

Management Report
for
City of Ramsey, Minnesota
December 31, 2025



Certified Public Accountants Business Consultants

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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, 2025. We have organized this report into the following sections:

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

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "LB Carlson, LLP".

LB CARLSON, LLP
Minneapolis, Minnesota

June 1, 2026

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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, 2025. 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, 2025:

- 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 proper reporting of city assets and that financial activity between funds is accurately presented.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Internal Controls Over Vendors

A relatively common method of attempting to defraud local governments involves inducing them to pay claims from fictitious vendors for goods or services that were never provided. Strong safeguards over adding new vendors or making changes to existing vendors within the government's accounts payable system is an important control to mitigate this risk. Some considerations in this area include:

- Limiting the number of employees with access to add or alter vendor records within the accounts payable system,
- Requiring vendor additions or changes to be reviewed and approved by supervisory personnel, preferably one not directly involved in processing accounts payable,
- Verifying the legitimacy of vendors by obtaining a W-9 or other means,
- Verifying any changes to vendor address or banking information prior to processing payments, and
- Periodically reviewing the vendor listing to remove inactive vendors from the system.

Uniform Guidance Revisions

Although the City did not earn enough federal funding to require a Single Audit of its expenditures of federal awards this year, if the City receives any federal funding it is obligated to maintain a comprehensive system of internal controls over federal grant compliance that is up to date with current requirements. The U.S. Office of Management and Budget issued a revision to Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in 2024, aiming to streamline grant management and reduce grantor agency and recipient burden. The revised guidance is effective for new federal grant entitlements awarded on or after October 1, 2024.

The revision includes a number of significant changes to the federal Single Audit process, including: an increase in dollar threshold for requiring a Single Audit from \$750,000 to \$1,000,000; changes to the thresholds and process used for determining major programs; an increase in the threshold for the disposition of equipment and remitting unused supplies from \$5,000 to \$10,000; and an increase in the federal de minimis indirect cost rate from 10 percent to 15 percent. Key changes to written policy requirements for recipients include: enhancement of cybersecurity controls, inclusion of veteran-owned businesses to the group of entities for procurement preference, and a broadened scope for reporting of mandatory disclosures. We recommend the City review its internal control policies to ensure compliance with current guidance.

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 be used over the course of employment or ultimately 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 1, 2026.

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

We were engaged to report on the combining and individual fund statements and schedules, reported as supplementary information, as described in the table of contents, which accompany the financial statements, but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City’s governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City’s financial statements focuses on budgetary compliance and the sufficiency of each governmental fund’s current assets to finance its current liabilities.

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, 2025, presented both by fund balance classification and by major fund:

Governmental Fund Changes in Fund Balance			
	Fund Balance as of December 31,		Change
	2025	2024	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 29,459	\$ 14,056	\$ 15,403
Restricted	11,000,150	14,953,404	(3,953,254)
Committed	1,891,396	1,514,777	376,619
Assigned	30,327,916	29,749,235	578,681
Unassigned	<u>14,436,283</u>	<u>13,311,361</u>	<u>1,124,922</u>
Total governmental funds	<u>\$ 57,685,204</u>	<u>\$ 59,542,833</u>	<u>\$ (1,857,629)</u>
Total by fund			
Major funds			
General	\$ 14,462,749	\$ 13,324,373	\$ 1,138,376
Special revenue funds			
Tax Increment	2,780,887	3,362,513	(581,626)
COR Land	6,965,191	8,597,266	(1,632,075)
Capital project funds			
RALF Funded Projects	273,915	400,837	(126,922)
State-Aid Construction	434,487	466,915	(32,428)
Pavement Management Program	8,813,381	11,918,186	(3,104,805)
Park Improvement	11,066,067	9,087,595	1,978,472
Nonmajor funds	<u>12,888,527</u>	<u>12,385,148</u>	<u>503,379</u>
Total governmental funds	<u>\$ 57,685,204</u>	<u>\$ 59,542,833</u>	<u>\$ (1,857,629)</u>

In total, the fund balances of the City’s governmental funds decreased by \$1,857,629 during the year ended December 31, 2025. The decrease was largely due to the capital spending for the pavement management program.

GOVERNMENTAL FUNDS REVENUE

The following table presents the City's governmental funds revenue by source for the last two fiscal years.

