounting Duties

Adequate segregation of accounting duties is in place when the four areas of a transaction have been separated: authorization, custody, recording, and reconciliation.

As part of this year's audit, we reviewed the City's documentation of its internal control over significant areas including: cash receipts, cash disbursements, capital assets, payroll, and utility billing. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Some of the areas in which we noticed a lack of segregation or an overlap in duties are as follows:

Cash Receipts

The Administrative Assistant enters cash and checks into the point-of-sale system and reconciles daily receipts. The Account Technician sends late notices/calculate penalties. The Police Clerk records police receipts and receives payments. The Records Specialist reconciles the collections. A police clerk takes the deposit to the bank.

Cash Disbursements

The Finance Director also is an authorized signer and has access to the Mayor's electronic signature. At year-end, the Finance Director reconciles and records contracts payable. The City Administrator reviews and approves checks for payment.

Capital Assets

The Finance Director records, processes, reconciles, and posts journal entries related to capital assets. Department heads review their listing for accuracy.

Payroll

The Finance Technician reconciles employee's time, processes, and posts payroll, generates a payroll report, distributes paystubs to employees, and posts the journal entries related to payroll. In addition, this same employee reconciles payroll accruals. The Finance Director reviews payroll reports and time off balances and calculates compensated absences balances for the audit.

Utility Billing

The Account Technician enters new accounts into the utility billing system and uploads meter readings via interfacing with electronic readers. The Account Technician enters any rate changes to the system and can enter manual adjustments. The Account Technician calculates and enters final bills, prints, and mails utility bills, reconciles receipts to billed amounts, and enters receipts batches. The Finance Director approves adjustments and rate changes, and spots check individual utility bill calculations.

Cash Reconciliation and Access

The Finance Director performs the above noted responsibilities, while also reconciling cash, and generating manual journal entries.

We recommend management and the City Council review the above deficiencies and improve segregation of accounting duties where possible to build upon the control environment. We also recommend the City closely follow its internal control plan and follow through with the control activities that have been designed.

City of St. Joseph Required Communication

We have audited the basic financial statements of the governmental activities, 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. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

City of St. Joseph Required Communication

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- ◆ Misappropriation of Assets and Segregation of Duties - If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized disbursements being made from the City and adjustments being made to the City's general ledger. In addition, generally, this results in less review taking place as transactions are recorded in the financial statements.
- ◆ Management Override of Internal Control - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- ◆ Improper Revenue Recognition - Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- ◆ Pension Valuation - Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.
- ◆ Lease Receivable and Deferred Inflow - The lease receivable and related deferred inflows are material to the financial statements and involve significant estimates and judgements determined by the City related to discount rate, lease term, and lease payments.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

**City of St. Joseph
Required Communication**

Qualitative Aspects of the City's Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions - These balances are based on an allocation by the pension plans using estimates based on contributions.

Lease Liability and Right-to-Use Lease Assets - These balances are based on estimates and judgments determined by the City related to the discount rate, lease term, and lease payments.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

We identified the following uncorrected misstatements of the financial statements. Management has determined their effect is immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole and each opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

- ◆ Prepaid expenditures
- ◆ Lease receivable and deferred inflow
- ◆ Lease liability and leased asset
- ◆ Subscription liability and subscription asset
- ◆ Pension in-kind revenue and expenditure

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

City of St. Joseph Required Communication

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the 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.

With respect to the supplementary information accompanying the financial statements, 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 basic financial statements or to the basic financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

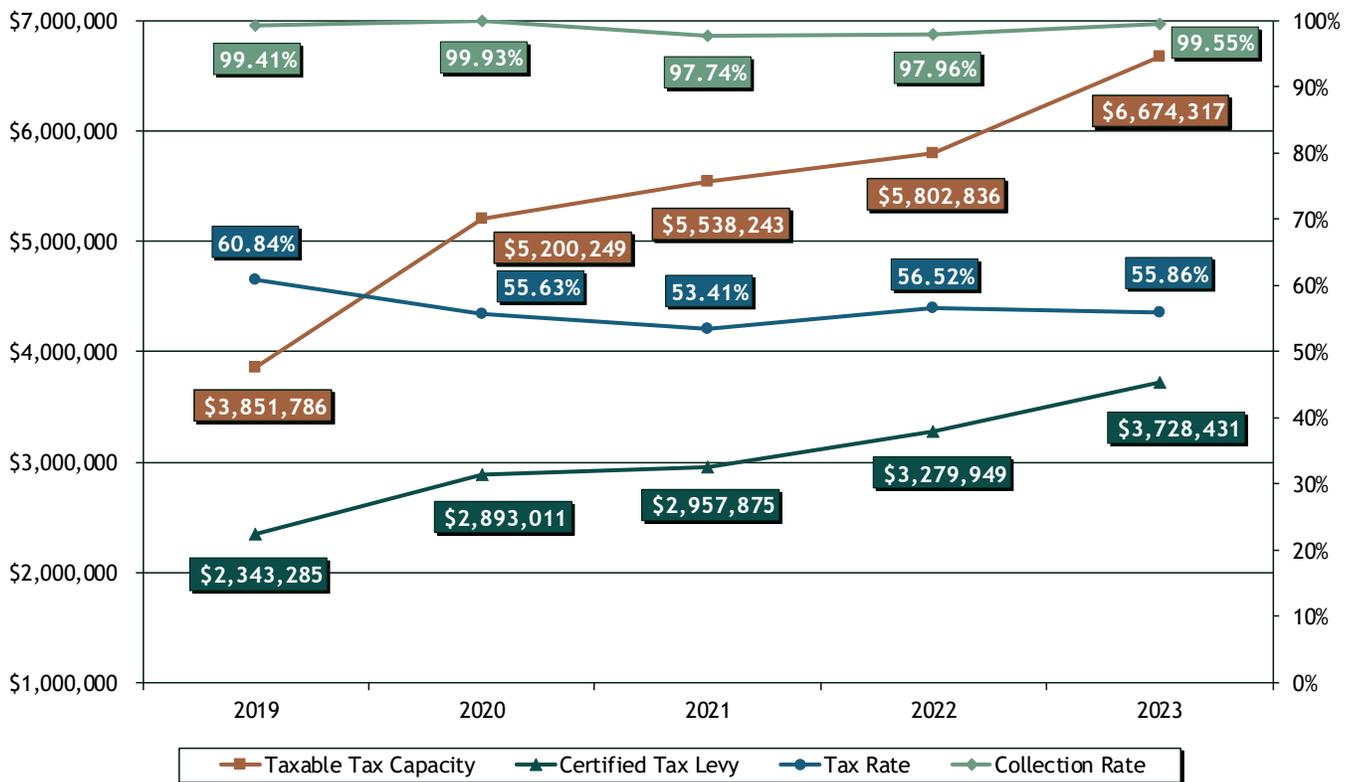
City of St. Joseph Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Tax Capacity, Levy, and Rates

The taxable tax capacity increased at a higher rate to the increase in the certified levy in 2023, causing the tax rate to decrease to 55.86%.

