

Management Report
for
City of Victoria, Minnesota
December 31, 2023

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PRINCIPALS

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To the City Council and Management
City of Victoria, Minnesota

We have prepared this management report in conjunction with our audit of the City of Victoria, Minnesota's (the City) financial statements for the year ended December 31, 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
May 6, 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 considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

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:

- **Pension Benefits** – The City has recorded liabilities and activity for pension benefits. Actuarial estimates of these obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board Statement No. 68. The actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.
- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Value of Assets Held for Resale** – These assets are stated at the lower of cost or acquisition value based on management's estimates.
- **Compensated Absences** – Management's estimate is based on current rates of pay, unused compensated absence balances, and the likelihood that these balances will ultimately be paid out at termination.

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

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

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. 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 May 6, 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 pension-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, 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 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.

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GOVERNMENTAL FUNDS OVERVIEW

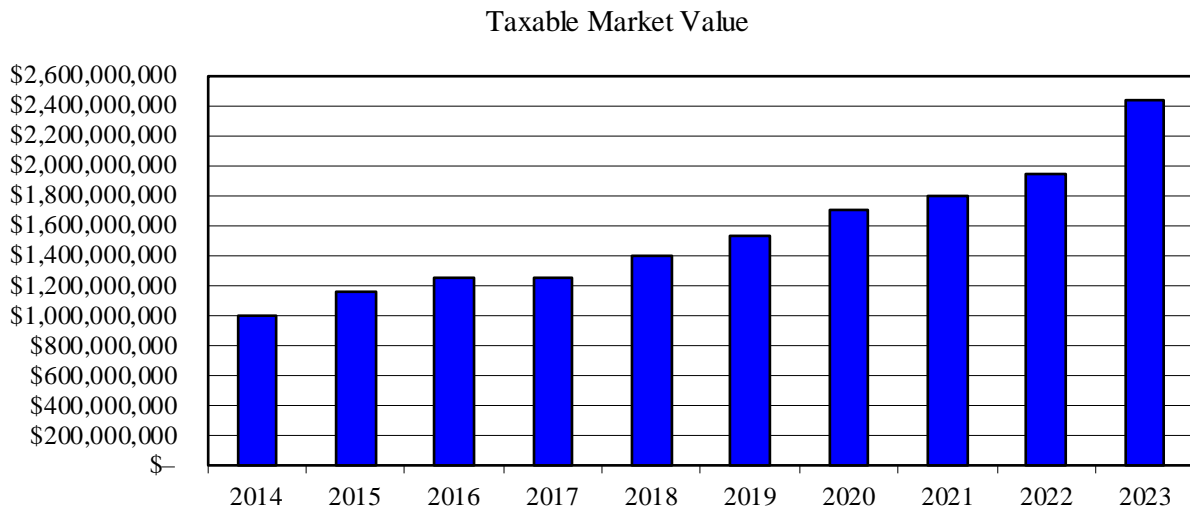
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its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

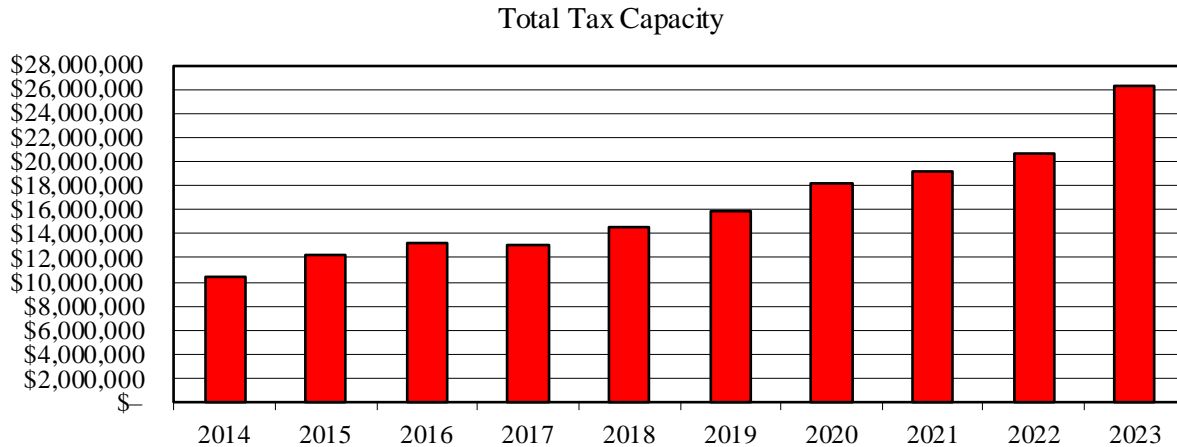
The taxable net tax capacity value of property in Minnesota cities increased about 17.7 percent for the 2023 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2023 were 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 8.0 percent for taxes payable in 2022 and 25.3 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 8.1 percent and 27.4 percent for taxes payable in 2022 and 2023, respectively.