Governmental Funds Revenue by Source						
	2025		2024		Year-to-Year Change	
	Revenue	Percent of Total	Revenue	Percent of Total	Dollar Change	Percent Change
Property taxes	\$ 23,677,388	69.5 %	\$ 23,350,614	64.2 %	\$ 326,774	1.4 %
Special assessments	81,689	0.2	105,484	0.3	(23,795)	(22.6) %
Licenses and permits	1,446,884	4.2	1,610,437	4.4	(163,553)	(10.2) %
Intergovernmental	3,664,694	10.8	3,455,486	9.5	209,208	6.1 %
Charges for services	1,481,591	4.4	1,508,990	4.1	(27,399)	(1.8) %
Other	3,701,590	10.9	6,364,012	17.5	(2,662,422)	(41.8) %
Total revenue	<u>\$ 34,053,836</u>	<u>100.0 %</u>	<u>\$ 36,395,023</u>	<u>100.0 %</u>	<u>\$ (2,341,187)</u>	<u>(6.4) %</u>

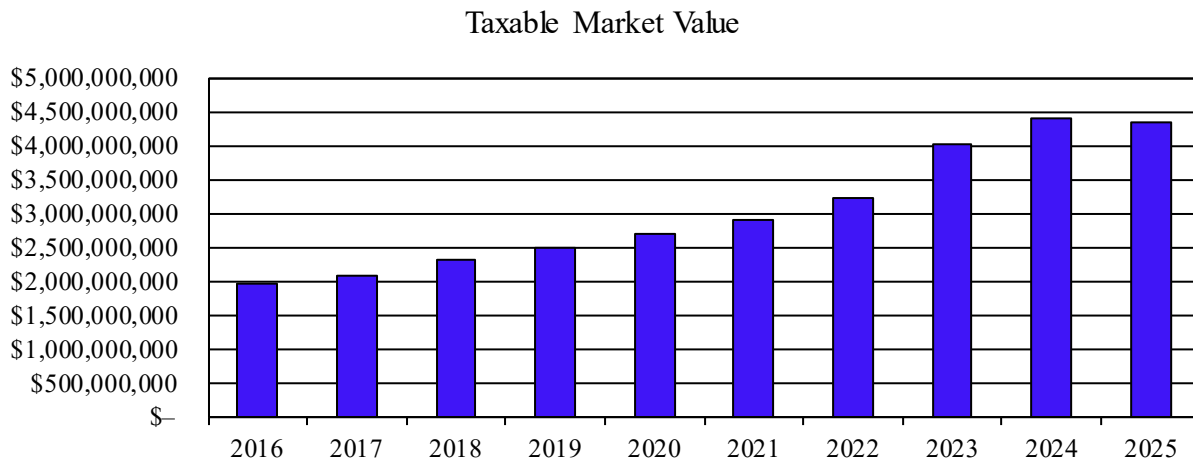
The City's governmental fund revenues for 2025 were \$34,053,836, a decrease of \$2,341,187 (6.4 percent) from the prior year.

The decrease was mainly due to a decrease in other revenues of \$2,662,422 from the prior year. Other revenues decreased due to fewer developer fees and park dedication fees.

PROPERTY TAXES

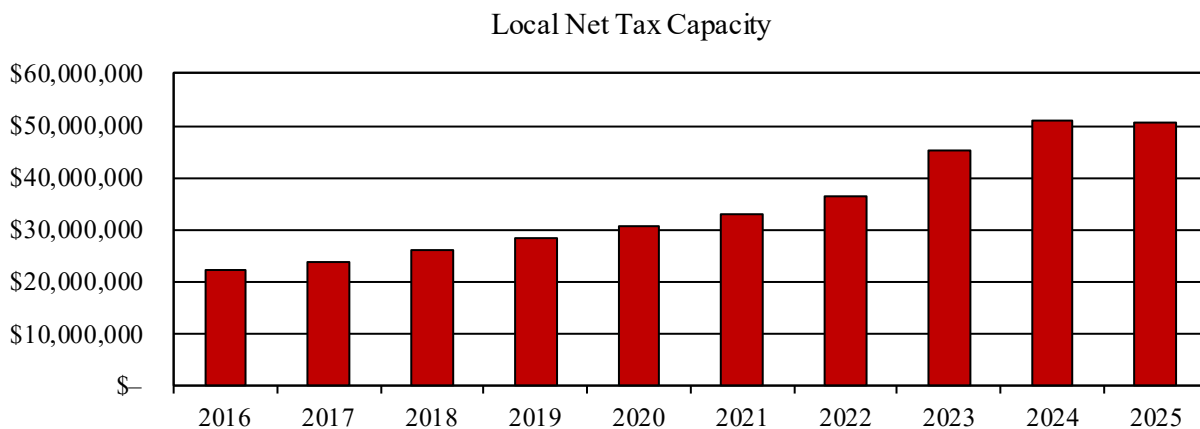
Minnesota cities rely heavily on local property taxes to support governmental fund activities. In the 2025 fiscal year, property taxes provided 69.5 percent of the City's total governmental funds revenue.

