Management Report

for

City of Farmington, Minnesota

December 31, 2022

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the City Council and Management
City of Farmington, Minnesota

We have prepared this management report in conjunction with our audit of the City of Farmington, Minnesota's (the City) financial statements for the year ended December 31, 2022. 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 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 14, 2023

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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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, *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, 2022. 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 OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2022:

- We have issued an unmodified opinion on the City's basic financial statements. Our report included a paragraph emphasizing the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, during the year. Our opinion was not modified with respect to this matter.

- We reported two matters involving the City's internal control over financial reporting that we consider to be material weaknesses.

  - Due to the limited size of the City's office staff, the City has limited segregation of duties in certain areas.
  - The City recorded a material prior period adjustment in fiscal 2022 to record certain development-related revenues that should have been recognized in previous years.

- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards.*

- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2022, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. During our 2021 audit, we noted the City did not pay 1 of 25 disbursement claims tested within the 35-day statutory time limit. There was no similar finding in the current year.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Deposit Sweep Account

Minnesota Statutes § 118A.03 requires banks holding local government entity deposits to protect the deposits from custodial credit risk (the risk of loss in the event of a bank failure) by providing adequate insurance, bond, or pledged collateral to cover amounts "on deposit at the close of the financial institution's banking day." Some banks utilize arrangements under which governmental entities' deposit balances in excess of Federal Deposit Insurance Corporation limits are swept out of their depository accounts daily into other investments or to depository accounts at other banks.

An issue has arisen with some sweep account arrangements, caused by a lag between the timing of when the primary bank's records show the funds being swept out of its account and when the receiving bank's records acknowledge receipt of the funds. If the receiving bank's records do not show the transferred funds arriving the same business day as the primary bank shows them being swept out, the funds in transit would legally still be considered in the custody of the primary depository at the end of the banking day. This would potentially subject any excess deposits to custodial credit risk and not complying with statutory requirements. The Minnesota Office of the State Auditor (OSA) has added audit requirements to test such sweep arrangements in their *Legal Compliance Audit Guide*. In addition, recent bank failures have placed additional emphasis on the importance of protecting local government deposits from custodial credit risk. We recommend the City review the terms of any sweep arrangement it has in place or is considering and verify that the financial institutions on both sides of the sweep transaction are recognizing the transfer of funds the same banking day.

Credit Card Transactions

Minnesota cities have the authority to make purchases using credit cards issued on behalf of their city. Credit card purchases are becoming more commonplace, especially with the proliferation of e-commerce, and have consequently been garnering increased scrutiny from oversight agencies. The statutes authorizing credit card use by cities restrict their use to purchases made on behalf of a city, do not permit personal use of the credit card by the card user, and specify they should only be used by employees authorized to make purchases. Employees are personally liable for unauthorized credit card purchases.

Purchases made with credit cards must comply with other applicable state laws, including the requirement that all claims presented for payment must be in writing and itemized. In its Statement of Position (SOP) on credit card use, the OSA has clarified that the statement from the credit card company lacks sufficient detail to comply with this requirement and, therefore, "public entities using credit cards must retain the invoices and receipts needed to support the items charged in the bill from the credit card company." The SOP also states that the individual vendors providing the goods or services should be listed on the claims list provided to a city council for review and approval, rather than the credit card company.

While the authorized use of a credit card to make small purchases offers advantages, such as convenience and expedited purchasing, the ability of the credit card users to make a city liable for purchases that are improper or not in compliance with statutory requirements is an added risk related to such transactions. The OSA recommends that a robust credit card policy be established by public entities allowing credit card purchases, which clearly delineates the requirements for use, supporting documentation required, and the review and approval process for credit card purchases. The OSA also recommends that cities obtain signed written acknowledgement of the policy from all authorized card users.

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 ended December 31, 2022. However, the City implemented the following governmental accounting standard during the fiscal year:

- The City implemented GASB Statement No. 87, *Leases,* during fiscal year ended December 31, 2022. This standard changed the way lease transactions are reported by the City, and resulted in a restatement that reduced beginning government activities net position and fund balance in the General Fund by $80,271 in the current 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:

- **Other Post-Employment Benefits (OPEB) and Pension Benefits** – The City has recorded liabilities and activity for pension benefits and OPEB. These obligations are calculated using actuarial methodologies described in GASB 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.

- **Depreciation/Amortization** – Management's estimates of depreciation/amortization expense are based on the estimated useful lives of the assets.

- **Compensated Absences** – Management's estimate is based on current rates of pay, compensated absence balances, and the likelihood that sick leave will ultimately be paid 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 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. Where applicable, management has corrected all such misstatements, including the prior period adjustment discussed earlier in this management report. There were no additional misstatements detected as a result of audit procedures that 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 14, 2023.

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 and OPEB-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 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

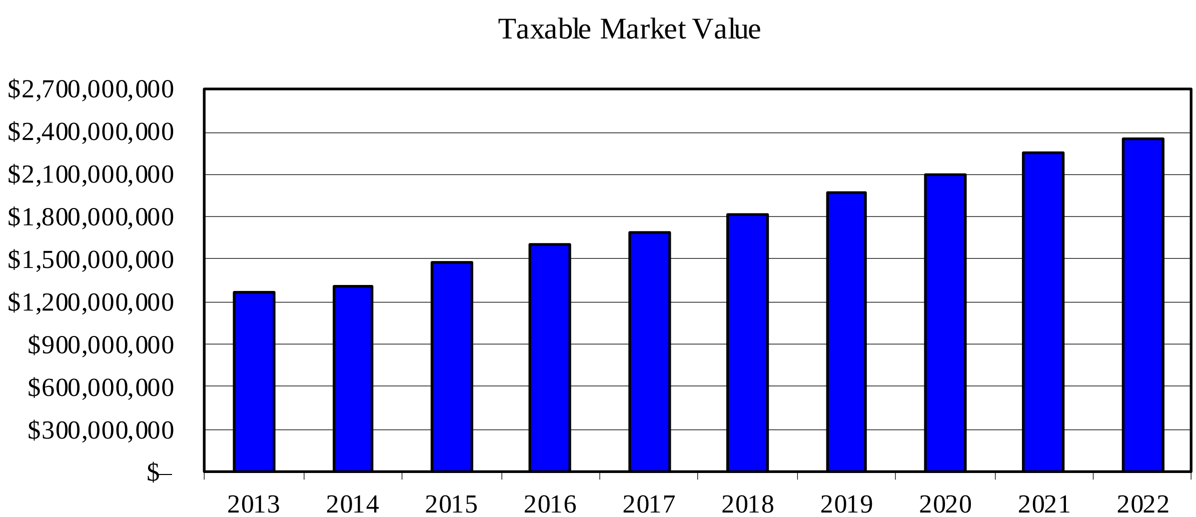
This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its 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, 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 2022 increased 5.9 percent compared to the prior year, and 4.2 percent for taxes payable in 2023.

