

Management Report

for

City of Ramsey
Anoka County, Minnesota

December 31, 2023

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PRINCIPALS

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To the City Council and Management
City of Ramsey, Minnesota

We have prepared this management report in conjunction with our audit of the City of Ramsey, Minnesota's (the City) financial statements for the year ended December 31, 2023. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 17, 2024

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AUDIT SUMMARY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2023:

- We have issued unmodified opinions on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Land Held for Resale

The City currently holds a material amount of land for resale, which management reports at the lower of cost or acquisition value. City staff has also prepared a schedule comparing the current carrying value of these properties to estimated fair values provided by Anoka County to support these values. We recognize the City is working on an ongoing basis to utilize these assets in the best interest of the City. We recommend that the City continue to review these property values on an ongoing basis to ensure a proper reporting of city assets and that financial activity between funds is accurately presented.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Value of Land Held for Resale** – Management's estimates of these assets are based on net realizable value (lower of cost or acquisition value).
- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Compensated Absences** – Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood that unused balances will ultimately be paid out at termination.
- **Total Other Post-Employment Benefits (OPEB) and Net Pension Liabilities** – The City has recorded liabilities and activity for OPEB and pension benefits. These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

We evaluated the key factors and assumptions used by management to develop these accounting estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 17, 2024.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis (MD&A) and the 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 and statistical sections, 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.

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GOVERNMENTAL FUNDS OVERVIEW

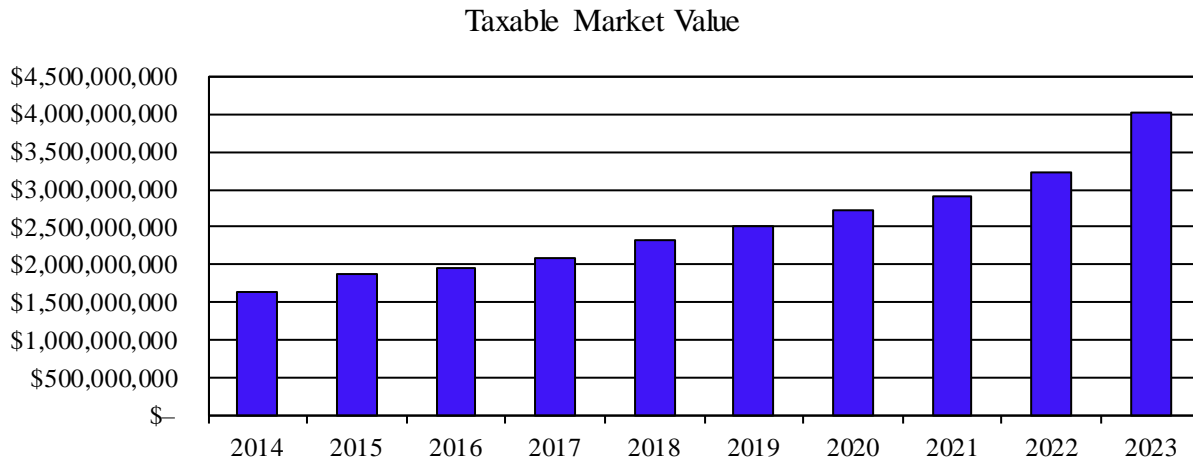
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its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