The City's taxable market value increased 9.1 percent for taxes payable in 2024 and decreased 0.9 percent for taxes payable in 2025. The following graph shows the City's changes in taxable market value over the past 10 years:

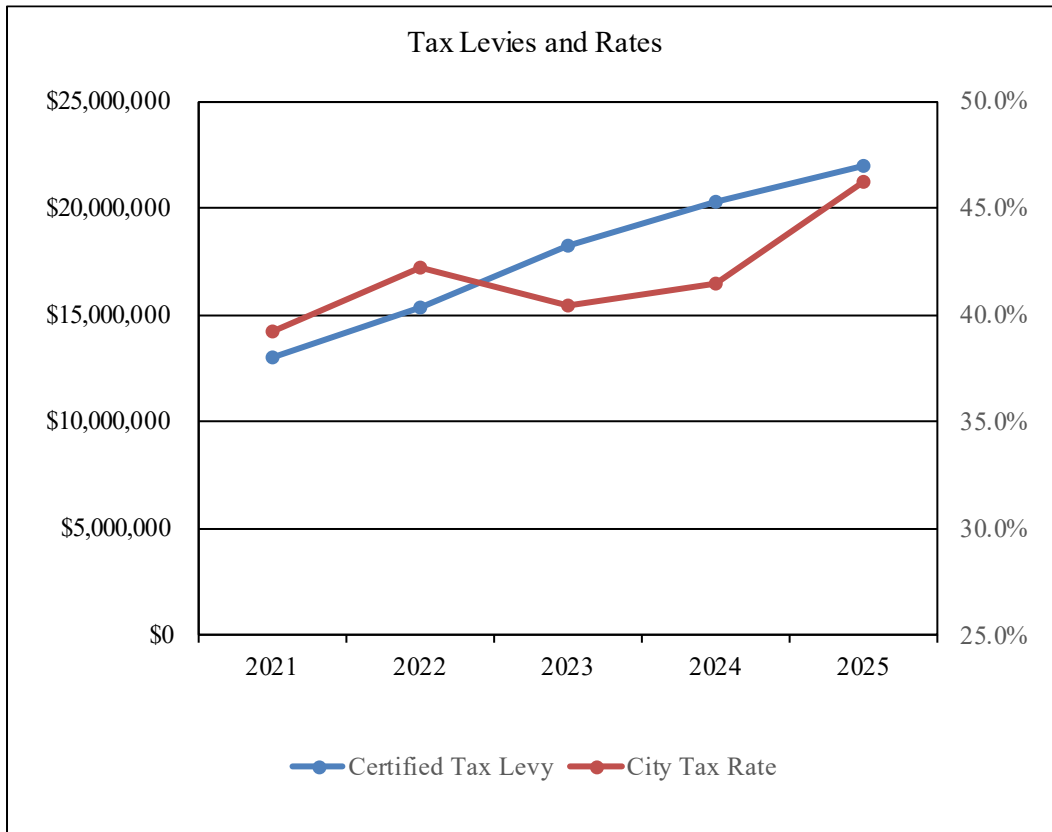


Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, 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 12.8 percent and decreased 1.0 percent for taxes payable in 2024 and 2025, respectively.

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



The following graph presents the City's certified tax levy and resulting tax rates applied to city residents for each of the last five levy years:



The City's certified levy has continued to grow over the last five years, while the tax rate has also changed due to the shift of the tax base.

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 following table presents the City's governmental funds expenditures by type for the last two fiscal years:

Governmental Funds Expenditures by Type						
	2025		2024		Year-to-Year Change	
	Expenditures	Percent of Total	Expenditures	Percent of Total	Dollar Change	Percent Change
Current						
General government	\$ 5,479,491	15.2 %	\$ 4,881,806	11.9 %	\$ 597,685	12.2 %
Public safety	8,865,263	24.6	8,160,476	19.9	704,787	8.6 %
Streets and highways	4,787,571	13.3	4,054,306	9.9	733,265	18.1 %
Culture and recreation	2,044,948	5.7	1,883,848	4.6	161,100	8.6 %
All other	1,342,690	3.7	1,488,674	3.6	(145,984)	(9.8) %
Total current	<u>22,519,963</u>	<u>62.5</u>	<u>20,469,110</u>	<u>49.9</u>	<u>2,050,853</u>	<u>10.0 %</u>
Capital outlay	9,174,063	25.5	15,862,434	38.8	(6,688,371)	(42.2) %
Debt service	4,307,526	12.0	4,625,140	11.3	(317,614)	(6.9) %
Total expenditures	<u>\$ 36,001,552</u>	<u>100.0 %</u>	<u>\$ 40,956,684</u>	<u>100.0 %</u>	<u>\$ (4,955,132)</u>	<u>(12.1) %</u>

Total expenditures in the City's governmental funds for 2025 were \$36,001,552, a decrease of \$4,955,132 (12.1 percent) from the prior year.