Tax Capacity, Levy, and Rates



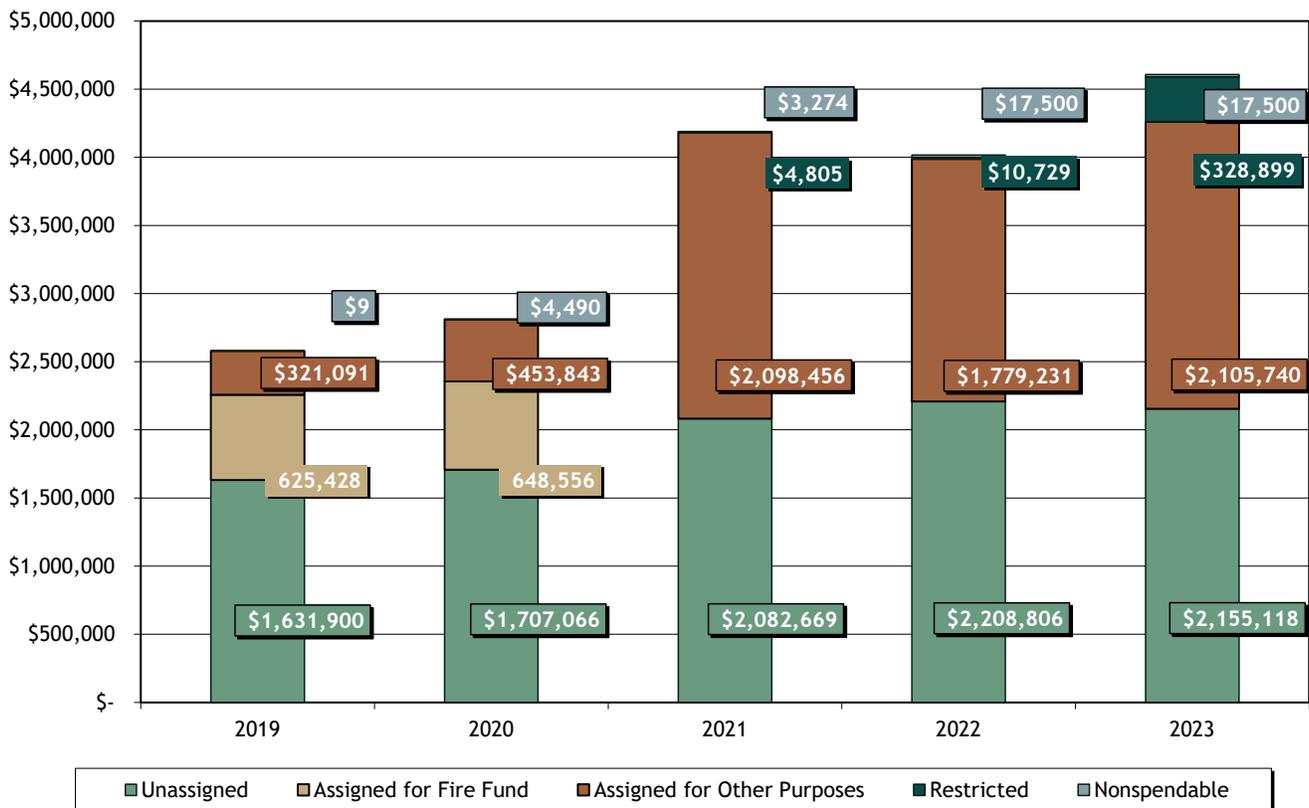
City of St. Joseph Financial Analysis

General Fund

For the year ended December 31, 2023, General Fund revenue exceeded expenditures by \$422,186. In addition to this, the fund had transfers in of \$24,068 from other funds, transfers out of \$139,000 to other funds, insurance recoveries of \$157,278, and sale of equipment of \$126,459 resulting in an increase in the General Fund balance of \$590,991. Of the City's General Fund balance at December 31, 2023, \$2,105,740 was assigned for specific expenditures, such as the elections, police forfeiture, severance pay and capital outlay reserves. The City had \$328,899 of its fund balance restricted for PEG access and public safety aid. The City also has \$17,500 of its fund balance in nonspendable form as the funds have already been spent on prepaid professional services. The unassigned portion of the fund balance, which includes monies set aside for working capital, totaled \$2,155,118 and represents approximately five months of 2023 General Fund expenditures. The City's target General Fund balance is to maintain working capital, a portion of the unassigned balance, in the amount of four to six months of the next year's budgeted expenditures of the General Fund.

The graphs below and on the following page show the City's General Fund balance and the General Fund revenues and expenditures for the last five years.