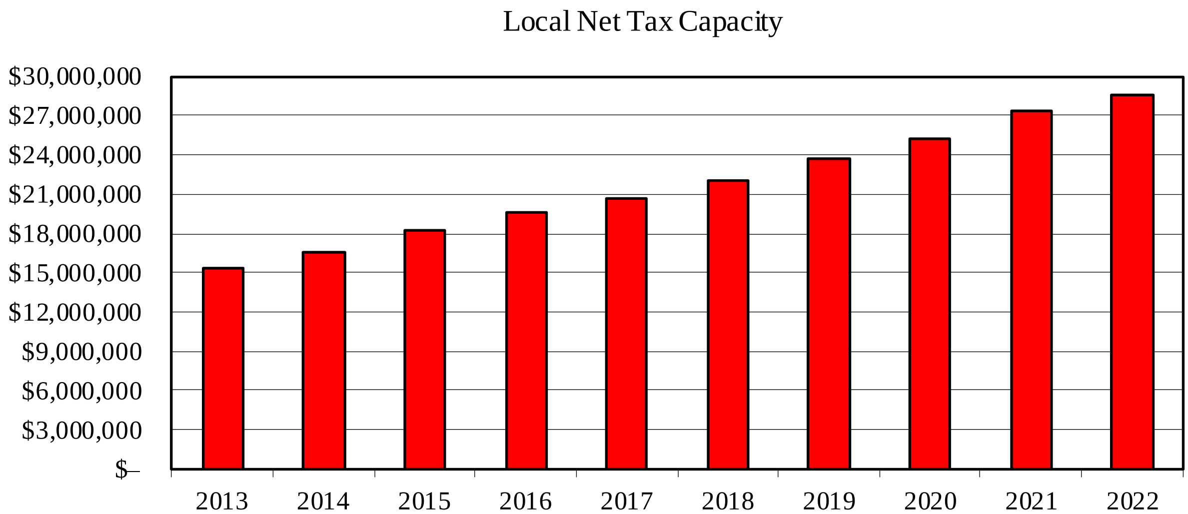
The total tax capacity value of property in Minnesota cities increased about 5.6 percent for the 2022 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2022 were based on assessed market values as of January 1, 2021), 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 7.4 percent for taxes payable in 2021 and 4.9 percent for taxes payable in 2022. 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 4.4 percent for taxes payable in 2021 and 2022, 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 Farmington		
	2020	2021	2022
Average tax rate			
City	51.0	49.3	50.6
County	24.1	22.7	21.6
School	53.1	50.8	49.5
Special taxing	2.9	2.8	2.4
Total	131.1	125.6	124.1

Despite the City historically having a higher dependence on property taxes than the average Minnesota city, the overall tax rate on Farmington residents has been steadily declining in recent years, due to the increasing taxable market value of property within the City.

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, 2022, presented both by fund balance classification and by major fund:

Governmental Funds Change in Fund Balance

	Fund Balance as of December 31, 2022	Fund Balance as of December 31, 2021, Restated	Change
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 4,135	$ 84,453	$ (80,318)
Restricted	4,799,381	4,411,713	387,668
Committed	13,005,454	8,876,306	4,129,148
Unassigned	7,656,950	7,218,094	438,856
Total governmental funds	$ 25,465,920	$ 20,590,566	$ 4,875,354
Total by fund			
General	$ 7,831,517	$ 7,331,014	$ 500,503
Federal Aid Special Revenue	(82,501)	(13,763)	(68,738)
Debt Service	3,154,949	3,146,223	8,726
Maintenance Capital Projects	1,628,109	1,572,324	55,785
Private Capital Projects	42,300	104,087	(61,787)
Spruce Street Capital Projects	1,711,963	(16,069)	1,728,032
Nonmajor	11,179,583	8,466,750	2,712,833
Total governmental funds	$ 25,465,920	$ 20,590,566	$ 4,875,354

In total, the fund balances of the City's governmental funds increased by $4,875,354 during the year ended December 31, 2022. The 2021 unassigned fund balance of the General Fund has been restated in the table above to reflect both the $80,271 reduction related to the implementation of GASB Statement No. 87, and the increase of $484,801 from the prior-period adjustment recorded by the City in 2022.

The increase in restricted fund balances was mainly from resources restricted for park improvements in the (nonmajor) Park Improvement Special Revenue Fund.

The increase in committed fund balances of $4,129,148 relates primarily to resources accumulated for capital improvements in the Spruce Street Capital Projects Fund and several nonmajor capital projects funds from bond proceeds, trunk fees, and transfers.