Natural inflationary increases in most current spending areas were more than offset by the reduction in capital outlay spending in comparison to the prior year. Capital spending was down in the current year for street reconstruction projects, equipment purchases, and improvements completed in the City's Center of Ramsey (COR) development.

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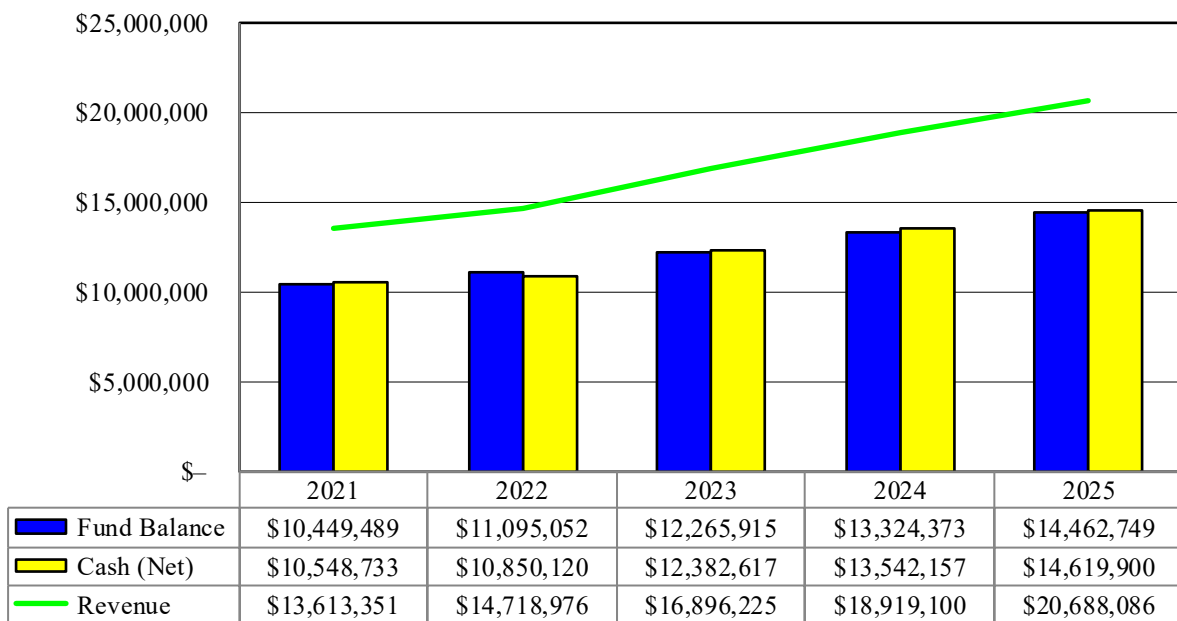
GENERAL FUND OVERVIEW

This section of the report focuses specifically on the financial trends and activities of the General Fund, which accounts for the financial activity of the basic services provided to the community. The primary services included within this fund include the administration of municipal operations, police and fire protection, permitting and building inspection, streets and highway maintenance, culture and recreation, and economic development.

GENERAL FUND FINANCIAL POSITION

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,

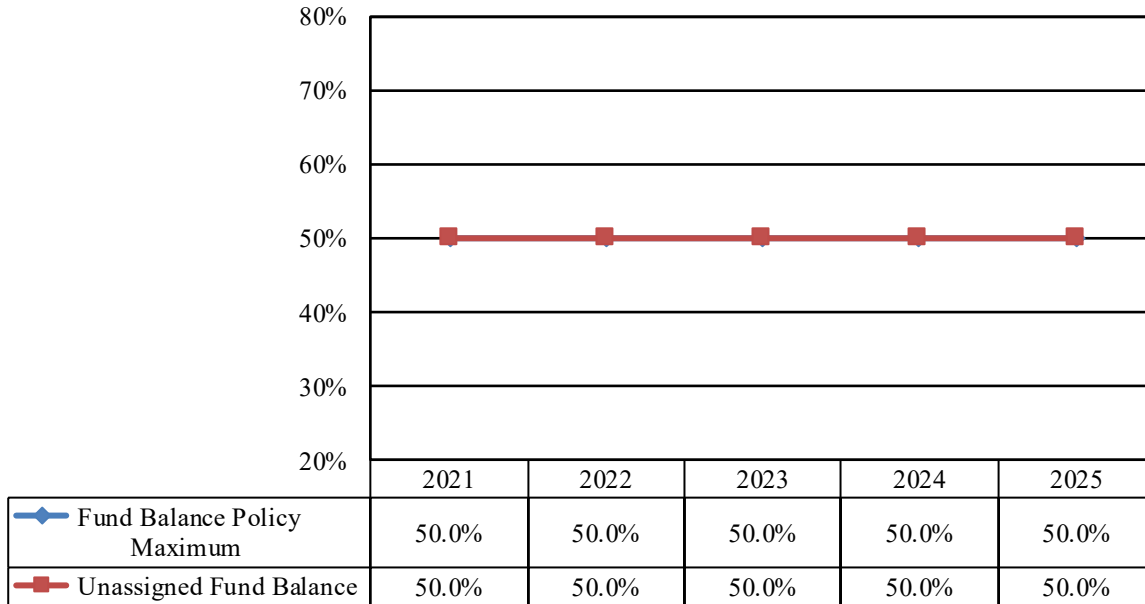


The City’s General Fund cash and investments balance on December 31, 2025, was \$14,619,900, an increase of \$1,077,743 from the previous year. Total fund balance at year-end was \$14,462,749, an increase of \$1,138,376 from the prior year.