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



The following table presents the average tax rates applied to city residents for each of the last three levy years:

Rates Expressed as a Percentage of Net Tax Capacity			
	City of Victoria		
	2021	2022	2023
Average tax rate			
City	32.2	31.2	27.4
County	34.6	34.2	29.3
School (ISD No. 112)	32.3	31.2	27.7
Special taxing entities	2.5	2.4	2.0
Total	101.6	99.0	86.4

The average tax rate was less than the prior year with decreases spread across each of the taxing authorities presented in the above table. Increases in property valuations also 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 Funds Change 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	\$ 597,603	\$ 1,391,390	\$ (793,787)
Restricted	3,374,150	3,661,522	(287,372)
Committed	4,363,981	3,944,966	419,015
Assigned	6,240,791	6,013,257	227,534
Unassigned	<u>1,513,322</u>	<u>1,246,808</u>	<u>266,514</u>
Total governmental funds	<u>\$ 16,089,847</u>	<u>\$ 16,257,943</u>	<u>\$ (168,096)</u>
Total by fund			
General	\$ 4,394,610	\$ 3,461,146	\$ 933,464
Victoria Recreation Center	914,740	1,081,167	(166,427)
Debt Service	2,337,091	2,595,017	(257,926)
Permanent Improvement Revolving	1,772,723	2,341,511	(568,788)
Nonmajor	<u>6,670,683</u>	<u>6,779,102</u>	<u>(108,419)</u>
Total governmental funds	<u>\$ 16,089,847</u>	<u>\$ 16,257,943</u>	<u>\$ (168,096)</u>

In total, the fund balances of the City's governmental funds decreased by \$168,096 during the year ended December 31, 2023. The decrease was mainly in nonspendable fund balance, due to amounts prepaid for fire equipment in the prior year. This was offset by an increase in committed and unassigned fund balance in the General Fund.

GOVERNMENTAL FUNDS REVENUE

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

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

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

Governmental Funds Revenue per Capita						
With State-Wide Averages by Population Class						
Year	State-Wide			City of Victoria		
	December 31, 2021			2021	2022	2023
Population	2,500–10,000	10,000–20,000	20,000–100,000	10,900	11,384	11,782
Property taxes	\$ 560	\$ 529	\$ 557	\$ 579	\$ 582	\$ 626
Tax increments	38	36	49	20	30	27
Franchise and other taxes	52	66	53	38	35	34
Special assessments	59	41	56	30	26	20
Licenses and permits	45	46	53	57	59	80
Intergovernmental revenues	421	293	202	21	85	98
Charges for services	135	111	110	134	121	176
Other	60	39	26	52	169	89
Total revenue	\$ 1,370	\$ 1,161	\$ 1,106	\$ 931	\$ 1,107	\$ 1,150

The City's governmental fund revenues for 2023 were \$13,551,504, an increase of \$953,952 (7.6 percent) from the prior year. The City's per capita governmental funds revenue for 2023 was \$1,150, an increase of \$43 from the prior year, including the effect of a change in estimated population. The largest variances occurred in charges for services and property taxes. Charges for services increased \$55 per capita, due to park dedication fees received in the current year. Property taxes increased \$44 per capita, due to the increase in the levied amount approved by the City Council. These increases were offset by a decrease in other revenues of \$80 per capita, due to reimbursements from the county and developers to fund a street project in the prior year.

GOVERNMENTAL FUND EXPENDITURES

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

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

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

Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class							
Year	State-Wide			City of Victoria			
	December 31, 2021			2021	2022	2023	
Population	2,500–10,000	10,000–20,000	20,000–100,000	10,900	11,384	11,782	
Current							
General government	\$ 168	\$ 131	\$ 116	\$ 147	\$ 183	\$ 192	
Public safety	327	296	327	129	137	155	
Streets and highways	144	124	112	77	83	80	
Culture and recreation	108	124	107	109	115	117	
All other	101	79	77	–	4	–	
Total current	848	754	739	462	522	544	
Capital outlay and construction							
	525	407	317	162	447	482	
Debt service							
Principal	168	161	110	161	184	175	
Interest and fiscal charges	48	41	34	48	44	38	
Total debt service	216	202	144	209	228	213	
Total expenditures	\$ 1,589	\$ 1,363	\$ 1,200	\$ 833	\$ 1,197	\$ 1,239	