Unassigned fund balances also increased $438,856, which is attributable to positive operating results in the General Fund.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

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

We have included the most recent comparative state-wide averages available from the OSA 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

	State-Wide		City of Farmington		
Year	December 31, 2021		2020	2021	2022
Population	10,000–20,000	20,000–100,000	23,123	23,632	23,654
Property taxes	$ 529	$ 557	$ 564	$ 580	$ 611
Tax increments	36	49	–	–	–
Franchise and other taxes	66	53	11	10	10
Special assessments	41	56	18	12	23
Licenses and permits	46	53	25	33	35
Intergovernmental revenues	293	202	128	53	54
Charges for services	111	110	39	72	96
Other	39	26	29	24	(4)
Total revenue	$ 1,161	$ 1,106	$ 814	$ 784	$ 825

The City's governmental fund revenues for 2022 were $19,489,730, an increase of $964,362 (5.2 percent), or $41 per capita, from the prior year. Property tax revenue was $31 per capita more than last year, due a tax levy increase. Charges for services increased by $24 per capita, which was primarily due to the City now recording water trunk fees in a new Water Trunk Capital Projects Fund established in 2022, rather than in the Water Enterprise Fund. These increases were partially offset by a decrease in other revenues as shown above, mainly from fair value declines on the City's investment portfolio, due to current market conditions.

The City has historically received more of its governmental fund revenue from property taxes than the average Minnesota city, due to the lower than average amount of aid it typically receives from the state.

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 state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita
With State-Wide Averages by Population Class

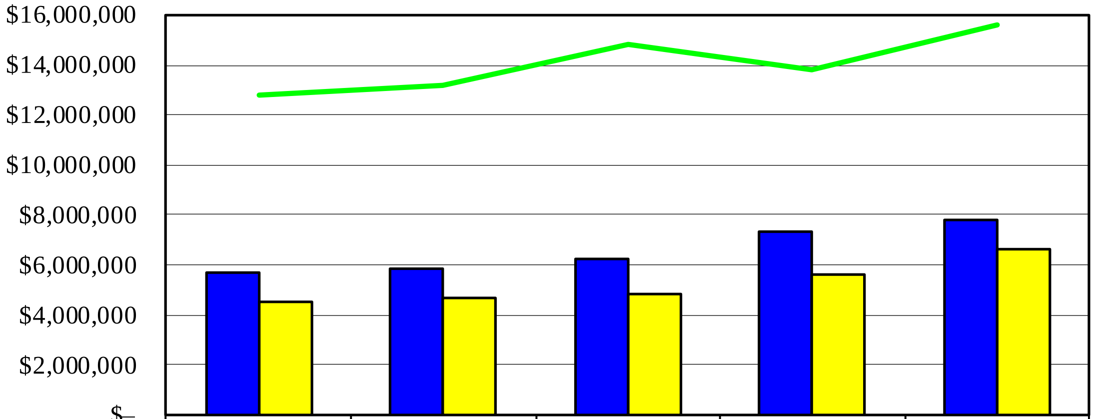
	State-Wide		City of Farmington		
Year	December 31, 2021		2020	2021	2022
Population	10,000–20,000	20,000–100,000	23,123	23,632	23,654
Current					
General government	$ 131	$ 116	$ 114	$ 114	$ 135
Public safety	296	327	256	272	289
Streets and highways	124	112	121	112	138
Culture and recreation	124	107	67	80	82
All other	79	77	12	16	10
	754	739	570	594	654
Capital outlay and construction	407	317	115	129	168
Debt service					
Principal	161	110	126	91	93
Interest and fiscal charges	41	34	17	16	15
	202	144	143	107	108
Total expenditures	$ 1,363	$ 1,200	$ 828	$ 830	$ 930

Total expenditures in the City's governmental funds for 2022 were $22,007,853, an increase of $2,395,801 (12.2 percent), or about $100 per capita, from the previous year. Current governmental expenditures for 2022 were $60 per capita more than last year, mainly in the general government, public safety, and public works functions. Contractual salary increases; inflationary increases to employee benefits, utilities, and fuel costs; and an increase in street maintenance contributed to the overall increase. Capital outlay expenditures were $39 per capita more than last year, primarily due to increased street reconstruction activity and the parking lot project started in the current year.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures and transfers out to reflect the change in the size of the General Fund operation over the same period.

General Fund Financial Position
Year Ended December 31,



	2018	2019	2020	2021	2022
Fund Balances	$5,722,071	$5,871,270	$6,202,066	$7,331,014	$7,831,517
Cash (Net)	$4,555,548	$4,676,267	$4,837,575	$5,619,633	$6,635,513
Exp and Trans Out	$12,801,620	$13,199,638	$14,840,260	$13,811,853	$15,595,683

The City's General Fund cash and investments, net of interfund borrowing at December 31, 2022 was $1,015,880 higher than at the previous year-end. Total fund balances at December 31, 2022 of $7,831,517 represented an increase of $500,503 from current year activity, as compared to a breakeven budget.

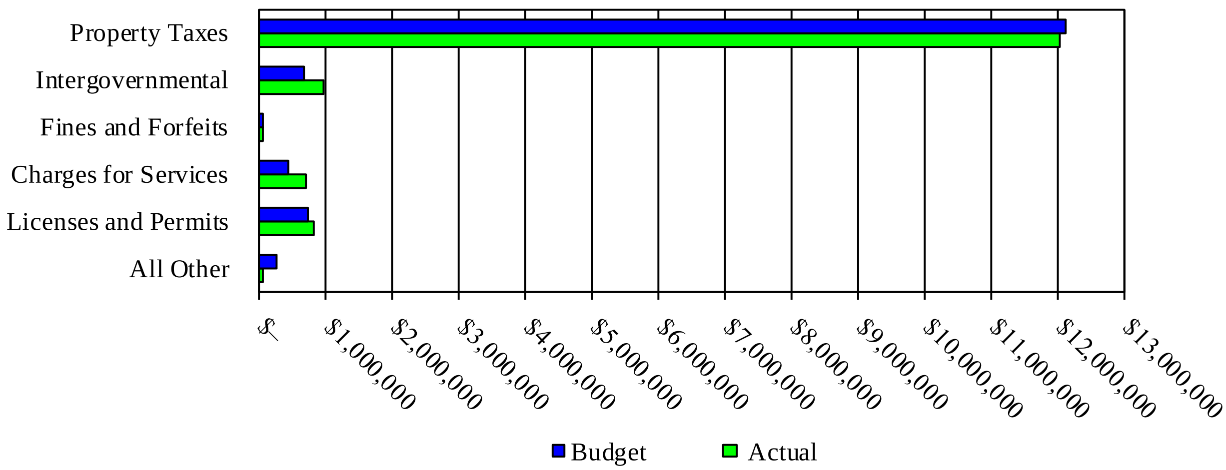
As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position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

A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Property taxes comprise about 82.2 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The City's unassigned General Fund balance of $7,829,882 at the end of the 2022 fiscal year represents approximately 46.4 percent of budgeted expenditures and transfers out for 2023. This is within the City's policy that calls for maintaining an unassigned fund balance of between 40.0–50.0 percent of the subsequent year's budgeted expenditures and transfers out.