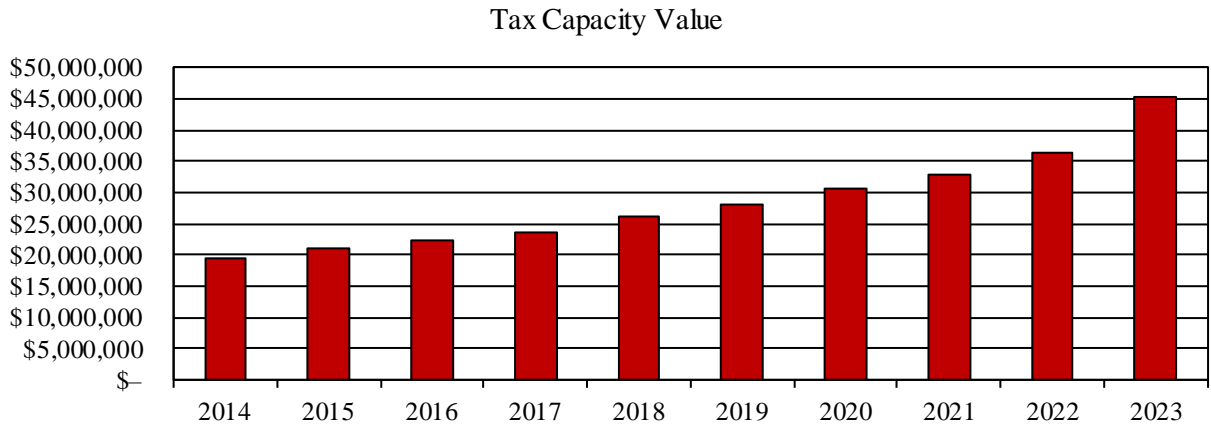
The taxable net tax capacity value of property in Minnesota cities increased about 17.7 percent for the 2023 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2023 were 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 City's taxable market value increased 10.7 percent for taxes payable in 2022 and increased 25.1 percent for taxes payable in 2023. The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state’s property classification system to each property’s market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city’s total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of its tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City’s tax capacity increased 11.0 percent for 2022 and increased 24.3 percent for 2023.

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 Ramsey		
	2021	2022	2023
Average tax rate			
City	39.3	42.2	40.4
County	31.6	29.6	24.5
School	16.2	16.3	13.7
Special taxing	4.2	4.1	3.5
Total	<u>91.3</u>	<u>92.2</u>	<u>82.1</u>

The school tax rate for Independent School District No. 11, Anoka-Hennepin, was used for the above table.

The average tax rate was less than the prior year with decreases spread across each of the taxing authorities presented in the table above. Increases in property valuations contributed to the change in the average tax rate.

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 major fund:

Governmental Fund Changes in Fund Balance			
	Fund Balance as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 33,371	\$ 36,910	\$ (3,539)
Restricted	29,623,622	30,308,803	(685,181)
Committed	1,932,107	1,682,136	249,971
Assigned	20,878,473	18,344,251	2,534,222
Unassigned	<u>12,237,299</u>	<u>11,064,416</u>	<u>1,172,883</u>
Total governmental funds	<u>\$ 64,704,872</u>	<u>\$ 61,436,516</u>	<u>\$ 3,268,356</u>
Total by fund			
Major funds			
General	\$ 12,265,915	\$ 11,095,052	\$ 1,170,863
Special revenue funds			
Tax Increment	6,730,012	5,831,704	898,308
COR Land	8,343,303	8,148,079	195,224
Capital project funds			
RALF Funded Projects	210,223	505,220	(294,997)
State-Aid Construction	430,589	1,895,877	(1,465,288)
Pavement Management Program	15,004,728	15,102,526	(97,798)
Park Improvement	7,683,511	6,940,689	742,822
Nonmajor funds	<u>14,036,591</u>	<u>11,917,369</u>	<u>2,119,222</u>
Total governmental funds	<u>\$ 64,704,872</u>	<u>\$ 61,436,516</u>	<u>\$ 3,268,356</u>

In total, the fund balances of the City's governmental funds increased by \$3,268,356 during the year ended December 31, 2023.

The largest changes were in assigned fund balances, primarily in the nonmajor funds, as noted in the table above. The increase was largely due to the increase in interest earnings, due to a higher rate of return. Unassigned was also up with the change in the General Fund. General Fund activity is discussed in more detail later in this report.

GOVERNMENTAL FUNDS REVENUE

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

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

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

Governmental Funds Revenue per Capita With State-Wide Averages						
Year	State-Wide		City of Ramsey			
	2020	2021	2020	2021	2022	2023
Population	20,000–100,000	20,000–100,000	27,263	27,946	28,520	28,712
Property taxes	\$ 537	\$ 557	\$ 457	\$ 468	\$ 549	\$ 623
Tax increments	44	49	45	63	70	65
Franchise fees	46	53	16	74	–	–
Special assessments	54	56	18	27	4	20
Licenses and permits	46	53	31	33	30	37
Intergovernmental revenues	273	202	212	58	218	192
Charges for services	91	110	46	73	65	45
Other	69	26	70	34	44	145
Total revenue	<u>\$ 1,160</u>	<u>\$ 1,106</u>	<u>\$ 895</u>	<u>\$ 830</u>	<u>\$ 980</u>	<u>\$ 1,127</u>

The City’s governmental fund revenues for 2023 were \$32,374,369, an increase of \$4,459,120 (16.0 percent) from the prior year. On a per capita basis, the City received \$1,127 in governmental fund revenue for 2023, an increase of \$147 from the prior year.