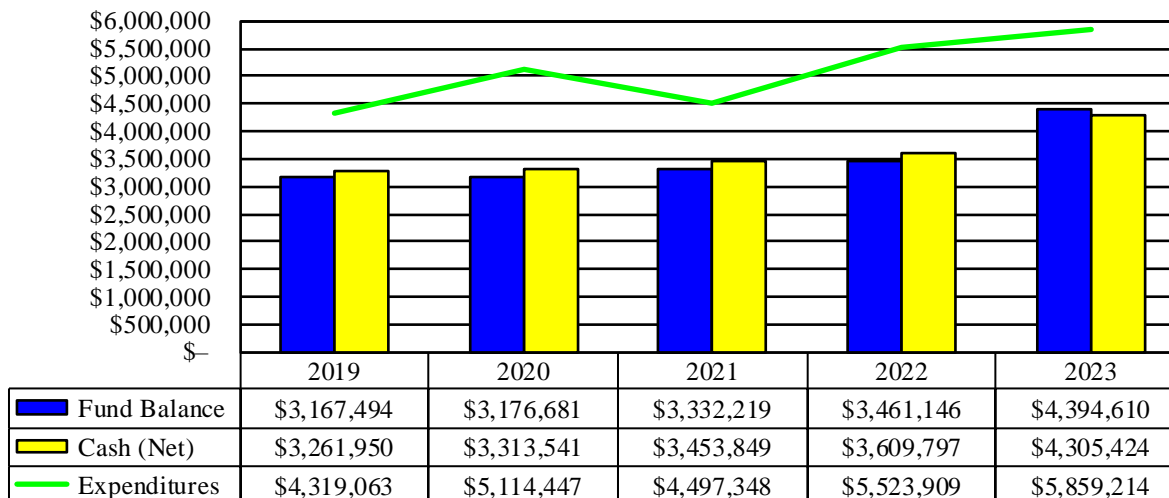
Total expenditures in the City's governmental funds for 2023 were \$14,590,142, an increase of \$969,301 (7.1 percent). The City's per capita governmental funds total expenditures increased \$42.

Larger street projects increased capital outlay and construction spending in the current year and prior year. The increase in current spending was due in part to public safety, with increased personal service costs and increased fire state aid, which is passed through to the relief association.

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

General Fund Financial Position
Year Ended December 31,



The City's General Fund cash and investment balance (net of borrowing) at December 31, 2023 was \$4,305,424, an increase of \$695,627 from the previous year. Total fund balance at December 31, 2023 was \$4,394,610, an increase of \$933,464 from the prior year.

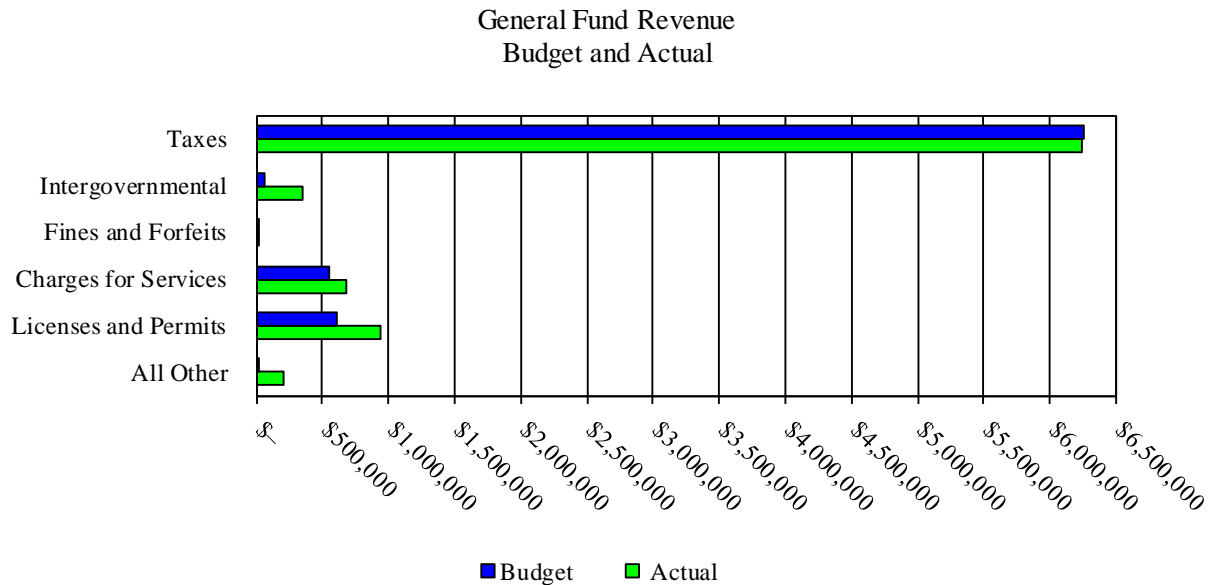
As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position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