The following graph reflects the City's General Fund revenue sources for 2022 compared to budget:

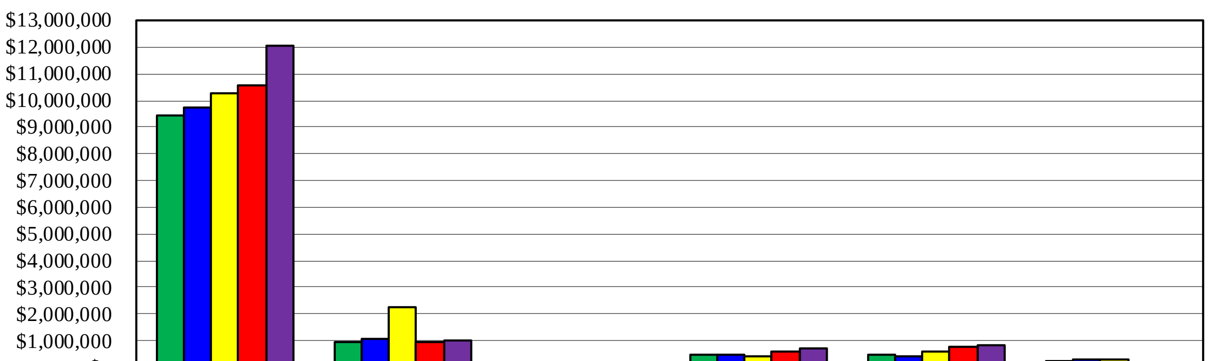
General Fund Revenue
Budget and Actual



General Fund revenue for 2022 was $14,668,253, which was $366,392 (2.6 percent) more than budget. Intergovernmental revenue exceeded budget by $312,724, mainly due to Municipal State Aid (MSA) maintenance aid, police training aid, fire aid, and miscellaneous grant revenues. Charges for services were $239,410 higher than budget, due to fire service charges and engineering fees exceeding a conservative budget. "All other" revenues were $217,059 under budget, due to the fair value decline recorded on the City's investment portfolio. It should be noted that the City's practice is to hold investments to maturity, in which case these unrealized fair value adjustments would be recovered by the time the individual investments mature.

The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property taxes and other local sources of revenue:

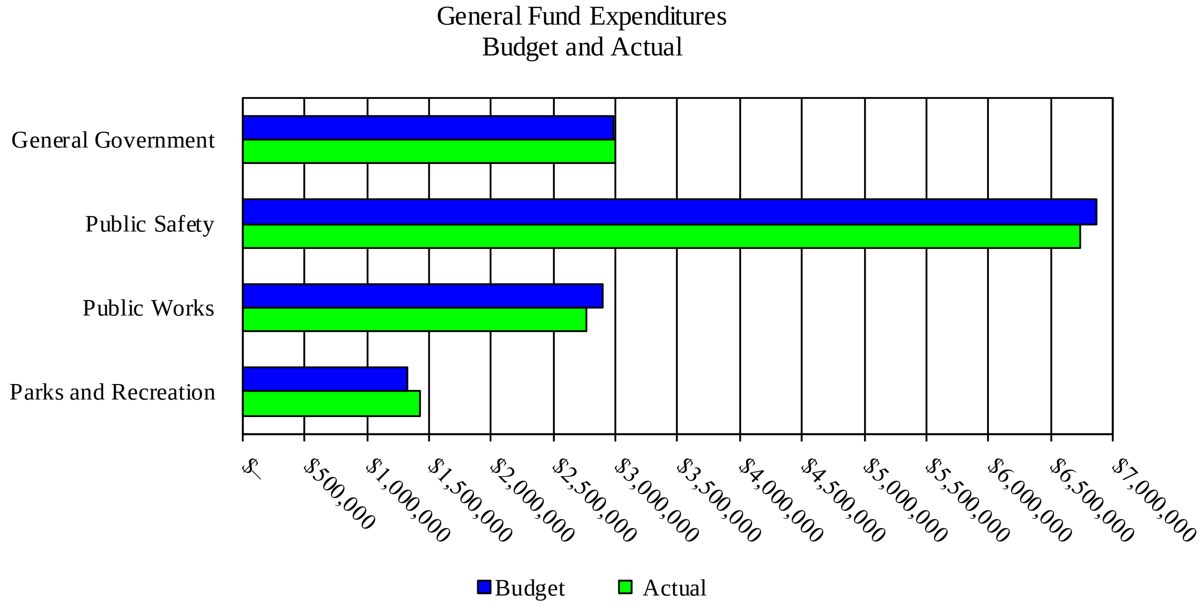
General Fund Revenue by Source
Year Ended December 31,



	Property Taxes	Intergovernmental	Fines and Forfeits	Charges for Services	Licenses and Permits	All Other
2018	$9,450,249	$965,250	$60,182	$479,637	$449,350	$221,935
2019	$9,714,270	$1,085,065	$63,561	$502,902	$421,578	$317,205
2020	$10,244,358	$2,261,674	$45,959	$419,761	$588,347	$303,387
2021	$10,555,567	$963,762	$52,340	$613,132	$789,965	$180,816
2022	$12,054,024	$984,811	$58,400	$696,870	$823,729	$50,419