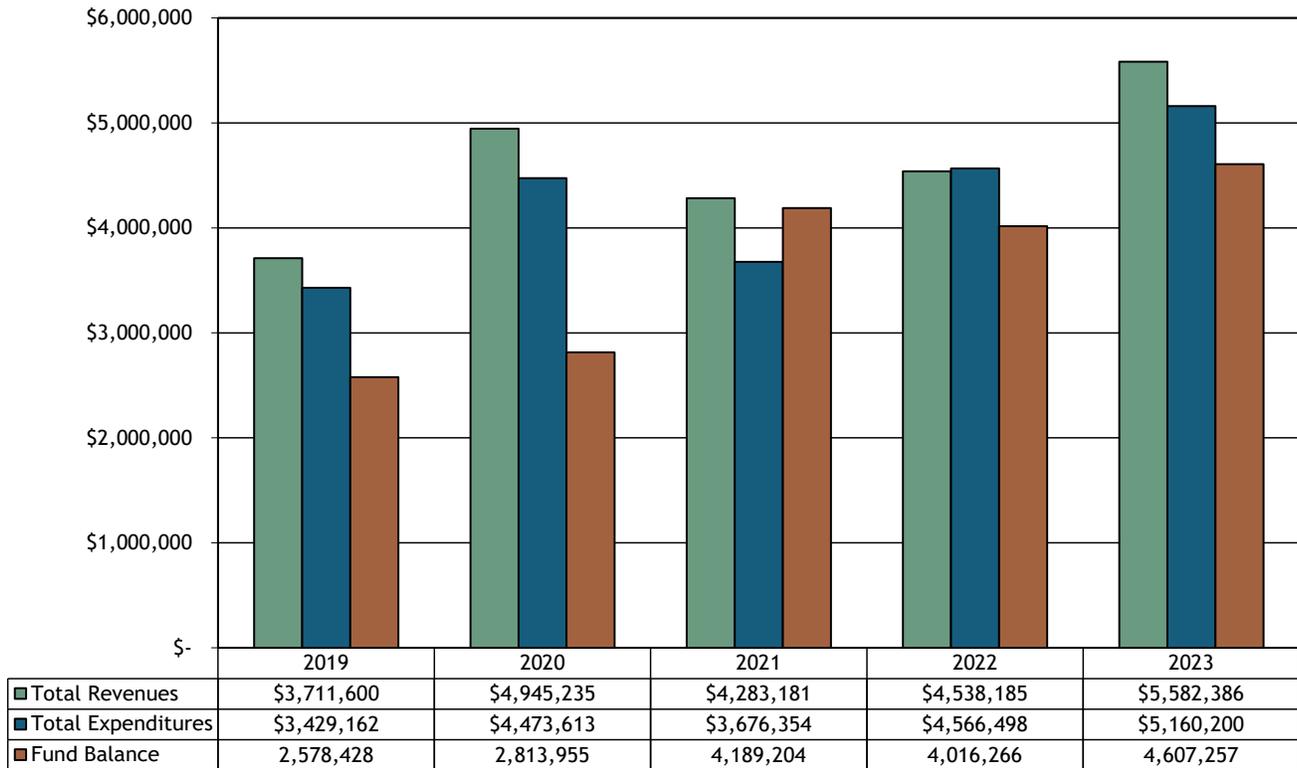
General Fund Balance



**City of St. Joseph
Financial Analysis**

General Fund (Continued)

General Fund



During the year ended December 31, 2023, the City's General Fund revenues increased \$1,044,201, or 23.0%, from 2022, while expenditures increased by \$593,702, or 13.0%. These changes in revenues and expenditures will be discussed by source and function, respectively, on the following pages.

As discussed earlier, fund balance did increase \$590,991 from 2022 to 2023. Fund balance has increased \$2,028,829 or 78.7% since 2019.

**City of St. Joseph
Financial Analysis**

General Fund Revenues

	2019	2020	2021	2022	2023
Taxes	\$ 1,431,366	\$ 1,935,881	\$ 2,115,511	\$ 2,102,942	\$ 2,511,452
Special assessments	3,558	3,389	57,840	4,891	31,864
Franchise fees	134,704	132,991	137,382	140,259	140,406
Licenses and permits	255,953	178,139	151,811	307,357	437,341
Intergovernmental	1,230,507	2,102,263	1,570,692	1,883,220	2,021,446
Charges for services	406,047	430,989	98,913	53,057	66,130
Fines and forfeitures	52,289	43,317	87,381	78,924	121,477
Miscellaneous	197,176	118,266	63,651	(32,465)	252,270
Total Revenues	\$ 3,711,600	\$ 4,945,235	\$ 4,283,181	\$ 4,538,185	\$ 5,582,386

As discussed earlier, the City's revenue increased \$1,044,201 from 2022 to 2023. Taxes revenues accounted for the largest increase from the prior year with an increase of \$408,510, or 19.4% due to an increase in levy. The City also received an increase of \$129,984 or 42.3% in licenses and permits due to new construction both residential and commercial resulting in increased building permits. Miscellaneous revenue account increased by \$284,735 from 2022. This increase was primarily due to interest revenue and market value adjustments relating to investments. Intergovernmental revenue increased \$138,226 or 7.3% due to state public safety aid which was new in 2023 netted with a decrease in federal ARPA money. All other revenues stayed consistent with the prior year.

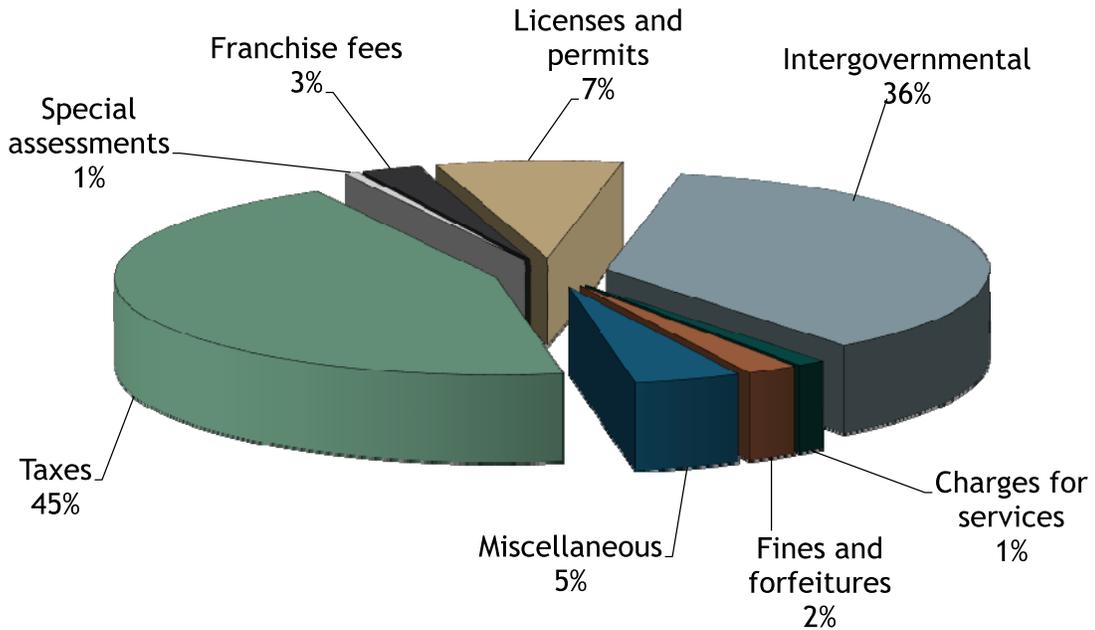
Total revenues have grown \$1,870,786 since 2019, an increase of 50.4%. The largest variances between the types of revenue over the five-year period have been the increases in property taxes, intergovernmental revenues, and licenses and permits while charges for services revenue decreased. Other revenues have stayed relatively consistent over that timeframe.

The pie charts on the following page show the General Fund sources of revenues for 2023 and 2022 as a percentage of total revenues. The allocation of sources of revenue fluctuates minimally from year-to-year. Intergovernmental revenue and taxes account for the two largest components of revenues, each making up 36% and 45% of the total in 2023. The total of these two categories accounts for approximately 81% and 87% of General Fund revenues for 2023 and 2022, respectively.