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.

The City has adopted a fund balance policy that calls for maintaining an unassigned amount equal to 50.0 percent of the following years adopted operating budget plus prior year encumbrances (if any). The following graph presents this ratio for the last five years compared to this policy:

Fund Balance as a Percentage of Expenditures
Year Ended December 31,



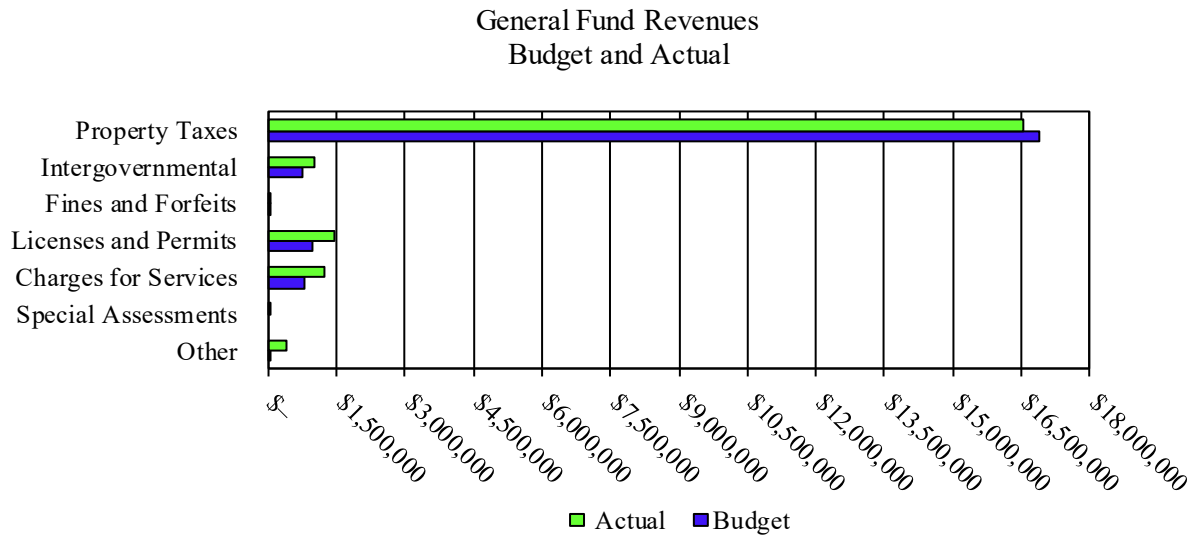
As the graph illustrates, the City has met the year-end fund balance policy goal as of December 31, 2025.

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 spread relatively evenly throughout the year, other than the impact of seasonal services such as snowplowing, street maintenance, and recreation activities. Cash receipts of the General Fund are quite a different story. Property taxes comprise about 79.9 percent of the fund’s total annual revenue. Approximately half of the City’s annual property tax levy is collected and remitted to the City by the end of June and the rest by December. Consequently, cities depend on the resources this fund balance represents to provide adequate cash reserves to finance their everyday operations between these collections.