A city’s stage of development, along with the way a city finances various capital projects, will impact the mix of revenue sources it receives. The largest changes were in property taxes and other revenue. Property taxes were up \$74 per capita as anticipated with the approved levy adopted in the current year. Other revenues were up \$101 per capita, due to the previously discussed increase in investment earnings, due to a higher rate of return and adjustments to fair value of investments.

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 four years, together with comparative state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita With State-Wide Averages						
Year	State-Wide		City of Ramsey			
	2020 20,000–100,000	2021 20,000–100,000	2020 20,263	2021 27,946	2022 28,520	2023 28,712
Population						
Current						
General government	\$ 118	\$ 116	\$ 178	\$ 141	\$ 142	\$ 155
Public safety	320	327	219	230	239	258
Public works	112	112	76	77	88	193
Recreation	95	107	54	51	51	59
All other	104	77	18	77	38	59
	<u>749</u>	<u>739</u>	<u>545</u>	<u>576</u>	<u>558</u>	<u>724</u>
Capital outlay and construction	331	317	272	573	240	462
Debt service						
Principal	91	110	148	69	67	87
Interest and fiscal	33	34	32	30	22	44
	<u>124</u>	<u>144</u>	<u>180</u>	<u>99</u>	<u>89</u>	<u>131</u>
Total expenditures	<u>\$ 1,204</u>	<u>\$ 1,200</u>	<u>\$ 997</u>	<u>\$ 1,248</u>	<u>\$ 887</u>	<u>\$ 1,317</u>

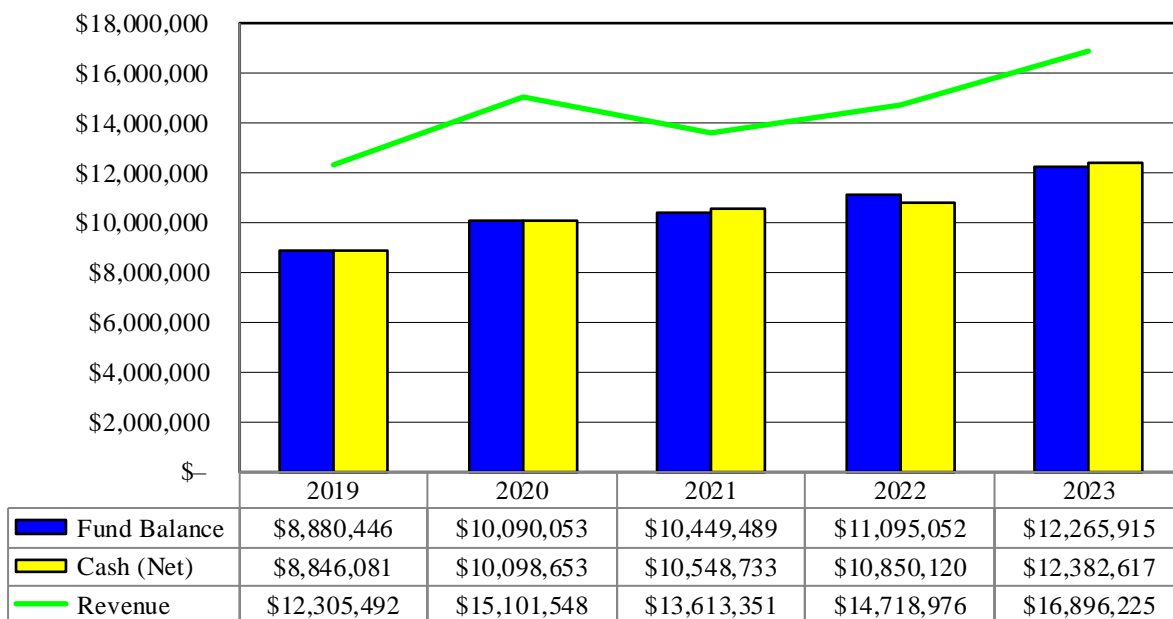
Total expenditures in the City's governmental funds for 2023 were \$37,829,568, an increase of \$12,478,839 (49.2 percent) from the prior year. On a per capita basis, the City expended a total of \$1,317 in 2023, an increase of \$430 from the previous year.