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

Current city policy establishes the City shall maintain a minimum unassigned General Fund balance of 30.0 percent of the subsequent year's budgeted expenditures less transfers. At December 31, 2023, the unassigned fund balance for the General Fund was 31.0 percent of the subsequent year's budgeted expenditures less transfers. The City should review the level of fund balance on an ongoing basis to determine the optimal level for efficient operations.

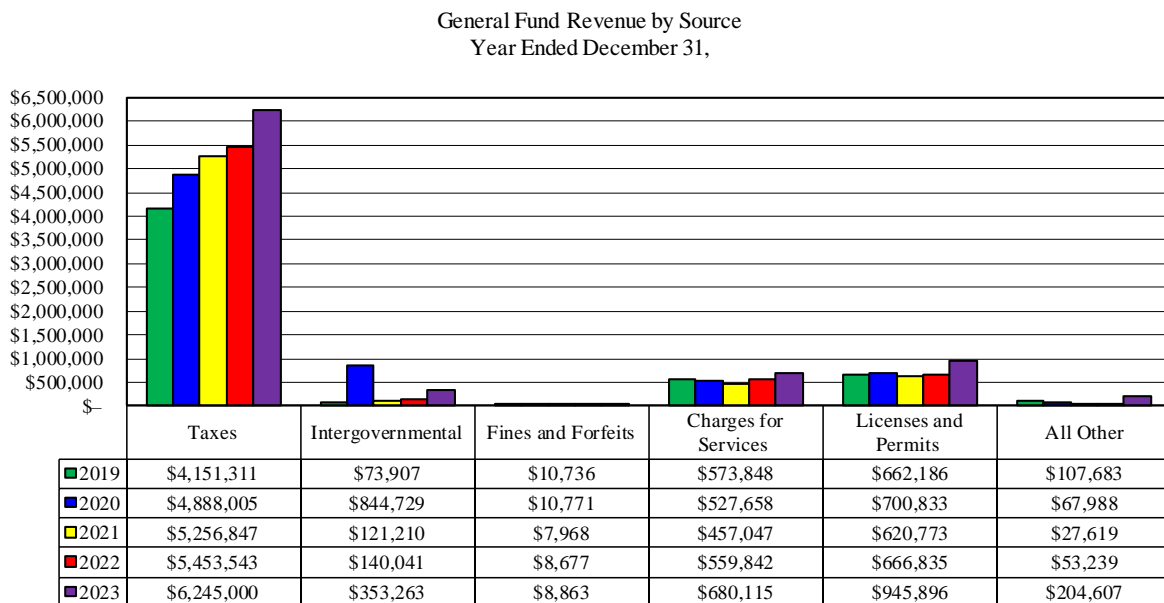
GENERAL FUND REVENUES

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



Total General Fund revenues for 2023 were \$8,437,744, an increase of \$1,555,567 from the previous year, and were \$931,507 (12.4 percent) over budget. The largest variances were in licenses and permits and intergovernmental revenues, which were over budget \$337,746 and \$294,632, respectively. Licenses and permits revenues were over budget, due to more than anticipated building activity. Intergovernmental revenues were over budget, due to more police aid and fire grants than anticipated in the budget.