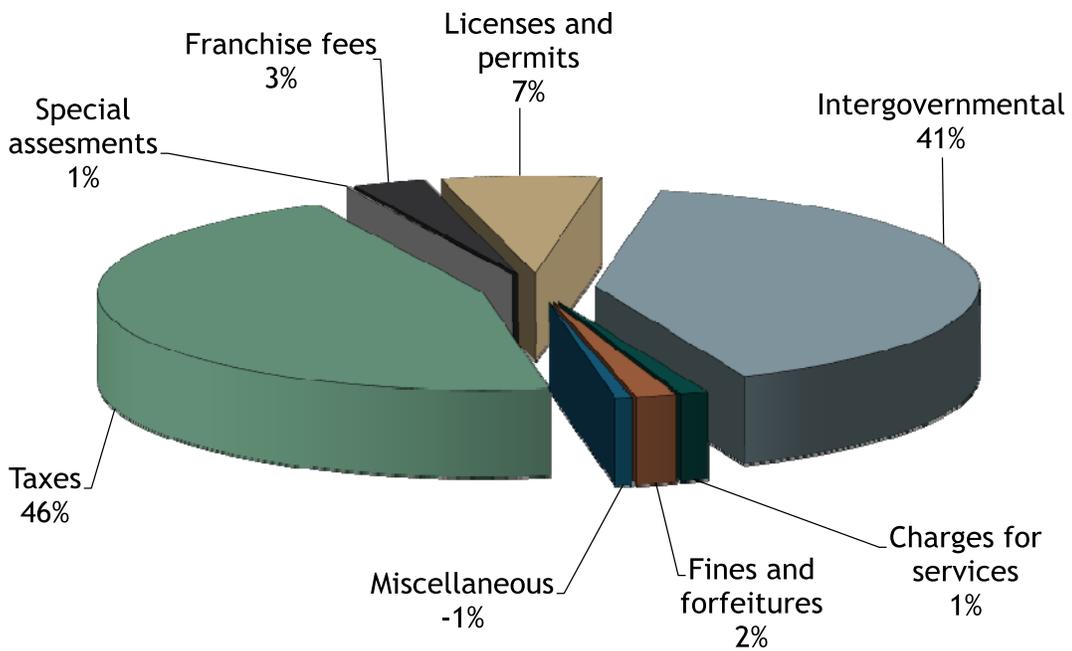
City of St. Joseph
Financial Analysis

General Fund Revenues (Continued)

2023 General Fund Revenues



2022 General Fund Revenues



**City of St. Joseph
Financial Analysis**

General Fund Expenditures

	2019	2020	2021	2022	2023
General government	\$ 815,401	\$ 1,020,077	\$ 997,357	\$ 1,078,866	\$ 1,200,119
Public safety	1,625,599	1,741,056	1,657,557	1,701,616	2,023,784
Public works	486,341	457,226	443,748	716,500	745,955
Culture and recreation	397,204	429,568	362,548	574,640	733,263
Economic Development	-	201,414	-	-	-
Capital outlay	104,617	624,272	215,144	494,876	457,079
Total Expenditures	\$ 3,429,162	\$ 4,473,613	\$ 3,676,354	\$ 4,566,498	\$ 5,160,200

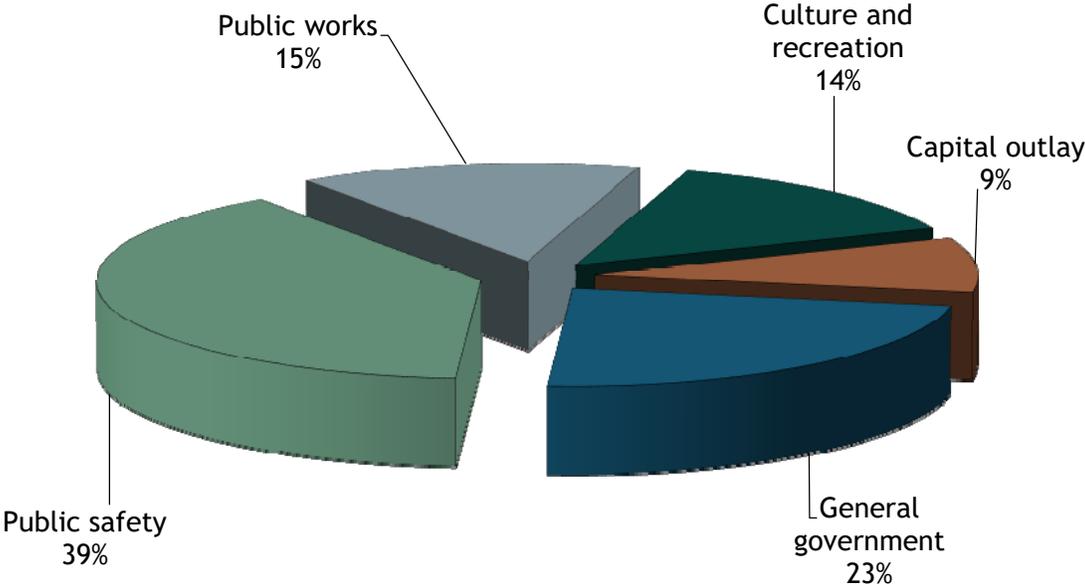
As discussed earlier, General Fund expenditures increased \$593,702, or 13.0%. The most significant increase in expenditures were in general government, public safety, and culture and recreation. General government increased \$121,253 or 11.2% from 2022. This increase was due to increased wages and benefits as well as professional services. Public safety expenditures increased by \$322,168. This increase was primarily due to the City hiring additional staff, increased benefit costs, and the City implementing wage rates from the compensation study. Culture and recreation expenditures increased by \$158,623. This increase was primarily due to the roof replacement at Centennial Park, Millstream and Memorial Park shelters from hail damage, and aged roof at softball fields and increased wages as a result of the compensation study conducted.

The pie charts on the following page show the General Fund expenditures by function for 2023 and 2022 as a percentage of total expenditures. The allocation of expenditures by function vary from year to year. Public safety remains the largest component of General Fund expenditures, representing 39% of total expenditures, down from 37% in 2022.