Current spending was up with natural inflationary increases and with more expenditures in public works for street maintenance and repairs. Capital outlay reported the largest change in comparison to the prior year. Capital spending was up in the current year for street reconstruction projects, equipment purchases, and improvements completed in the City's Center of Ramsey (COR) development. Debt service was up \$42 per capita as anticipated with approved debt financing plans and issue costs on new debt in the current year.

GENERAL FUND FINANCIAL POSITION

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

General Fund Financial Position
Year Ended December 31,



The City's General Fund cash and investments balance at December 31, 2023 was \$12,382,617, an increase of \$1,532,497 from the previous year. Total fund balance at year-end was \$12,265,915, an increase of \$1,170,863 from the prior year.

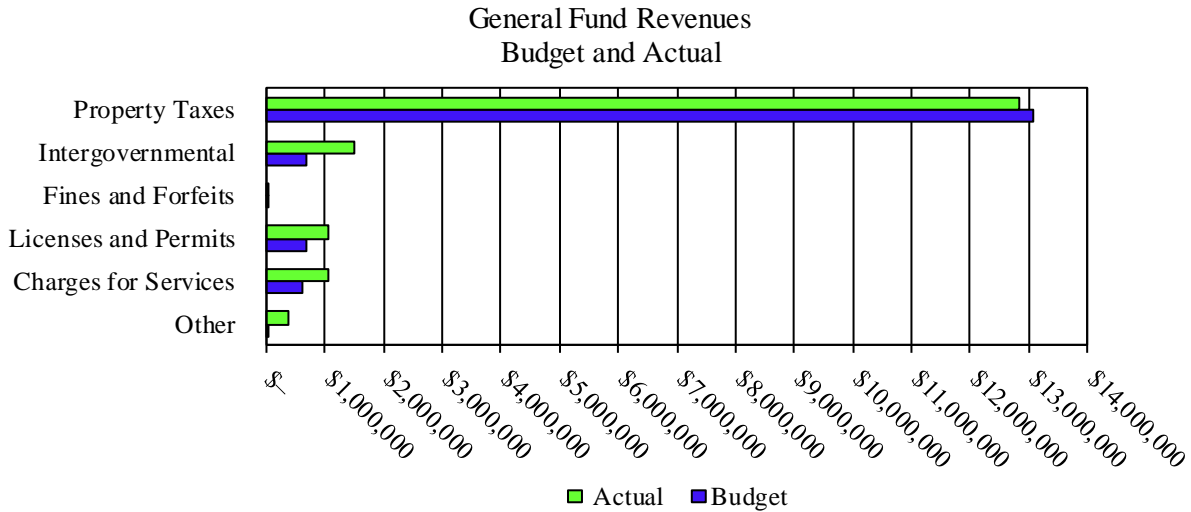
As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has fluctuated. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs.

A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 75.9 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.

As of December 31, 2023, the City continued to meet the fund balance policy goal of the General Fund, which is to maintain an unrestricted amount equal to 50.0 percent of the following years adopted operating budget, plus prior year encumbrances and compensated absences.