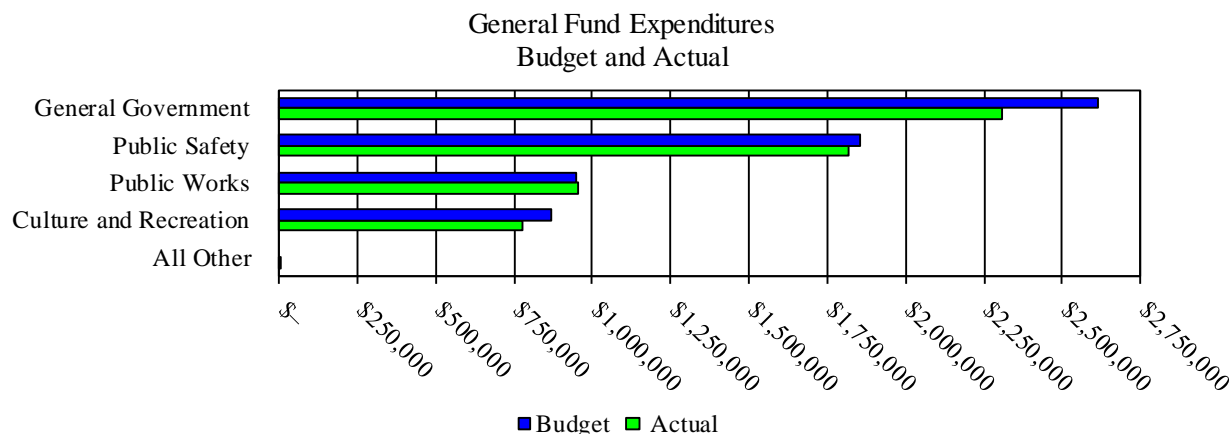
The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property and other taxes, which represented 74.0 percent of General Fund revenue in 2023.



The increase in General Fund revenues was mainly in taxes and licenses and permits. Tax revenues increased \$791,457, due to an increase in the property tax levy approved by the City Council for 2023. The increased licenses and permits of \$279,061, are a result of increased building activity.

GENERAL FUND EXPENDITURES

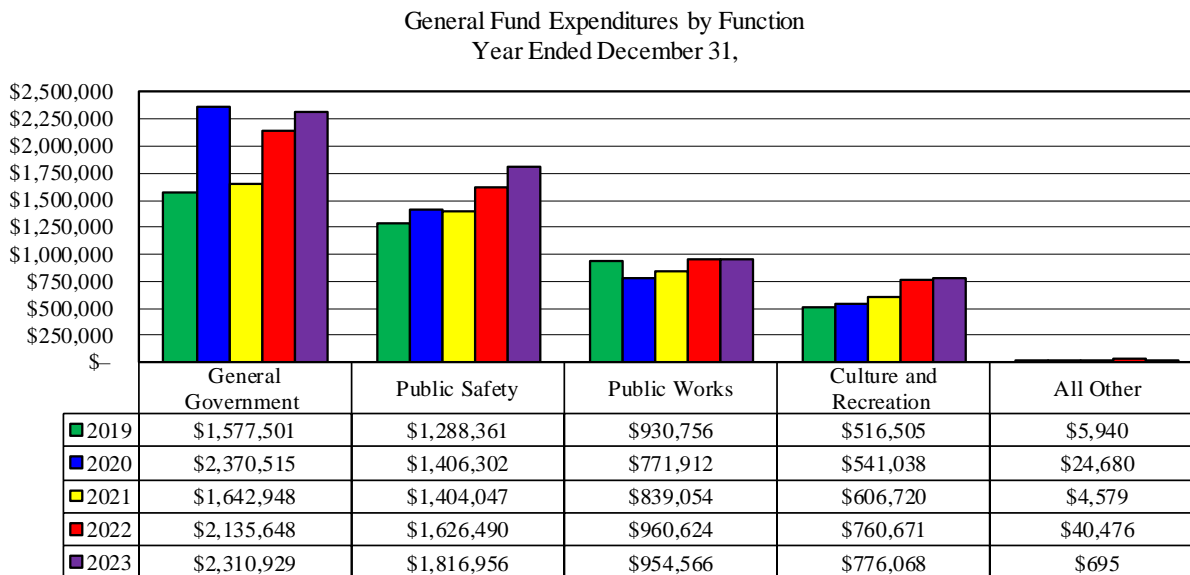
The following graph illustrates the components of General Fund spending for 2023 compared to budget:



General Fund expenditures for 2023 were \$5,859,214, an increase of \$335,305 from the previous year and were \$430,399 (6.8 percent) less than budget. General government expenditures were \$305,462 under budget, due to less than anticipated mayor and City Council, city administration, communications, financial administration, elections, professional services, information technology, and general government building expenditures. Culture and recreation expenditures were \$90,074 under budget, mainly in the parks and recreation department and in capital outlay. Public safety expenditures were \$38,927 under budget, mainly in the police and fire departments.

The City also transferred out \$695,066 more than budgeted to other funds for capital projects and equipment, in accordance with its fund balance policy.

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



The increase in General Fund expenditures was mainly in the public safety and general government functions. Public safety expenditures increased in personal service costs in the fire department, with positions added in the current year. Expenditures in the fire department also increased, due to fire state aid received, which is passed through to the relief association. The increase in general government expenditures is due to increased personal service costs in the city administration, communications, and planning and zoning departments, with positions added 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 Fund, Sewer Fund, and the Storm Water Management Fund.