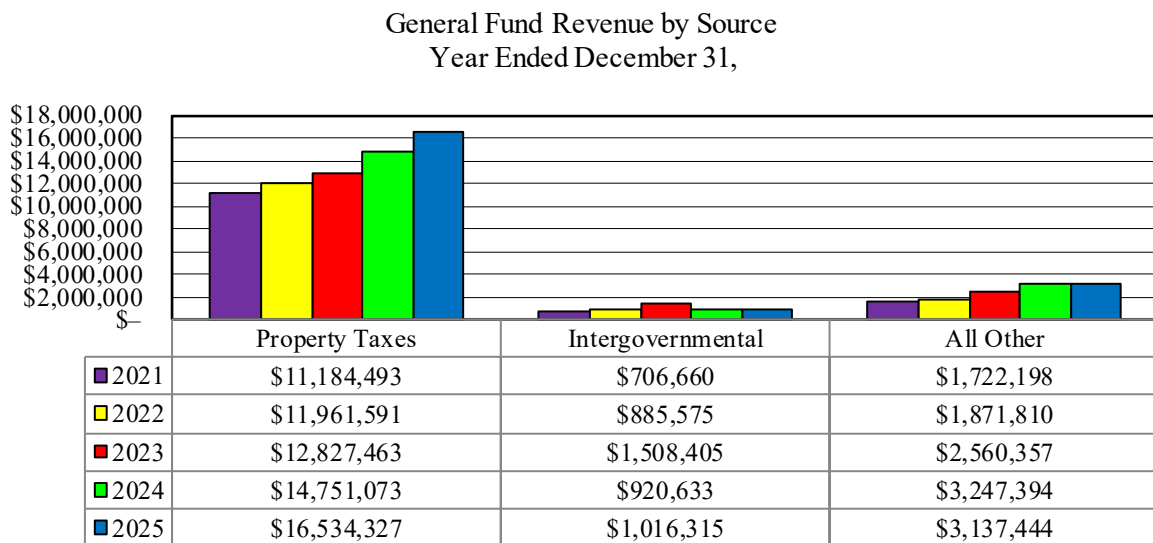
GENERAL FUND REVENUES

The following graph reflects the City’s General Fund revenue sources for 2025 compared to budget:



General Fund revenue for 2025 was \$20,688,086, which was \$1,197,870 (6.1 percent) more than budget. The budget variance for revenue was largely due to conservative budgeting with most sources surpassing budget expectations. Conservative budgeting for investment earnings and elevated development activity in the current year all contributed to revenues exceeding budget.

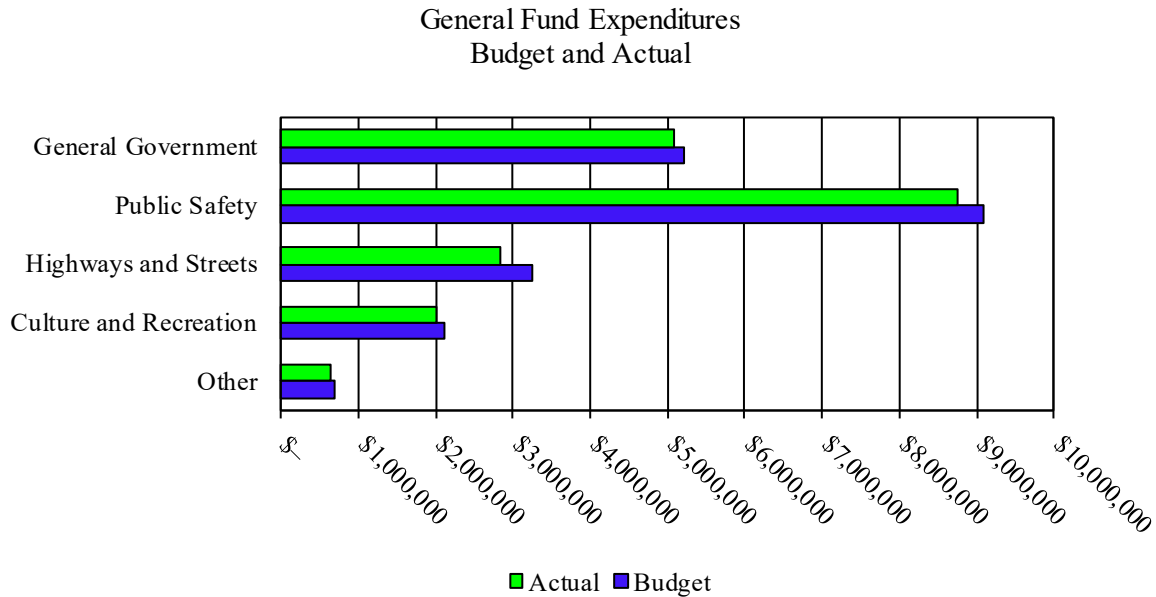
The following graph presents the City’s General Fund revenues by source for the last five years. The graph reflects the City’s reliance on property taxes, which represented 79.9 percent of General Fund revenues in 2025:



Total General Fund revenue for 2025 was \$1,768,986 (9.4 percent) more than last year. The increase in taxes was as anticipated and approved through the annual levy process. Intergovernmental increased slightly and nearly offset the decrease in all other sources.