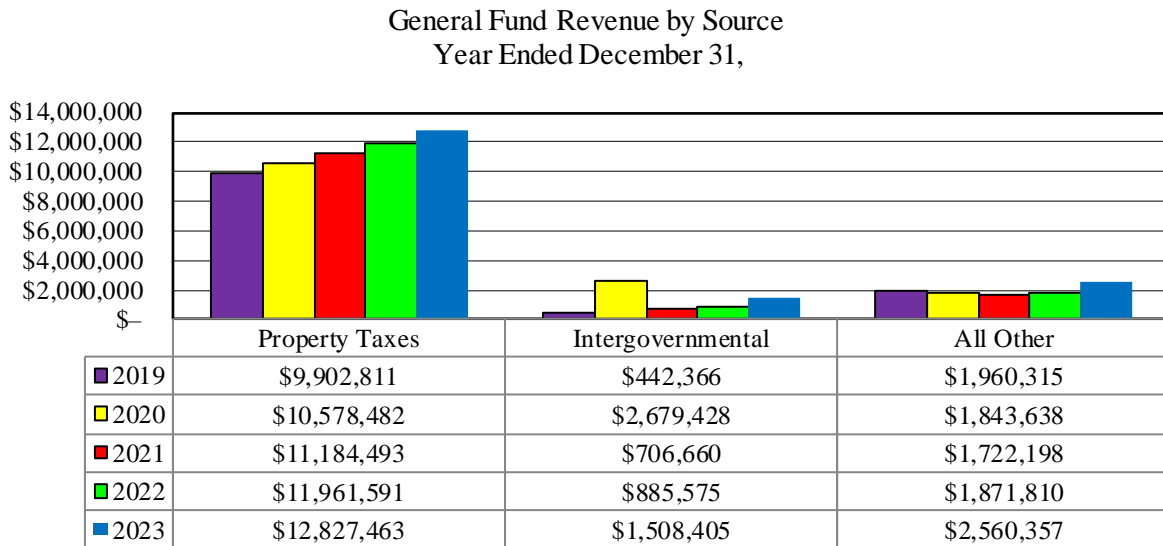
GENERAL FUND REVENUES

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



General Fund revenue for 2023 was \$16,896,225, which was \$1,698,255 (11.2 percent) more than budget. The budget variance for revenue was largely due to conservative budgeting with most sources surpassing budget expectations. Improved investment earnings, elevated development activity, and federal funding recognized in the current year all contributed to revenues exceeding budget.

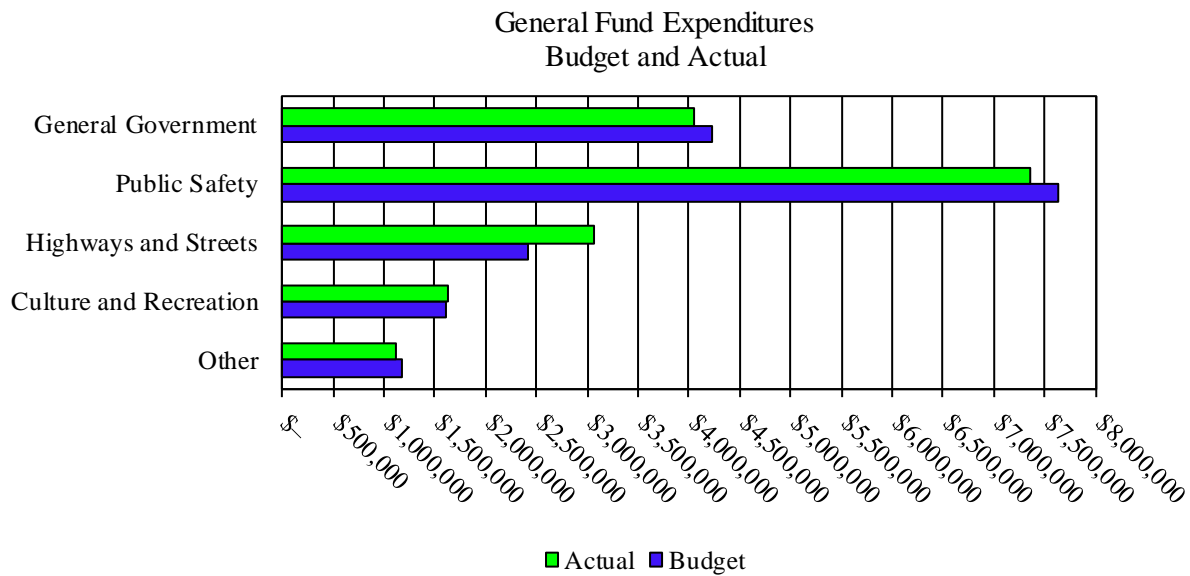
The following graph presents the City’s General Fund revenues by source for the last five years. The graph reflects the City’s reliance on property taxes, which represented 75.9 percent of General Fund revenues in 2023:



Total General Fund revenue for 2023 was \$2,177,249 (14.8 percent) more than last year. The increase in taxes was as anticipated and approved with the annual levy process. Intergovernmental increased, due to recognition of more federal COVID-19-related entitlements reported in the General Fund in the current year. The increase noted in the “all other” category was in remaining various other miscellaneous sources and charges for services during the current year with elevated development activity. Improved investment earnings also contributed to the increase in other sources.