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 government 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:

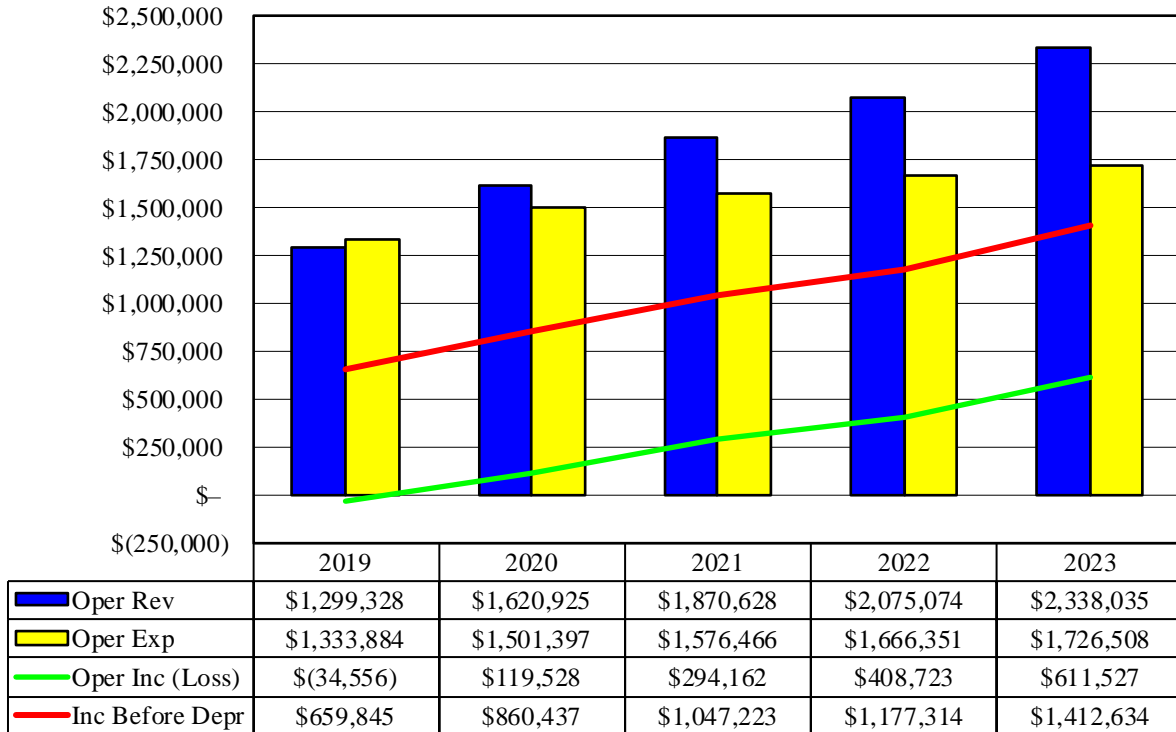
Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	<u>2023</u>	<u>2022</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 48,367,788	\$ 47,634,481	\$ 733,307
Unrestricted	<u>11,361,167</u>	<u>9,469,979</u>	<u>1,891,188</u>
Total enterprise funds	<u><u>\$ 59,728,955</u></u>	<u><u>\$ 57,104,460</u></u>	<u><u>\$ 2,624,495</u></u>
Total by fund			
Water	\$ 25,897,908	\$ 24,041,472	\$ 1,856,436
Sewer	18,304,176	17,747,270	556,906
Storm Water Management	<u>15,526,871</u>	<u>15,315,718</u>	<u>211,153</u>
Total enterprise funds	<u><u>\$ 59,728,955</u></u>	<u><u>\$ 57,104,460</u></u>	<u><u>\$ 2,624,495</u></u>

In total, the net position of the City's enterprise funds increased by \$2,624,495 during the year ended December 31, 2023. Net investment in capital assets increased \$733,307, due to continued investment in utility infrastructure. Unrestricted net position increased \$1,891,188, due to positive operating results in the enterprise funds.

WATER FUND

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

Water Fund
Year Ended December 31,



The Water Fund ended 2023 with a total net position of \$25,897,908, an increase of \$1,856,436 from the prior year. Of this, \$20,765,482 represents the investment in capital assets, leaving an unrestricted net position of \$5,132,426.