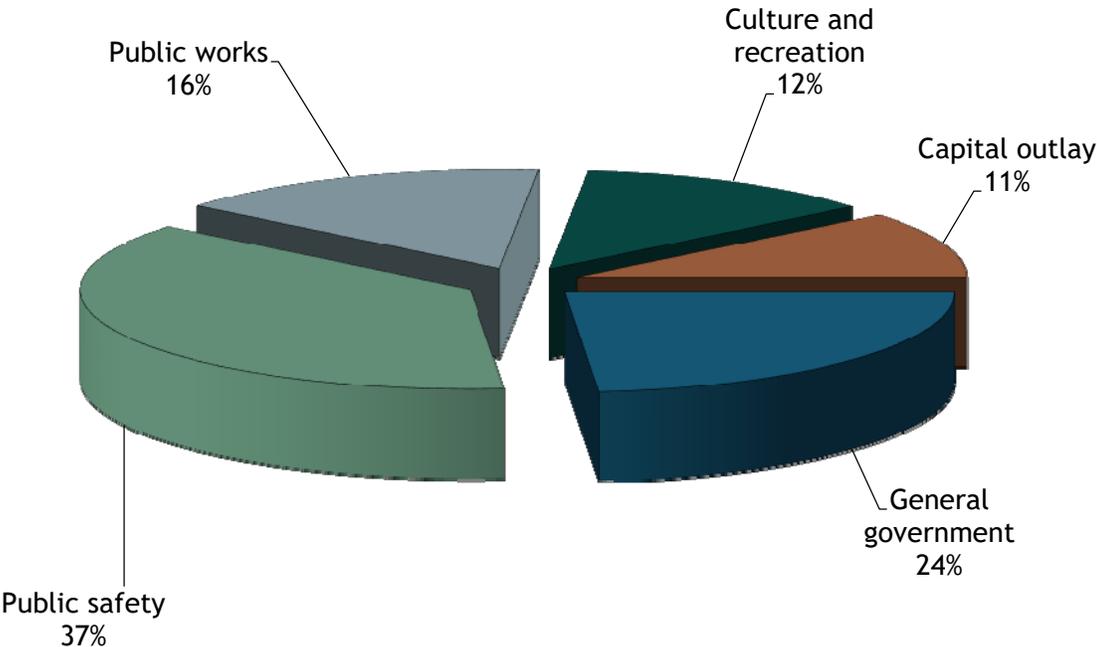
City of St. Joseph
Financial Analysis

General Fund Expenditures (Continued)

2023 General Fund Expenditures



2022 General Fund Expenditures



**City of St. Joseph
Financial Analysis**

General Fund Budget

The table below illustrates the General Fund budget and actual for 2023 revenues and expenditures by function.

	Original and Final Budget	Actual Amounts	Variance With Final Budget - Over (under)
Revenues			
Taxes	\$ 2,502,921	\$ 2,511,452	\$ 8,531
Special assessments	3,100	31,864	28,764
Franchise fees	139,215	140,406	1,191
Licenses and permits	189,455	437,341	247,886
Intergovernmental	1,469,519	2,021,446	551,927
Charges for services	45,855	66,130	20,275
Fines and forfeitures	71,000	121,477	50,477
Miscellaneous	75,850	252,270	176,420
Total revenues	4,496,915	5,582,386	1,085,471
Expenditures			
General government	1,109,970	1,200,119	90,149
Public safety	2,193,325	2,023,784	(169,541)
Public works	676,605	745,955	69,350
Culture and recreation	431,275	733,263	301,988
Capital outlay	309,335	457,079	147,744
Total expenditures	4,720,510	5,160,200	439,690
Excess of receipts over (under) disbursements	(223,595)	422,186	645,781
Other Financing Sources (Uses)			
Insurance recoveries	-	157,278	157,278
Sale of property	103,500	126,459	22,959
Transfers in	17,985	24,068	6,083
Transfers out	-	(139,000)	(139,000)
Total other financing sources	121,485	168,805	47,320
Net change in fund balance	\$ (102,110)	\$ 590,991	\$ 693,101

City of St. Joseph Financial Analysis

General Fund Budget (Continued)

The City's had no updates to their original budget throughout the year. Budgeted revenues were \$4.5 million, budgeted expenditures were \$4.7 million, and other financing sources of \$121,485. General fund revenues were over budget by \$1,085,471. Licenses and permits revenues coming in over budget by \$247,886 due mostly to the City not budgeting for the increase in building construction. Intergovernmental revenue was over budget due to receiving state public safety aid which was unexpected and not budgeting for the federal ARPA funds recognized in 2023. Fines and forfeiture revenue came in over budget due to conservative budgeting. The Miscellaneous revenue came in over budget due mostly to investment gains and interest revenue. Other revenues were in line with the budget.

Total expenditures were over budget by \$439,690. Culture and recreational had the largest budget variance, being \$301,988 over budget in 2023. This variance was due to the City expenditures relating to capital campaign service contract which came in over budget and the roof replacement at Centennial Park, Millstream and Memorial parks, which were not planned. Public Safety was under budget \$169,541, this is due to staffing changes throughout the year as well as budgeting for family coverage for all full time positions. Public works was over budget \$69,350 due to wages and benefits being over budget due to the compensation study rate implementation in 2023 as well as snowier year than expected and being over budget in repairs and maintenance. General government was over budget \$90,149 primarily due to professional services being over budget as well as wages and benefits due to the compensation study rate implementation in 2023. Capital outlay was over budget \$147,744 due to more equipment needs than anticipated. Other areas were consistent with budgeted amounts.

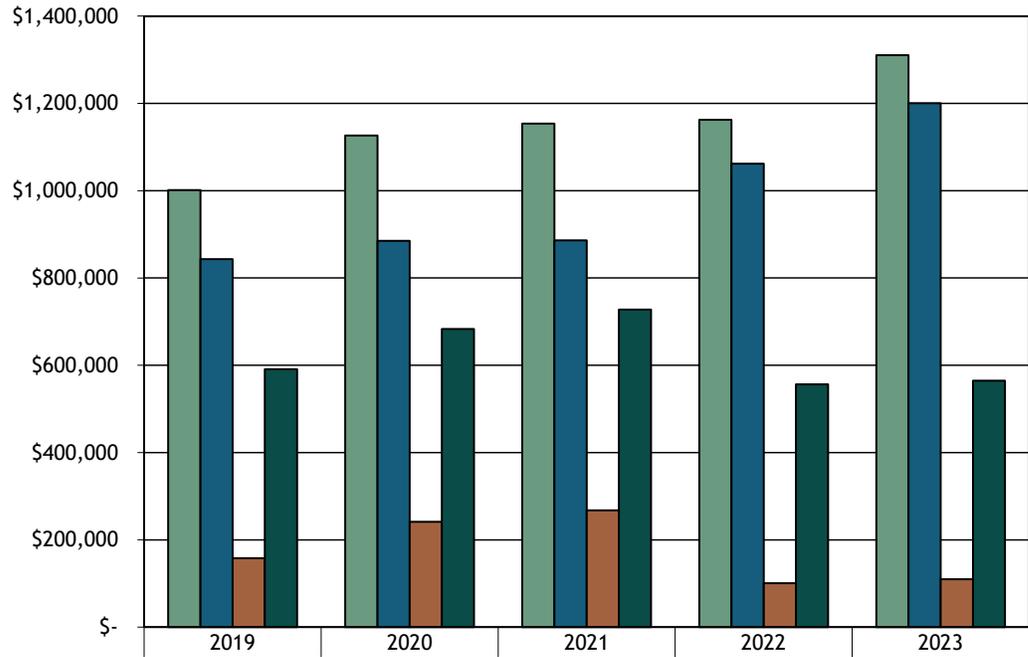
Enterprise Funds

Enterprise funds are used to account for operations financed and operated in a manner, similar to private business enterprises, where the City intends the cost of providing goods or services to the public be financed or recovered primarily through user charges. The City's Enterprise Funds include the Water, Sanitary Sewer, Refuse, Storm Water, and Street Light Utility Funds.