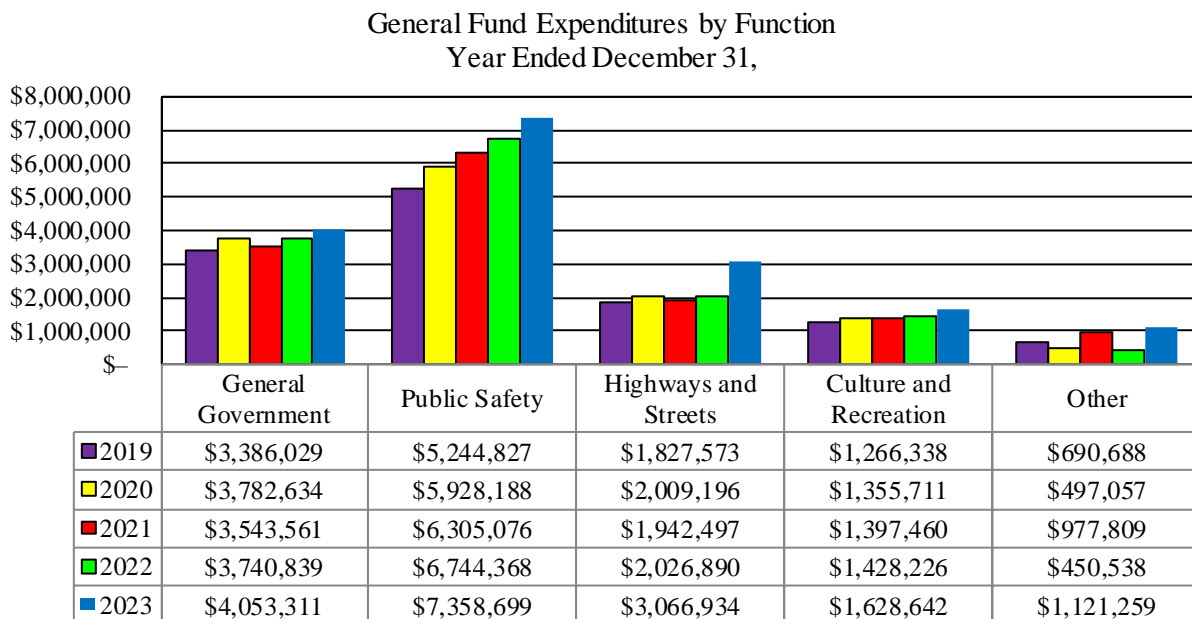
GENERAL FUND EXPENDITURES

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



General Fund expenditures totaled \$17,228,845 in 2023 and were \$173,692 (or 1.0 percent) over the final budget. Spending was over budget for highways and streets by \$648,020 and culture and recreation by \$26,206. The largest variance in overspending for highways and streets was largely due to significant repairs and improvements to streets after the impact of a harsh winter. General government, public safety, and other expenditures were \$168,333, \$272,904, and \$59,297 under budget, respectively. Open positions and conservative budgeting largely accounted for these variances.

The following graph shows General Fund expenditures for the last five years:



Total General Fund expenditures for 2023 were \$2,837,984 (19.7 percent) more than the previous year. Natural inflationary increases and the continued growth in development in the City contributed to the overall increase in expenditures. Highways and streets spending was up with road repairs as previously mentioned. The increase in other spending was due to planned capital equipment purchased as budgeted in the current year.

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, Sewer, Street Light, Recycling, and Storm Water Utility Funds.