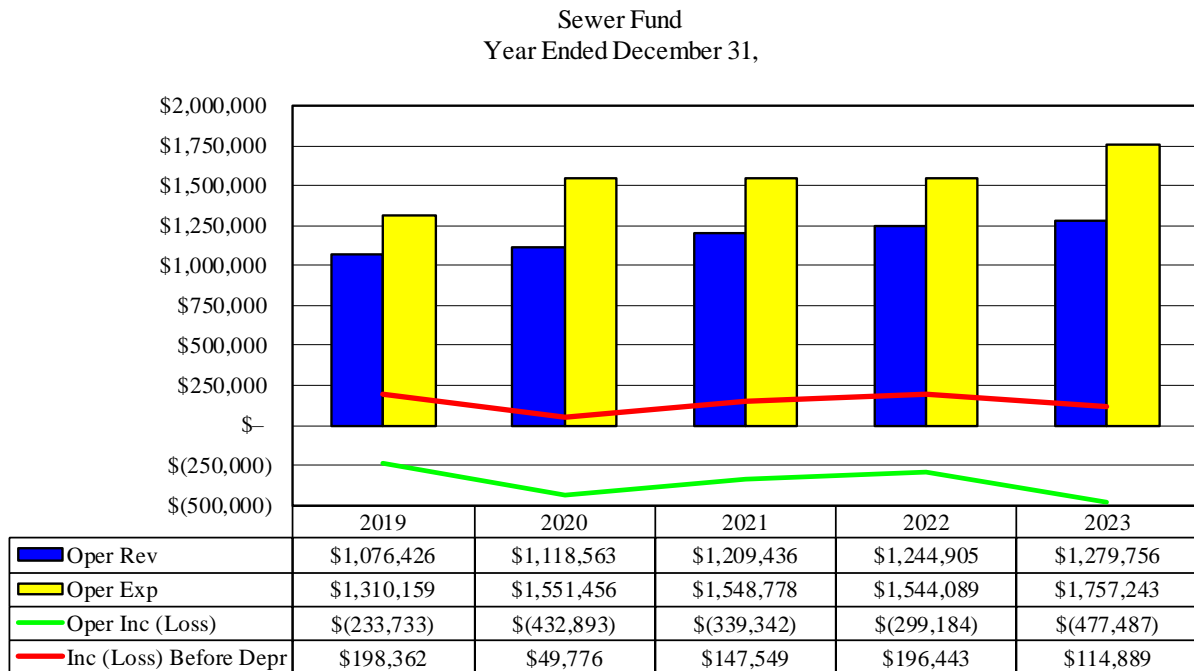
Operating revenue in the Water Fund increased \$262,961 (12.7 percent) from the prior year. This was due to an increase in water consumption and connections.

Water Fund operating expenses for 2023 increased \$60,157 (3.6 percent) from the previous year, mainly in materials and supplies.

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

SEWER FUND

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



The Sewer Fund ended 2023 with a total net position of \$18,304,176, an increase of \$556,906 from the prior year. Of this, \$14,063,234 represents the investment in capital assets, leaving unrestricted net position of \$4,240,942.

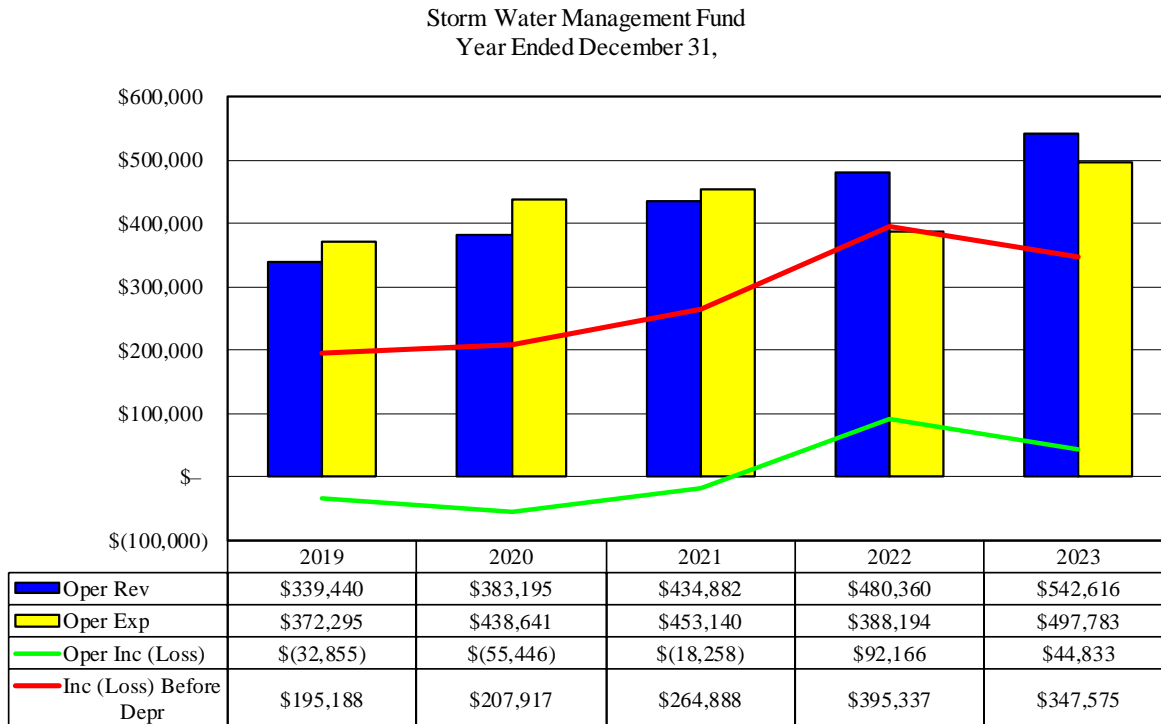
Operating revenue in the Sewer Fund increased \$34,851 (2.8 percent) from the prior year, due to an increase in consumption and connections.