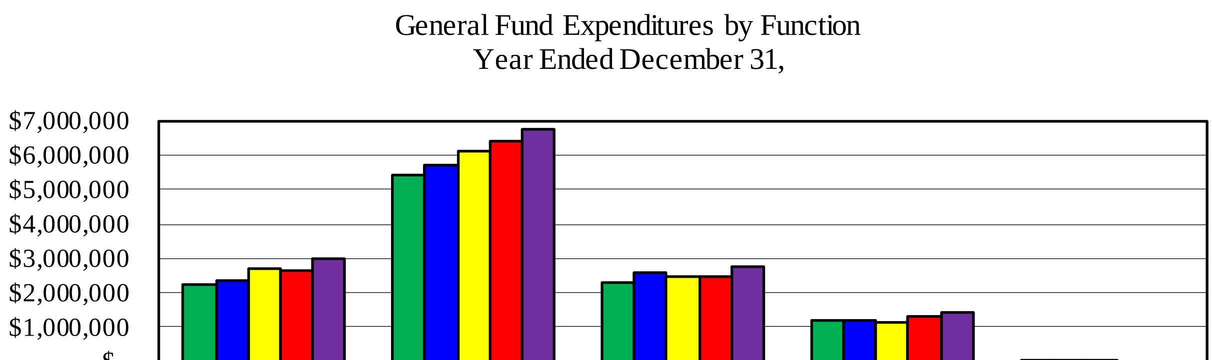
Total General Fund revenue for 2022 was $1,512,671 (11.5 percent) higher than last year. Property tax revenue increased $1,498,457 from last year, due to a higher certified tax levy. Charges for services increased $83,738, mainly due to the previously mentioned increase in fire service charges and engineering fees. "All other" revenues decreased $130,397 from the prior year, mainly due to the fair value decline on investments.

The following graph illustrates the components of General Fund spending for 2022 compared to budget:



General Fund expenditures for 2022 were $13,938,074, which was $149,036 (1.1 percent) under budget. Expenditures for public safety were $129,122 under budget in the current year, mainly due to unfilled police positions during 2022. Public works expenditures were also under budget by $125,591, due primarily to unfilled engineering and natural resource positions. Parks and recreation expenditures were over budget by $101,170, because of two maintenance positions added in 2022 that were not in the budget.

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



	General Government	Public Safety	Public Works	Parks and Recreation	Economic Development
2018	$2,248,227	$5,406,394	$2,278,842	$1,217,733	$30,000
2019	$2,369,885	$5,733,766	$2,605,435	$1,209,414	$50,000
2020	$2,695,928	$6,093,624	$2,484,231	$1,145,173	$40,000
2021	$2,620,186	$6,411,904	$2,474,368	$1,303,044	$–
2022	$2,994,602	$6,743,334	$2,769,231	$1,430,907	$–

Total General Fund expenditures for 2022 were $1,128,572 (8.8 percent) higher than the previous year, with increases in each category shown above. Contractual salary increases; inflationary increases to employee benefits, utilities, and fuel and supply costs; and an increase in street maintenance contributed to the overall increase.

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 Liquor Operations, Sewer Operations, Solid Waste, Storm Water, Water, and Street Light funds.

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, 2022, presented both by classification and by fund:

Enterprise Funds Change in Financial Position

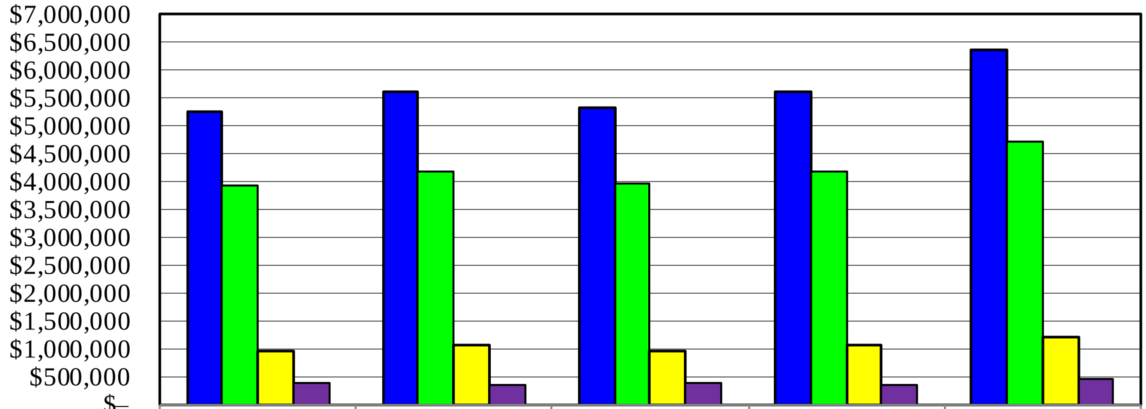
	Net Position as of December 31,		
	2022	2021	Change
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 48,353,192	$ 50,773,632	$ (2,420,440)
Restricted – future drinking water treatment plant	2,461,488	2,461,488	–
Unrestricted	18,266,640	18,123,198	143,442
Total enterprise funds	$ 69,081,320	$ 71,358,318	$ (2,276,998)
Total by fund			
Liquor Operations	$ 2,035,800	$ 1,807,133	$ 228,667
Sewer Operations	18,677,310	19,325,404	(648,094)
Solid Waste	1,872,667	2,230,188	(357,521)
Storm Water	14,755,806	15,332,726	(576,920)
Water	31,395,742	32,335,286	(939,544)
Street Light	343,995	327,581	16,414
Total enterprise funds	$ 69,081,320	$ 71,358,318	$ (2,276,998)

In total, the net position of the City's enterprise funds decreased by $2,276,998 during the year ended December 31, 2022. The City's net investment in capital assets decreased by $2,420,440 during the year, mainly due to depreciation, as there were relatively few capital asset additions in the enterprise funds in 2022. All of the City's enterprise operations had positive operating results for the year prior, excluding the Solid Waste Fund, which ended the majority of its operations the end of 2021. The enterprise funds transferred $3,276,558 to the governmental and internal service funds during the year to support the General Fund and help finance capital improvements.