The utility funds comprise a considerable portion of the City’s activities. We understand that the City is proactive in reviewing these activities on an ongoing basis and we want to reiterate the importance of continually monitoring these operations. Over the years, we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general governmental funds. This would include the accumulation of net position for future capital improvements and to provide a cushion in the event of a negative trend in operations.

ENTERPRISE FUNDS FINANCIAL POSITION

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

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	2023	2022	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 71,932,644	\$ 63,486,708	\$ 8,445,936
Unrestricted	44,232,074	43,879,636	352,438
Total enterprise funds	\$ 116,164,718	\$ 107,366,344	\$ 8,798,374
Total by fund			
Water Utility	\$ 60,839,740	\$ 55,298,323	\$ 5,541,417
Sewer Utility	33,335,502	31,521,187	1,814,315
Street Light Utility	1,872,786	1,774,396	98,390
Recycling Utility	416,700	415,620	1,080
Storm Water Utility	19,699,990	18,356,818	1,343,172
Total enterprise funds	\$ 116,164,718	\$ 107,366,344	\$ 8,798,374

In total, the net position of the City’s enterprise funds increased by \$8,798,374 during the year ended December 31, 2023. The increase in net position is due in part from investment earnings increasing by \$8,083,219. Developer contributions and connection fees, along with an increase in utility rates and consumption billed also contributed to the overall growth in net position.

The increase in the net investment in capital assets portion of net position includes the City’s use of resources for infrastructure improvements in the current year, along with contributions from developers, which was partially offset by current year depreciation. The City’s use of resources for infrastructure reduced the increase reported in the unrestricted portion of net position.

The following table presents five years of comparative operating results for each of the City's utility enterprise funds:

	Operating Results – Fiscal Year Ended December 31,				
	2019	2020	2021	2022	2023
Utility enterprise funds					
Water					
Operating revenue	\$ 2,138,209	\$ 2,541,651	\$ 3,057,474	\$ 2,962,563	\$ 3,574,961
Operating expenses	1,481,163	1,657,356	1,772,358	1,895,776	2,062,314
Operating income	\$ 657,046	\$ 884,295	\$ 1,285,116	\$ 1,066,787	\$ 1,512,647
Operating income as a percentage of operating revenue	30.7 %	34.8 %	42.0 %	36.0 %	42.3 %
Sewer					
Operating revenue	\$ 1,672,072	\$ 1,714,469	\$ 1,805,614	\$ 1,876,957	\$ 1,994,465
Operating expenses	1,628,839	1,723,238	1,742,380	1,947,356	2,209,802
Operating income (loss)	\$ 43,233	\$ (8,769)	\$ 63,234	\$ (70,399)	\$ (215,337)
Operating income (loss) as a percentage of operating revenue	2.6 %	(0.5) %	3.5 %	(3.8) %	(10.8) %
Street Light					
Operating revenue	\$ 217,169	\$ 216,545	\$ 222,364	\$ 230,392	\$ 234,607
Operating expenses	171,619	169,463	178,576	172,765	173,924
Operating income	\$ 45,550	\$ 47,082	\$ 43,788	\$ 57,627	\$ 60,683
Operating income as a percentage of operating revenue	21.0 %	21.7 %	19.7 %	25.0 %	25.9 %
Recycling					
Operating revenue	\$ 319,940	\$ 319,664	\$ 440,097	\$ 452,107	\$ 456,106
Operating expenses	380,192	366,764	507,067	514,231	527,182
Operating income (loss)	\$ (60,252)	\$ (47,100)	\$ (66,970)	\$ (62,124)	\$ (71,076)
Operating income (loss) as a percentage of operating revenue	(18.8) %	(14.7) %	(15.2) %	(13.7) %	(15.6) %
Storm Water					
Operating revenue	\$ 1,168,494	\$ 1,164,868	\$ 1,197,572	\$ 1,230,582	\$ 1,252,659
Operating expenses	588,224	777,252	715,349	791,605	864,721
Operating income	\$ 580,270	\$ 387,616	\$ 482,223	\$ 438,977	\$ 387,938
Operating income as a percentage of operating revenue	49.7 %	33.3 %	40.3 %	35.7 %	31.0 %

As displayed in the table above, each of the individual enterprise funds was able to report positive operating results for the year ended December 31, 2023, with the exception of the Sewer Fund and the Recycling Fund.