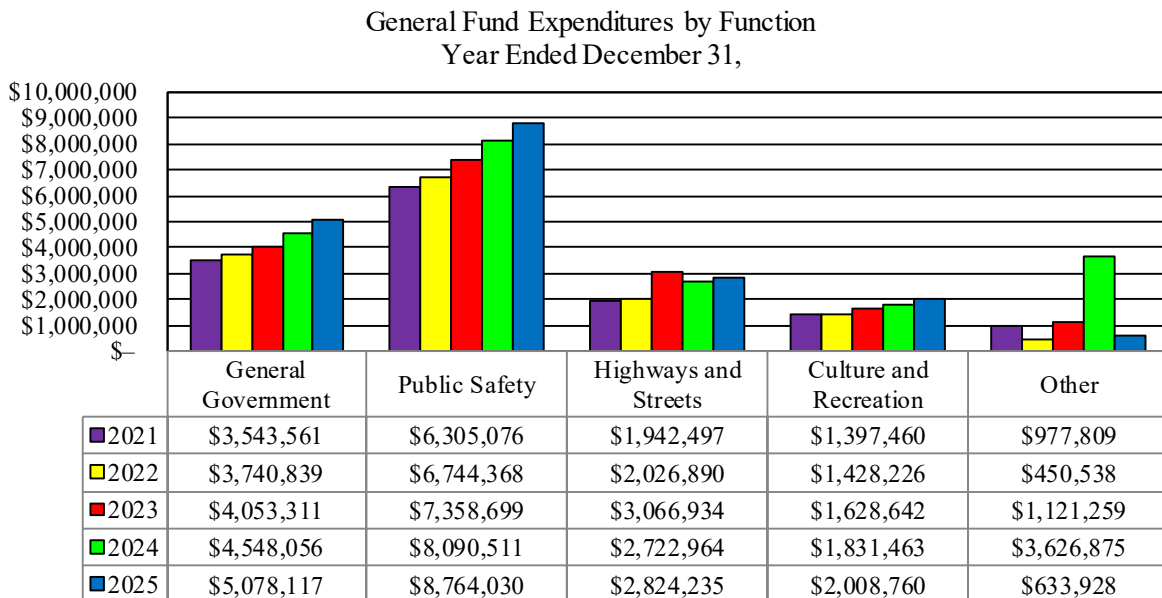
GENERAL FUND EXPENDITURES

The following graph illustrates the components of General Fund spending for 2025 compared to budget:



General Fund expenditures totaled \$19,309,070 in 2025 and were \$1,064,540 (or 5.2 percent) under the final budget. Spending was under budget for all General Fund expenditure categories presented above. Open positions and conservative budgeting largely accounted for these variances. Expenditure budgets are based on past history and expected needs.

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



Total General Fund expenditures for 2025 were \$1,510,799 (7.3 percent) less than the previous year. Natural inflationary increases and the continued growth in development in the City contributed to the overall changes in current expenditures. Other expenditures were down by \$2,992,947, due to the timing of capital spending, which was down 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, 2025, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	<u>2025</u>	<u>2024</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 112,202,886	\$ 95,749,335	\$ 16,453,551
Unrestricted	<u>26,375,618</u>	<u>32,212,510</u>	<u>(5,836,892)</u>
Total enterprise funds	<u><u>\$ 138,578,504</u></u>	<u><u>\$ 127,961,845</u></u>	<u><u>\$ 10,616,659</u></u>
Total by fund			
Water Utility	\$ 81,596,261	\$ 76,068,276	\$ 5,527,985
Sewer Utility	30,521,998	27,859,546	2,662,452
Street Light Utility	2,122,277	2,038,066	84,211
Recycling Utility	400,037	416,994	(16,957)
Storm Water Utility	<u>23,937,931</u>	<u>21,578,963</u>	<u>2,358,968</u>
Total enterprise funds	<u><u>\$ 138,578,504</u></u>	<u><u>\$ 127,961,845</u></u>	<u><u>\$ 10,616,659</u></u>

In total, the net position of the City’s enterprise funds increased by \$10,616,659 during the year ended December 31, 2025. Additional capital grants, developer contributions, and connection fees, all 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 unrestricted resources for infrastructure improvements in the current year, along with contributions from developers, which was partially offset by current year depreciation.