LIQUOR OPERATIONS FUND

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

Liquor Operations Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Sales	$5,256,645	$5,608,012	$5,347,194	$5,621,602	$6,387,611
Cost of Sales	$3,923,968	$4,183,615	$3,984,504	$4,192,176	$4,728,067
Oper Exp	$966,336	$1,073,621	$974,201	$1,064,135	$1,212,002
Oper Income	$366,341	$350,776	$388,489	$365,291	$447,542

The City's Liquor Operations Fund ended 2022. with a total net position of $2,035,800, an increase of $228,667 from the prior year. Of this, $262,988 represents the investment in liquor capital assets, leaving an unrestricted net position of $1,772,812.

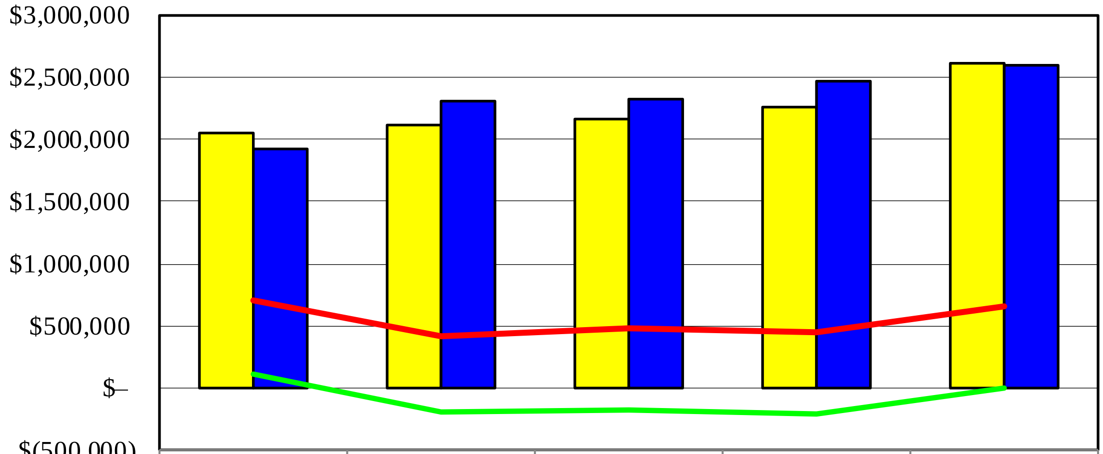
The Liquor Operations Fund had gross sales of $6,387,611 in 2022, an increase of $766,009 (13.6 percent) from the previous year. The current year sales increase was mainly at the Downtown store, which was closed temporarily during 2021 and relocated to a better site. Gross profit was $1,659,544, about 26.0 percent of sales, which is consistent with recent years.

Operating expenses for 2022 increased $147,867 (13.9 percent) from the previous year. Personal and professional services both increased, mainly due to the Downtown store being fully open in the current year. Depreciation/amortization expense also increased in 2022.

SEWER OPERATIONS FUND

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

Sewer Operations Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Oper Rev	$2,045,728	$2,117,934	$2,160,808	$2,260,523	$2,607,594
Oper Exp	$1,930,839	$2,310,312	$2,331,935	$2,474,696	$2,604,412
Oper Inc (Loss)	$114,889	$(192,378)	$(171,127)	$(214,173)	$3,182
Inc Before Depr	$711,639	$421,184	$474,161	$443,607	$662,268

The Sewer Operations Fund ended 2022 with a total net position of $18,677,310, a decrease of $648,094 from the prior year. Of this, $15,479,145 represents the investment in sewer collection system capital assets, leaving an unrestricted net position of $3,198,165.

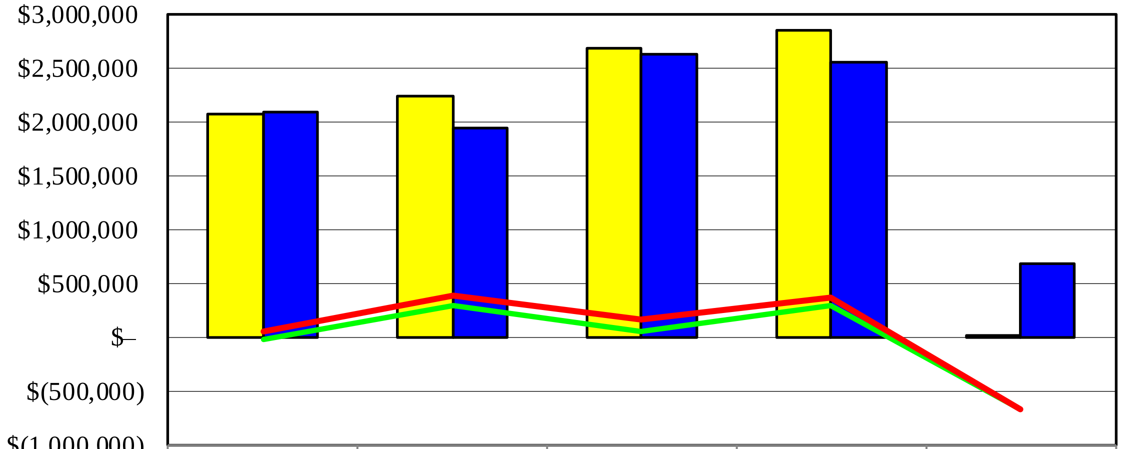
Operating revenue in the Sewer Operations Fund increased by $347,071 (15.4 percent) from the prior year, due to an increase in sewer rates.

Operating expenses for 2022 were $129,716 (5.2 percent) higher than the previous year, mainly in professional services ($129,443 increase), due to increased municipal wastewater charges.

SOLID WASTE FUND

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

Solid Waste Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Oper Rev	$2,071,672	$2,244,569	$2,692,155	$2,854,452	$21,746
Oper Exp	$2,101,344	$1,941,102	$2,630,874	$2,566,976	$686,094
Oper Inc (Loss)	$(29,672)	$303,467	$61,281	$287,476	$(664,348)
Inc Before Depr	$51,763	$379,383	$162,475	$365,076	$(664,348)

The Solid Waste Fund ended 2022 with a total net position of $1,872,667, a decrease of $357,521 from the prior year. The entire amount of net position is unrestricted at year-end, as the Solid Waste Fund either sold off or transferred its capital assets in 2022.