**City of St. Joseph
Financial Analysis**

Water Fund

Water Fund



	2019	2020	2021	2022	2023
Operating Revenues	\$1,001,282	\$1,126,425	\$1,153,777	\$1,162,651	\$1,310,497
Operating Expenses	843,267	885,076	886,023	1,061,837	1,200,714
Operating Income with Depreciation	158,015	241,349	267,754	100,814	109,783
Operating Income without Depreciation	590,721	683,204	727,537	556,443	564,695

The Water Fund showed operating income in all five years presented. Operating revenues increased \$147,846, or 12.7%, from 2022 to 2023 due to an increase in rates and usage. Operating expenses increased \$138,877, or 13.1%, from 2022 to 2023 due to wage increases, switching the mechanical read meters to cellular based, repairs and maintenance relating to a water leak at treatment plant two and professional fees relating to well rehabilitation and pump repair and replacement.

Operations produced operating income of \$109,783. With the exclusion of \$454,912 in depreciation expense, the Fund experienced operating income of \$564,695. However, depreciation should be considered as a true expense in operations, as most equipment and facilities will eventually need upgrades or replacement. The operations of the Water Fund covered 100% of depreciation expense.

In addition to the operating revenues and expenses of the Water Fund, there were net non-operating revenues of \$115,912, which is comprised of interest expenses, offset by amortization of bond premium, investment income, and other income. The operating and non-operating activities along with capital contributions, and transfers resulted in an increase in net position of \$457,530, resulting in a net position of \$12,205,163 at December 31, 2023. The cash and investments balance at December 31, 2023, totaled \$1,542,618 an increase of \$229,542.

City of St. Joseph Financial Analysis

Sanitary Sewer Fund

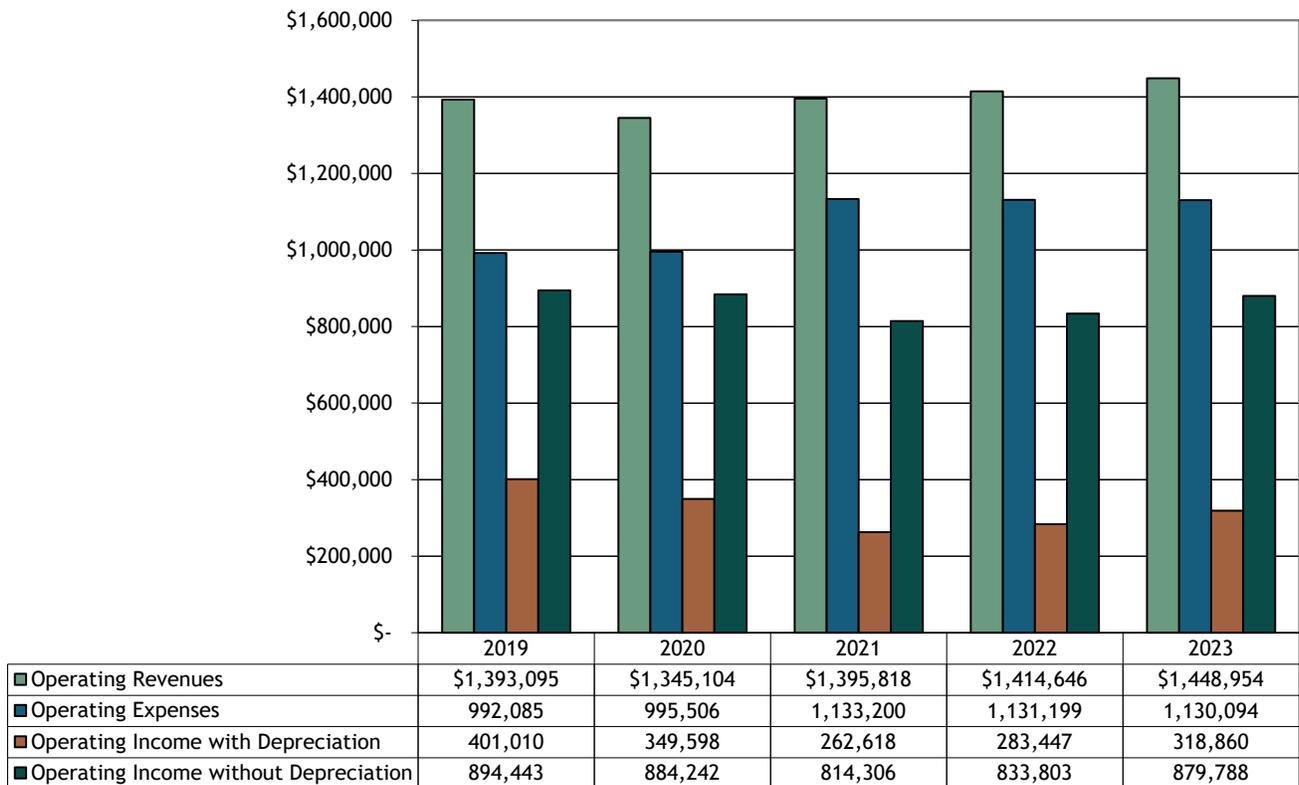
Operating revenues increased \$34,308 or 2.4%, from 2022 to 2023, while operating expenses decreased \$1,465, or 0.1%. Revenues increased due to an increase in fees and usage in 2023.

The Sewer Fund produced operating income for all five years presented. Due to the nature and cost of the Sewer Fund's assets, it is difficult to establish sewer rates sufficient to cover replacement of the assets represented by depreciation expense. Ideally, sewer revenues should cover all operating expenses, including depreciation.

The graph below indicates the Sewer Fund did generate operating income and covered 100% of depreciation each year presented.

In addition to the operating revenues and expenses of the Sewer Fund, there were net non-operating revenues and expenses of \$73,287, which was mostly comprised of interest expense netted with interest on investments. Capital contributions and transfers along with the operating and non-operating activities resulted in an increase in net position of \$583,266, resulting in a net position of \$12,189,443 at December 31, 2023. The cash balance at December 31, 2023, totaled \$3,100,101, an increase of \$494,972.