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,				
	2021	2022	2023	2024	2025
Utility enterprise funds					
Water					
Operating revenue	\$ 3,057,474	\$ 2,962,563	\$ 3,574,961	\$ 3,168,402	\$ 3,610,668
Operating expenses	1,772,358	1,895,776	2,062,314	2,243,736	2,360,896
Operating income	\$ 1,285,116	\$ 1,066,787	\$ 1,512,647	\$ 924,666	\$ 1,249,772
Operating income as a percentage of operating revenue	42.0 %	36.0 %	42.3 %	29.2 %	34.6 %
Sewer					
Operating revenue	\$ 1,805,614	\$ 1,876,957	\$ 1,994,465	\$ 2,425,906	\$ 2,560,621
Operating expenses	1,742,380	1,947,356	2,209,802	2,411,209	2,470,049
Operating income (loss)	\$ 63,234	\$ (70,399)	\$ (215,337)	\$ 14,697	\$ 90,572
Operating income (loss) as a percentage of operating revenue	3.5 %	(3.8) %	(10.8) %	0.6 %	3.5 %
Street Light					
Operating revenue	\$ 222,364	\$ 230,392	\$ 234,607	\$ 242,950	\$ 257,712
Operating expenses	178,576	172,765	173,924	167,123	216,126
Operating income	\$ 43,788	\$ 57,627	\$ 60,683	\$ 75,827	\$ 41,586
Operating income as a percentage of operating revenue	19.7 %	25.0 %	25.9 %	31.2 %	16.1 %
Recycling					
Operating revenue	\$ 440,097	\$ 452,107	\$ 456,106	\$ 468,514	\$ 483,595
Operating expenses	507,067	514,231	527,182	549,993	580,435
Operating income (loss)	\$ (66,970)	\$ (62,124)	\$ (71,076)	\$ (81,479)	\$ (96,840)
Operating income (loss) as a percentage of operating revenue	(15.2) %	(13.7) %	(15.6) %	(17.4) %	(20.0) %
Storm Water					
Operating revenue	\$ 1,197,572	\$ 1,230,582	\$ 1,252,659	\$ 1,350,416	\$ 1,589,573
Operating expenses	715,349	791,605	864,721	1,022,935	1,149,661
Operating income	\$ 482,223	\$ 438,977	\$ 387,938	\$ 327,481	\$ 439,912
Operating income as a percentage of operating revenue	40.3 %	35.7 %	31.0 %	24.3 %	27.7 %

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, 2025, except for the Recycling Fund. However, nonoperating grants and investment earnings offset most of the operating loss.

Overall operating revenues totaled \$8,502,169 in 2025, compared to \$7,656,188 in the prior year. Increases in households and utility rates, along with more consumption, contributed to the change over the prior year. Overall operating expenses totaled \$6,777,167 in 2025, compared to \$6,394,996 in the prior year. Spending was up for 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, 2025, and 2024, for governmental activities and business-type activities (utility operations):

	As of December 31,		Change
	2025	2024	
Net position			
Governmental activities			
Net investment in capital assets	\$ 82,689,945	\$ 72,783,568	\$ 9,906,377
Restricted	11,974,763	14,022,396	(2,047,633)
Unrestricted	38,618,625	36,934,626	1,683,999
Total governmental activities	<u>133,283,333</u>	<u>123,740,590</u>	9,542,743
Business-type activities			
Net investment in capital assets	112,202,886	95,749,335	16,453,551
Unrestricted	26,375,618	32,212,510	(5,836,892)
Total business-type activities	<u>138,578,504</u>	<u>127,961,845</u>	10,616,659
Total net position	<u>\$ 271,861,837</u>	<u>\$ 251,702,435</u>	<u>\$ 20,159,402</u>

The City’s total net position on December 31, 2025, was \$20,159,402 more than the previous year. Governmental activities increased \$9,542,743 and business-type activities increased \$10,616,659.

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, 2025, and 2024:

	2025		2024	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 6,126,045	\$ 1,872,360	\$ (4,253,685)	\$ (3,230,831)
Public safety	9,597,991	2,418,367	(7,179,624)	(6,455,186)
Highways and streets	9,194,282	8,687,382	(506,900)	(247,673)
Culture and recreation	2,682,150	628,392	(2,053,758)	(781,208)
Economic development	1,342,690	–	(1,342,690)	(1,488,674)
Interest and fiscal charges	1,134,749	–	(1,134,749)	(1,317,942)
Business-type activities				
Water utility	2,360,896	6,386,655	4,025,759	6,765,366
Sewer utility	2,539,590	4,662,217	2,122,627	911,013
Street light utility	216,126	257,712	41,586	75,827
Recycling utility	580,435	553,985	(26,450)	(10,589)
Storm water utility	1,198,990	3,444,019	2,245,029	1,420,317
Total net (expense) revenue	<u>\$ 36,973,944</u>	<u>\$ 28,911,089</u>	(8,062,855)	(4,359,580)
General revenues				
Property taxes			23,699,395	23,041,341
General grants and contributions			135,308	3,760
Investment earnings			4,327,879	4,470,909
Gain on sale of capital assets			59,675	94,090
Total general revenues			<u>28,222,257</u>	<u>27,610,100</u>
Change in net position			<u>\$ 20,159,402</u>	<u>\$ 23,250,520</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes, general grants and contributions, investment earnings, and gain on sale of capital assets. 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.

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. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. In addition, this statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This statement defines unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence, and requires governments to display the inflows and outflows related to each unusual or infrequent item separately.

This statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in the notes to RSI.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 104, *DISCLOSURE OF CERTAIN CAPITAL ASSETS*

The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

This statement also requires additional disclosures for capital assets held for sale. A capital asset is considered held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. Capital assets held for sale are required to be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 105, *SUBSEQUENT EVENTS*

The objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This statement also requires the date through which subsequent events have been evaluated to be disclosed.

This statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.