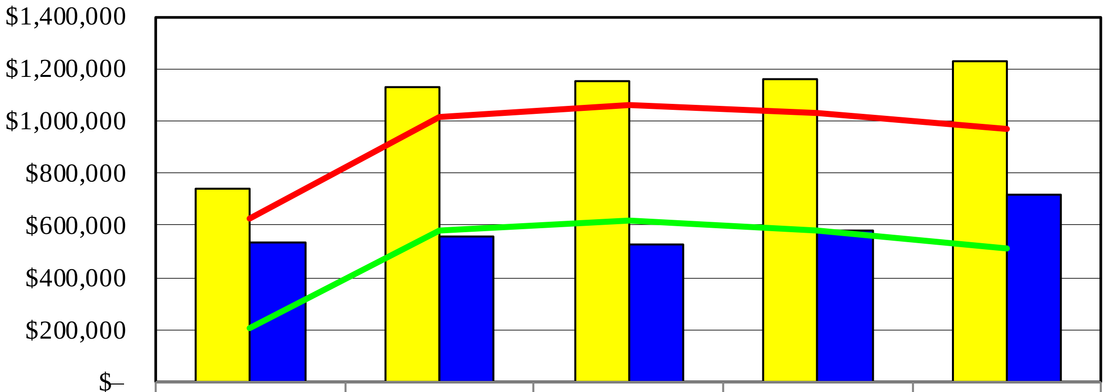
Operating revenue in the Solid Waste Fund decreased $2,832,706 (99.2 percent) from the prior year, due to the majority of the City's solid waste operations ending after 2021, and being outsourced to a private contractor.

Operating expenses for 2022 were $1,880,882 (73.3 percent) less than the previous year, due to the previously discontinuance of most solid waste operations. The current year expenses of $686,094 were mainly related to the City's decision to pay the first quarter billing from the new service provider for previous city customers. This was done as part of the transition so customers would not receive two bills in the same quarter because of differences in billing practices between the City and the new service provider. The City was also contractually obligated to provide service for one customer through fiscal 2022 at a set price.

STORM WATER FUND

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

Storm Water Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Oper Rev	$737,115	$1,130,563	$1,149,665	$1,158,564	$1,227,091
Oper Exp	$533,465	$553,584	$530,438	$581,402	$719,225
Oper Inc (Loss)	$203,650	$576,979	$619,227	$577,162	$507,866
Inc Before Depr	$628,404	$1,014,979	$1,059,648	$1,028,358	$970,804

The Storm Water Fund ended 2022 with a total net position of $14,755,806, a decrease of $576,920 from the prior year. Of this, $12,331,346 represents the investment in storm water operation capital assets, leaving an unrestricted net position of $2,424,460.

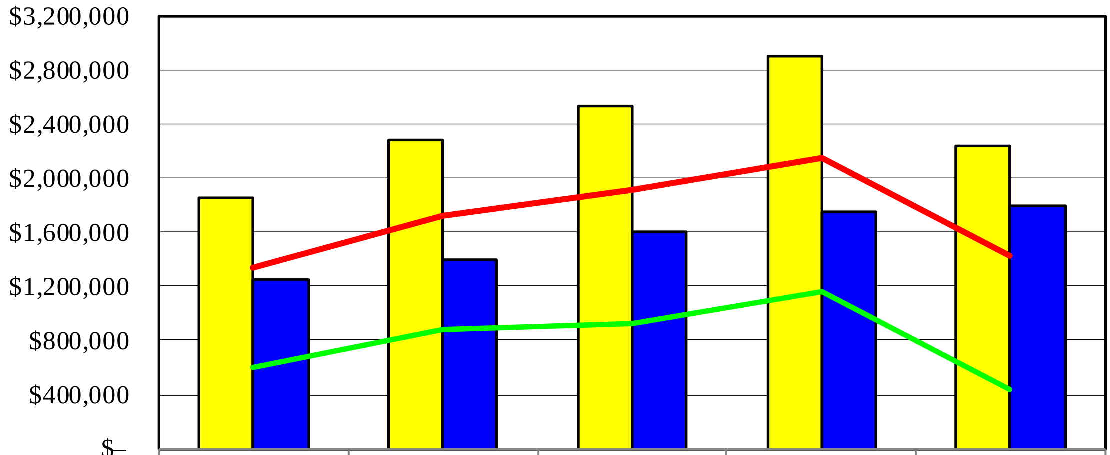
Operating revenue in the Storm Water Fund was increased $68,527 (5.9 percent) from the prior year, as rates for storm water services increased 5.0 percent in 2022.

Operating expenses for 2022 were $137,823 (23.7 percent) higher than the previous year, mainly due to increases in spending for materials and supplies and professional services.

WATER FUND

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

Water Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Oper Rev	$1,852,381	$2,281,793	$2,533,753	$2,908,352	$2,238,210
Oper Exp	$1,247,662	$1,393,568	$1,604,792	$1,746,446	$1,799,190
Oper Inc (Loss)	$604,719	$888,225	$928,961	$1,161,906	$439,020
Inc Before Depr	$1,335,659	$1,725,319	$1,920,612	$2,152,855	$1,432,301

The Water Fund ended 2022 with a total net position of $31,395,742, a decrease of 939,544 from the prior year. Of this, $20,279,713 represents the investment in water distribution system capital assets, $2,461,488 is restricted for a future drinking water treatment plant, and unrestricted net position is $8,654,541.