Sanitary Sewer Fund



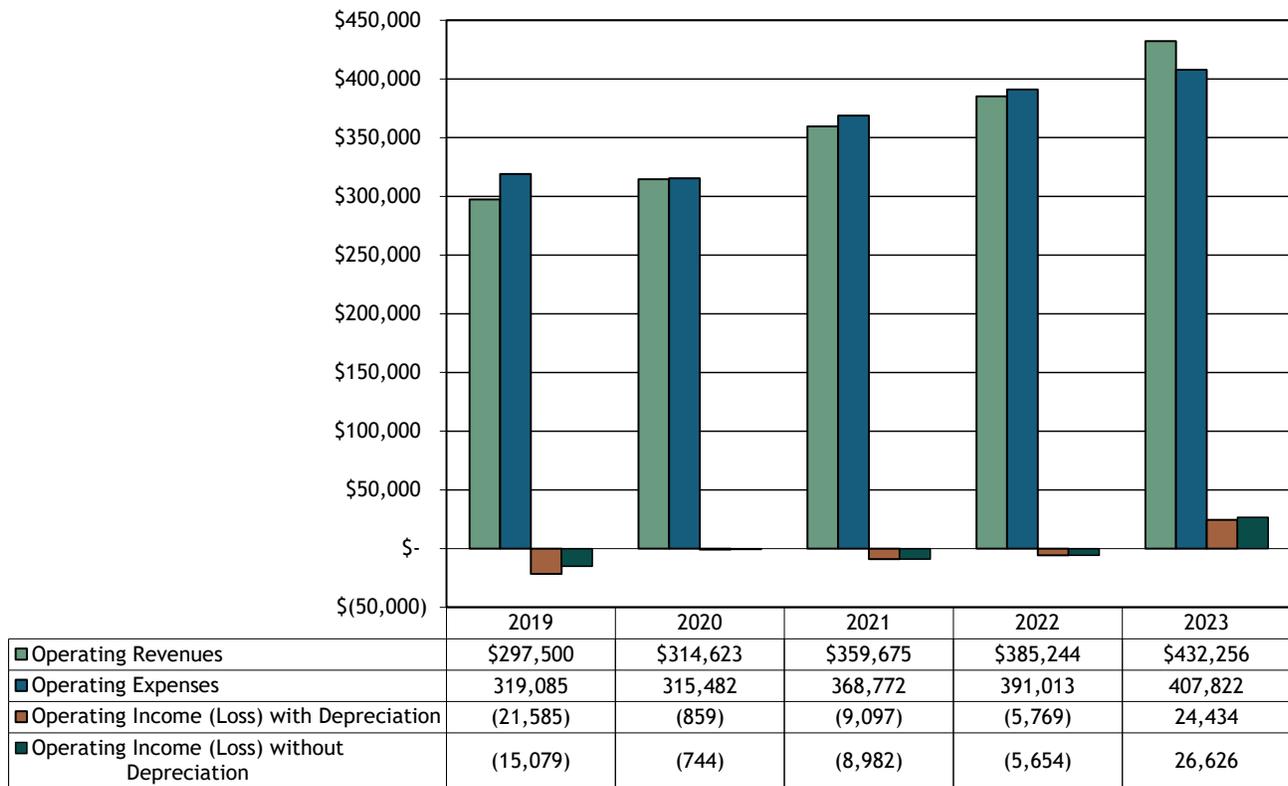
City of St. Joseph Financial Analysis

Refuse Fund

The following graph displays selected financial data for the Refuse Fund for the past five years. The Fund showed operating income for the first time in five years. Operating revenues increased \$47,012, or 12.2%, while operating expenses increased \$16,809, or 4.3%, from 2022 to 2023. The increase in revenues was due to an increase in rates and customers in 2023. Expenses increased due to increased fees from the waste collection company. These changes resulted in an operating revenue of \$24,434 for 2023. The Fund produced an operating income of \$26,626 when depreciation is not considered, thus, the fund is covering all of depreciation expense for 2023.

In addition to the operating activities of the fund, there were non-operating revenues of \$8,904 which are mostly comprised of investment income. Transfers along with operating and non-operating activities resulted in an increase in net position of \$33,238. The cash balance increased \$7,969 in 2023 and totaled \$204,616 at December 31, 2023.

Refuse Fund



City of St. Joseph Financial Analysis

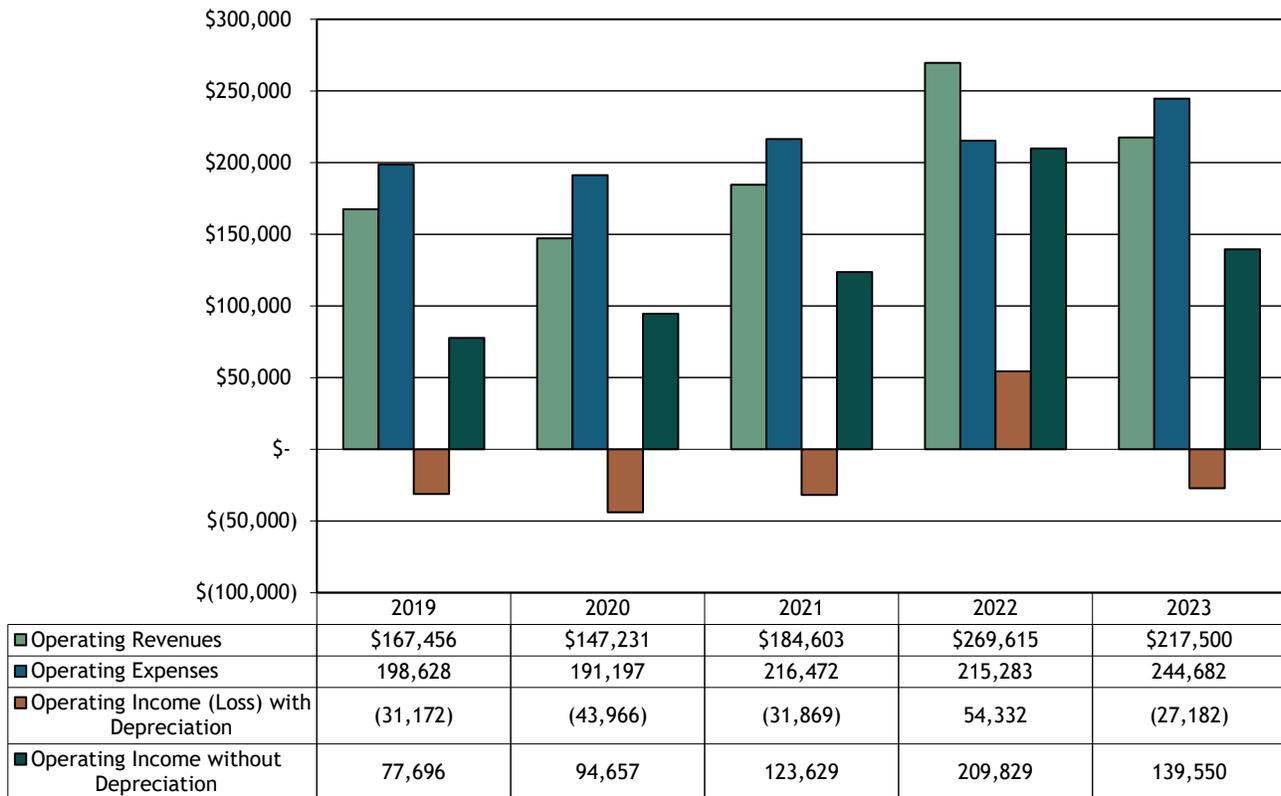
Storm Water Fund

The Storm Water Fund showed operating losses in four of the five years presented with the current year generating an operating loss. Operating revenues decreased \$52,115, or 19.3%, from 2022 to 2023, due to 2022 including storm water development fee collected from industrial park developer and nothing similar collected in 2023. Operating expenses increased \$29,399 due to increased engineering fees, permit renewal and increased depreciation expense.