Sewer Fund operating expenses for 2023 increased \$213,154 (13.8 percent) from the previous year. The largest operating expense of this fund is Metropolitan Council Environmental Services (MCES) for sewer service charges. MCES disposal charges in 2023 increased \$69,810 from the prior year. Depreciation expense and professional services expenses also increased in the current year.

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

STORM WATER MANAGEMENT FUND

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



The Storm Water Management Fund ended 2023 with a total net position of \$15,526,871, an increase of \$211,153 from the prior year. Of this, \$13,539,072 represents the investment in capital assets, leaving unrestricted net position of \$1,987,799.

Operating revenue in the Storm Water Management Fund increased \$62,256 (13.0 percent) from the prior year, due to an approved rate increase.

Storm Water Management Fund operating expenses for 2023 increased \$109,589 (28.2 percent) from the previous year, mainly in professional services.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION

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

The following table presents the components of the City's net position as of December 31, 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	\$ 37,942,091	\$ 35,511,515	\$ 2,430,576
Restricted	6,424,190	6,494,082	(69,892)
Unrestricted	11,332,071	11,009,268	322,803
Total governmental activities	<u>55,698,352</u>	<u>53,014,865</u>	<u>2,683,487</u>
Business-type activities			
Net investment in capital assets	48,367,788	47,634,481	733,307
Unrestricted	11,361,167	9,469,979	1,891,188
Total business-type activities	<u>59,728,955</u>	<u>57,104,460</u>	<u>2,624,495</u>
Total net position	<u>\$ 115,427,307</u>	<u>\$ 110,119,325</u>	<u>\$ 5,307,982</u>

The City ended 2023 with a combined total net position of \$115,427,307, an increase of \$5,307,982 from the prior year. The increase in governmental activities is mainly in net investment in capital assets, due to continued investment in infrastructure.

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

STATEMENT OF ACTIVITIES

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

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

	2023		2022	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 2,601,031	\$ 10,778	\$ (2,590,253)	\$ (2,247,819)
Public safety	1,955,746	1,969,663	13,917	(857,799)
Public works	3,485,575	616,490	(2,869,085)	485,189
Culture and recreation	2,079,615	1,875,723	(203,892)	(645,253)
Economic development	307,918	–	(307,918)	(366,503)
Interest and fiscal charges	355,461	–	(355,461)	(368,307)
Business-type activities				
Water	1,826,780	3,362,331	1,535,551	1,345,336
Sewer	1,835,660	2,272,048	436,388	557,912
Storm water management	497,783	652,012	154,229	904,214
Total net (expense) revenue	<u>\$ 14,945,569</u>	<u>\$ 10,759,045</u>	(4,186,524)	(1,193,030)
General revenues				
Property taxes			7,370,982	6,623,688
Tax increments			315,038	316,014
Franchise taxes			401,426	401,464
Grants and contributions not restricted to specific programs			315,321	425,975
Other general revenues			148,116	156,208
Investment earnings (charges)			935,748	(74,172)
Gain on sale of assets			7,875	183,392
Total general revenues			<u>9,494,506</u>	<u>8,032,569</u>
Change in net position			<u>\$ 5,307,982</u>	<u>\$ 6,839,539</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows that the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources. Changes in the investment market contributed to the increase in current year investment earnings.

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.