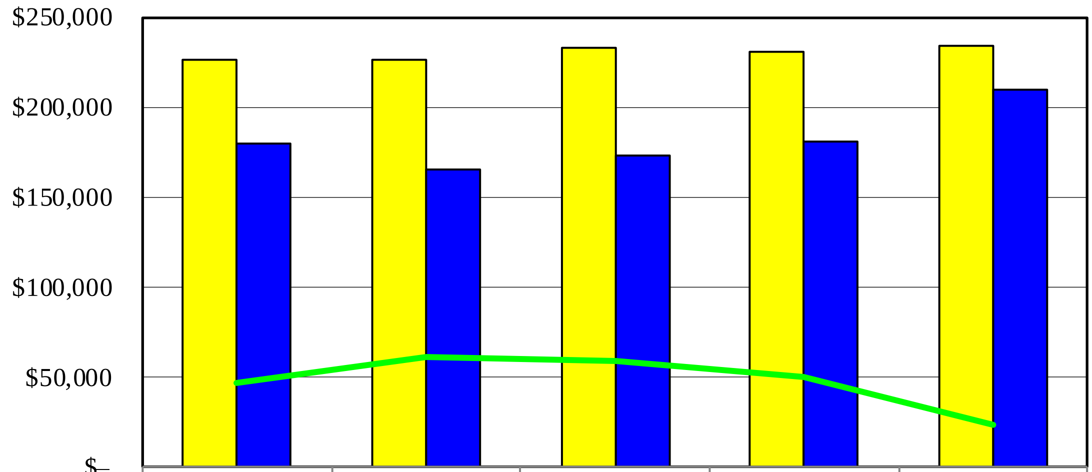
Operating revenue in the Water Fund for 2022 decreased $670,142 (23.0 percent) from the prior year. Rates for water services increased 4.0 percent in the current year; however, there was a large decrease in nonconsumption-based charges, due to the City creating a new Water Trunk Capital Projects Fund in 2022, and recording trunk fees collected for new developments in that fund rather than in the Water Fund.

Water Fund operating expenses for 2022 were $52,744 (3.0 percent) higher than the previous year, mainly due to an increase in materials and supplies costs.

STREET LIGHT FUND

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

Street Light Fund
Year Ended December 31,



	2018	2019	2020	2021	2022
Oper Rev	$226,674	$226,971	$232,990	$230,479	$233,899
Oper Exp	$180,254	$165,886	$173,604	$180,528	$210,174
Oper Inc (Loss)	$46,420	$61,085	$59,386	$49,951	$23,725

Street Light Fund operating revenue for 2022 increased $3,420 (1.5 percent) from the prior year.

Operating expenses were $29,646 (16.4 percent) higher than the previous year, mainly in utilities and other service costs.

Unrestricted net position increased $16,414 in 2022, ending the year at $343,995.

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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, 2022 and 2021, for governmental activities and business-type activities:

	As of December 31,		
	2022	2021, Restated	Change
Net position			
Governmental activities			
Net investment in capital assets	$ 37,033,206	$ 36,819,084	$ 214,122
Restricted	10,556,611	9,841,913	714,698
Unrestricted	14,198,632	11,996,011	2,202,621
Total governmental activities	61,788,449	58,657,008	3,131,441
Business-type activities			
Net investment in capital assets	48,353,192	50,773,632	(2,420,440)
Restricted	2,461,488	2,461,488	–
Unrestricted	18,266,640	18,123,198	143,442
Total business-type activities	69,081,320	71,358,318	(2,276,998)
Total net position	$ 130,869,769	$ 130,015,326	$ 854,443

The City's total net position at December 31, 2022 was $854,443 higher than the previous year-end. The 2021 governmental activities unrestricted net position is restated in the table above to reflect both the implementation of GASB Statement No. 87 and the prior period adjustment recorded by the City in 2022. The City's net position increased $3,131,441 from current year governmental activities and decreased $2,276,998 from current year business-type activities.

The governmental activities net investment in capital assets increased $214,122, due to the relationship between capital asset additions, the rate at which capital assets are depreciated/amortized, and the repayment of the debt issued to construct or acquire the assets. Restricted net position increased $714,698, mainly in the amounts restricted for park improvements, and the amount restricted for state-funded street projects from unspent MSA street aid. The increase in governmental activities unrestricted net position of $2,202,621 in 2022, reflects positive operating results in the City's governmental funds, along with resources accumulated for future capital needs.

Changes to the net position of the business-type activities are as detailed in the previous discussion of the City's enterprise fund operations.

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, 2022 and 2021:

	2022			2021
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	$ 3,626,853	$ 1,039,332	$ (2,587,521)	$ (1,688,051)
Public safety	7,936,364	1,287,983	(6,648,381)	(5,412,791)
Public works	5,333,328	2,260,040	(3,073,288)	1,135,190
Parks and recreation	2,522,085	917,805	(1,604,280)	(1,801,235)
Economic development	247,970	83,292	(164,678)	(235,554)
Interest and fiscal charges	288,751	–	(288,751)	(189,858)
Business-type activities				
Liquor operations	5,977,403	6,394,060	416,657	469,155
Sewer operations	2,606,288	2,611,202	4,914	(195,631)
Solid waste	87,359	50,045	(37,314)	678,549
Storm water	719,225	1,227,091	507,866	734,026
Water	1,814,354	2,539,009	724,655	1,660,004
Street light	210,174	236,117	25,943	51,850
Total net (expense) revenue	$ 31,370,154	$ 18,645,976	(12,724,178)	(4,794,346)
General revenues				
Property taxes			14,463,106	13,692,990
Franchise taxes			227,017	229,355
Unrestricted grants			207,501	107,962
Investment earnings (charges)			(1,400,011)	(155,629)
Gain on disposal of capital assets			81,008	–
Total general revenues			13,578,621	13,874,678
Change in net position			$ 854,443	$ 9,080,332

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, for the most part, the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses.

The significant net change from public works activity is primarily due to decreases in capital grants and contributions from new special assessments and MSA street aid recognized, as compared to the prior year. The change in investment earnings (charges) is due to the fair value decline of the City's investment portfolio caused by market conditions in 2022.

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. 96, *SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS*

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines an SBITA; (2) establishes that an SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended.

An SBITA is defined as a contract that conveys control of the right to use another party's (an SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB STATEMENT NO. 99, *OMNIBUS 2022*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the SBITA term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- Terminology used in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to refer to resource flows statements.

The requirements of this statement that are effective are as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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.

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