The Storm Water Fund produced an operating loss of \$27,182 with depreciation and an operating income of \$139,550 without depreciation expense. The operations of the Storm Water Fund did not cover depreciation expense in 2023. The Storm Water Fund also had net nonoperating revenues of \$26,916, capital contributions totaling \$209,328, and transfers out totaling \$35,356. Fund activity resulted in an increase in net position of \$173,706. The cash balance increased \$136,240 in 2023 and totaled \$496,728 at December 31, 2023.

We recommend the City continue to monitor rates as well as operating expenses to ensure the Fund's profitability in the future.

Storm Water Fund



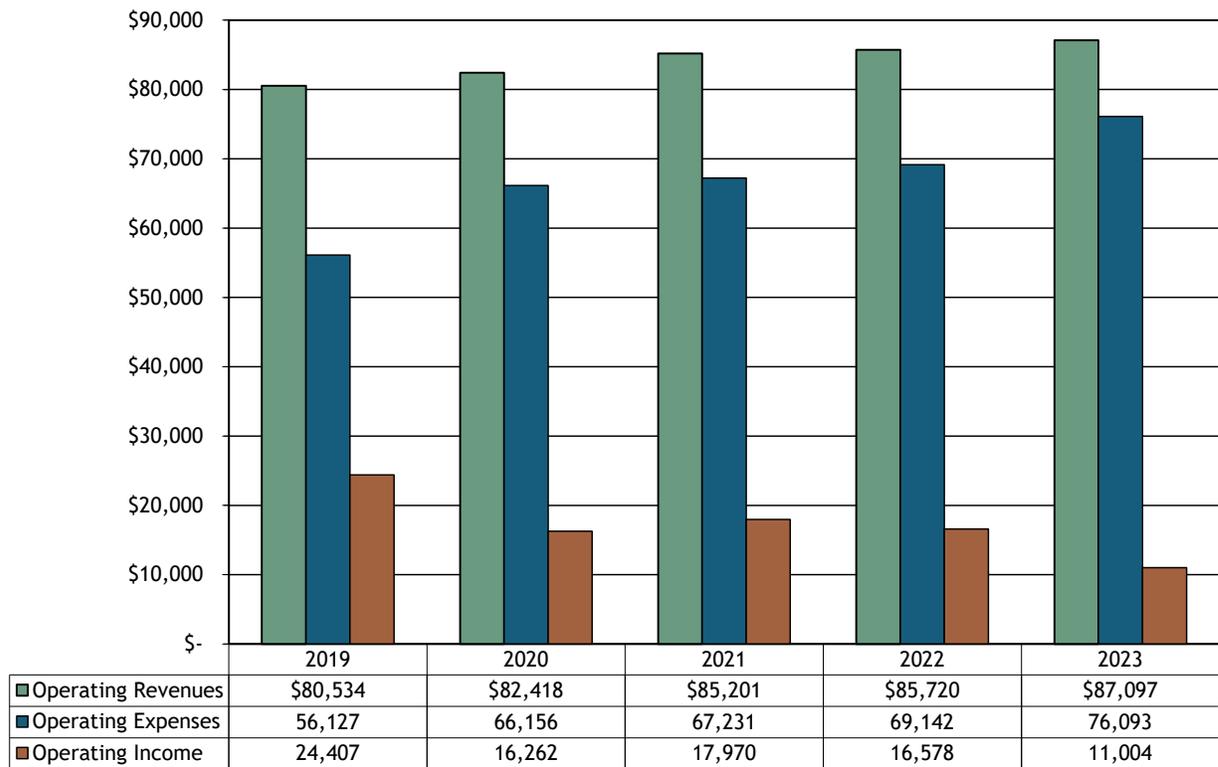
City of St. Joseph Financial Analysis

Street Light Utility

The Street Light Utility Fund was opened during 2013 to track activity relating to the street light utility. The Street Light Utility Fund showed an operating income for the fifth year in a row. Operating revenues stayed consistent with the prior year, increasing only \$1,377 from 2022 to 2023. Operating expenses increased \$6,951 due to street light repair costs.

The Street Light Utility Fund produced operating income of \$11,004. The fund also reported non-operating revenues including investment income, special assessments, and other income totaling \$5,153. Operating income along with non-operating revenues and expenses resulted in an increase in net position of \$16,157. The cash balance increased \$16,541 in 2023 and totaled \$119,911 at December 31, 2023.

Street Light Utility



City of St. Joseph Emerging Issues

Executive Summary

The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- ◆ **Implementation Guide No. 2021-1 - Amending Capitalization Requirements**
GASB has issued Implementation Guide No. 2021-1, amending previously issued guidance regarding capitalization requirements for capital assets that are significant in the aggregate but below the government's capitalization threshold individually.
- ◆ **Accounting Standard Update - GASB Statement No. 100 - Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. 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.
- ◆ **Accounting Standard Update - GASB Statement No. 101 - Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

Implementation Guide No. 2021-1 - Amending Capitalization Requirements

Implementation Guide No. 2021-1, amended previously issued guidance contained in Implementation Guide No. 2015-1 regarding capitalization requirements for capital assets that are significant in the aggregate.

Original guidance stated that it *may be* appropriate for a government to establish a capitalization policy that would require capitalization for certain types of assets with individual acquisition costs that are less than the threshold for an individual asset.

Amended guidance states 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. Computers and classroom furniture are common examples of asset types that could be significant collectively. The amended guidance clarifies that if 100 computers costing \$1,500 each totaling a \$150,000 aggregate amount is significant, the government *should* capitalize the computers.

Information provided above was obtained from www.gasb.org.

**City of St. Joseph
Emerging Issues**

Accounting Standard Update - 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 defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting - understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in Required Supplementary Information (RSI) and Supplementary Information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

**City of St. Joseph
Emerging Issues**

Accounting Standard Update - 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. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

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.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.