Overall operating revenues totaled \$7,512,798 in 2023, compared to \$6,752,601 in the prior year. An increase in households and approved rate adjustments, along with more consumption contributed to the change over the prior year. Overall operating expenses totaled \$5,837,943 in 2023, compared to \$5,231,733 in the prior year. Spending was up in personal services, supplies, sewer utility disposal charges, and depreciation, with an increase in population and households serviced by the City's utility system.

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, 2023 and 2022, for governmental activities and business-type activities:

	As of December 31,		Change
	2023	2022	
Net position			
Governmental activities			
Net investment in capital assets	\$ 66,959,661	\$ 63,796,121	\$ 3,163,540
Restricted	18,598,778	20,624,484	(2,025,706)
Unrestricted	26,728,758	23,405,779	3,322,979
Total governmental activities	<u>112,287,197</u>	<u>107,826,384</u>	<u>4,460,813</u>
Business-type activities			
Net investment in capital assets	71,932,644	63,486,708	8,445,936
Unrestricted	44,232,074	43,879,636	352,438
Total business-type activities	<u>116,164,718</u>	<u>107,366,344</u>	<u>8,798,374</u>
Total net position	<u>\$ 228,451,915</u>	<u>\$ 215,192,728</u>	<u>\$ 13,259,187</u>

The City's total net position on December 31, 2023 was \$13,259,187 more than the previous year. Governmental activities increased \$4,460,813 and business-type activities increased \$8,798,374.

The increase in net position within governmental activities presents the overall operating results of the governmental funds, along with the continued development and investment in infrastructure within the City. The increase in business-type activities net position matches the enterprise funds activity previously discussed.

At the end of the current fiscal year, the City is able to present positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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	\$ 5,347,691	\$ 1,406,459	\$ (3,941,232)	\$ (2,951,044)
Public safety	8,717,911	3,050,054	(5,667,857)	(6,347,603)
Highways and streets	8,670,486	4,188,975	(4,481,511)	2,407,017
Culture and recreation	2,194,755	923,779	(1,270,976)	(1,047,305)
Economic development	1,705,446	–	(1,705,446)	(1,096,422)
Interest and fiscal charges	1,258,959	–	(1,258,959)	(564,462)
Business-type activities				
Water utility	2,062,314	5,505,480	3,443,166	3,126,831
Sewer utility	2,209,802	3,206,979	997,177	1,458,559
Street light utility	173,924	234,607	60,683	57,627
Recycling utility	527,182	516,815	(10,367)	(7,563)
Storm water utility	864,721	2,099,058	1,234,337	1,692,807
Total net (expense) revenue	<u>\$ 33,733,191</u>	<u>\$ 21,132,206</u>	(12,600,985)	(3,271,558)
General revenues				
Property taxes			20,126,982	17,637,477
Franchise fees			–	4,859
General grants and contributions			3,223	3,644
Investment earnings (charges)			5,709,967	(5,221,440)
Gain on sale of capital assets			20,000	22,500
Total general revenues			<u>25,860,172</u>	<u>12,447,040</u>
Change in net position			<u>\$ 13,259,187</u>	<u>\$ 9,175,482</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 taxes, unrestricted grants, and unrestricted investment earnings. In contrast, the City's business-type activities tend to rely more heavily on program revenues like charges for services (sales) and program-specific grants to cover expenses. This is critical given the current downward pressures on the general revenue sources.

The change in net (expense) revenue presented in the table above, when compared to the prior year, is primarily due to the amount of developer contributions and capital grants recognized from year-to-year. These contributions fluctuate with the size and number of completed development projects. Positive adjustments on investments in the current year increased investment earnings compared to prior year, as seen in the above table.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

GASB STATEMENT NO. 100, *ACCOUNTING CHANGES AND ERROR CORRECTIONS – AN AMENDMENT OF GASB STATEMENT NO. 62*

The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used, but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used, but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 102, *CERTAIN RISK DISCLOSURES*

The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities, due to certain concentrations or constraints.

This statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

A government will be required to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, a government must assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information (as outlined in the standard) in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact.

The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.