

Management Report
for
City of Saint Peter, Minnesota
December 31, 2022

THIS PAGE INTENTIONALLY LEFT BLANK



PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

To the City Council and Management
City of Saint Peter, Minnesota

We have prepared this management report in conjunction with our audit of the City of Saint Peter, 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
- Debt Service
- 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
August 8, 2023

THIS PAGE INTENTIONALLY LEFT BLANK

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, the aggregate discretely presented component units, 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.

AUDITOR'S RESPONSIBILITY FOR COMPONENT UNITS

Our responsibility is to express opinions on the City's financial statements based on our audit. We did not audit the discretely presented component units' financial statements. This includes the financial statements of the River's Edge Hospital and Clinic and the financial statements of the Housing and Redevelopment Authority. Those statements were audited by other auditors whose reports have been furnished to us. Our opinion on the basic financial statements, insofar as they relate to the amounts included for these organizations as component units of the City, is based solely on the reports of the other auditors.

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 one deficiency in the City's internal control over financial reporting that we considered to be a material weakness.
 1. During the audit, we noted that the City's special assessments were overstated in the governmental activities and understated in the business-type activities, requiring a journal entry to the financial statements. Auditing standards consider the identification of a material misstatement that was not initially identified by the City to be a material weakness in the related internal control.

- We reported one significant deficiency related to our testing of internal controls over financial reporting:
 1. We reported that, due to the small number of office staff, the City has limited segregation of duties in several areas, which we consider a significant deficiency in internal controls.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported two findings based on our testing of the City’s compliance with Minnesota laws and regulations.
 1. Minnesota Statutes § 574.26 requires that when contracting for construction services with a value exceeding \$175,000, the City is required to obtain performance and payment bonds from the contractor. The City was not in compliance with this requirement for four of the four bids we selected for testing.
 2. Minnesota Statutes § 471.425 Subd. 4a requires contracts for construction services must include specific language that requires the prime contractor to pay any subcontractors within 10 days of the prime contractor’s receipt of payment from the City or pay an interest rate of 1.5 percent per month on any unpaid balance. This required language was not correctly presented in four of the four contracts we selected for testing.

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. We reported the following two findings that were not reported as findings in the current year:

- 2021-003 – Timely Payment of Invoices
- 2021-004 – Contracting – Quotes for Contracts Exceeding \$25,000

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(s) during the fiscal year:

- As described in Note 1 of the notes to basic financial statements, 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, but did not result in a restatement of net position 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:

- **Depreciation** – Management’s estimates of depreciation/amortization expense are based on the estimated useful lives of the assets.
- **Self-Insurance Reserves** – Management’s estimates of costs for unreported claims are based on the past history of claims reported.

- **Compensated Absences** – Management’s estimate is based on current rates of pay, sick leave balances, and the likelihood that sick leave will ultimately be paid at termination.
- **Value of Property Held for Resale** – Management’s estimates of these assets are based on net realizable value (lower of cost or acquisition value).
- **Total Other Post-Employment Benefits (OPEB) and Net Pension Liability** – The City has recorded liabilities and activity for OPEB and pension benefits. 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.
- **Allowance for Doubtful Accounts** – Management’s estimate of the allowance for doubtful accounts is based on historical water and sewer revenues, historical loss levels, and an analysis of the collectability of individual accounts.

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

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

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There was one misstatement detected as a result of audit procedures that was material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole. This material misstatement was described earlier in this report.

We also noted uncorrected misstatements totaling \$10,146 and \$16,129 in the Water and Electric Enterprise Funds, respectively, for unrecorded employer taxes on compensated absences. We also noted one uncorrected misstatement in accounts payable in the Wastewater Enterprise Fund totaling \$22,210.

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 August 8, 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, as described in the table of contents, which accompany the financial statements, but 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 section and other city information 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.

THIS PAGE INTENTIONALLY LEFT BLANK

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.

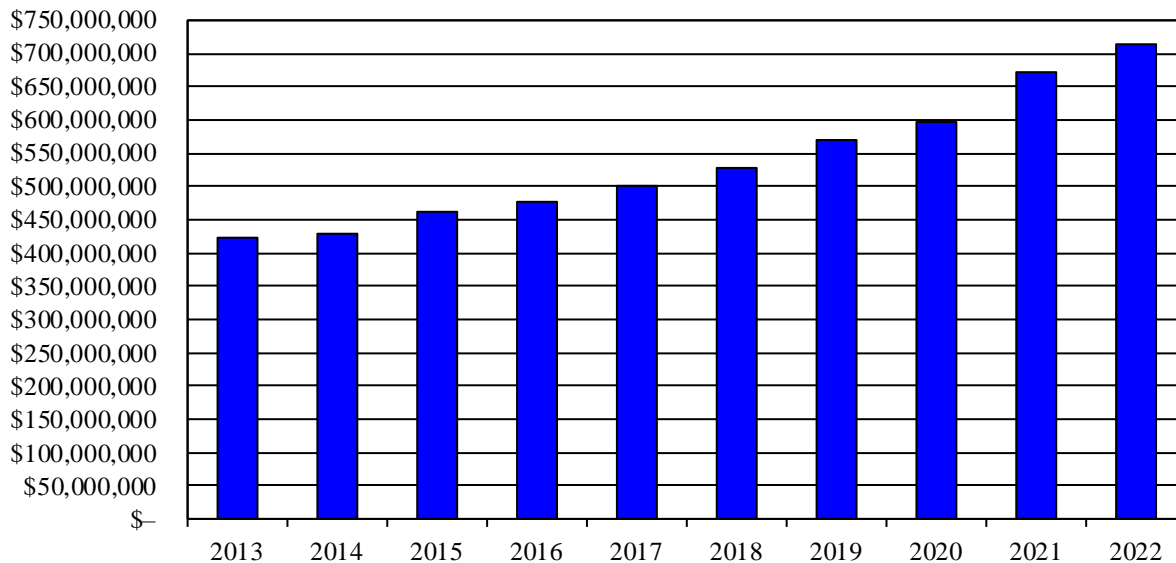
PROPERTY TAXES

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.

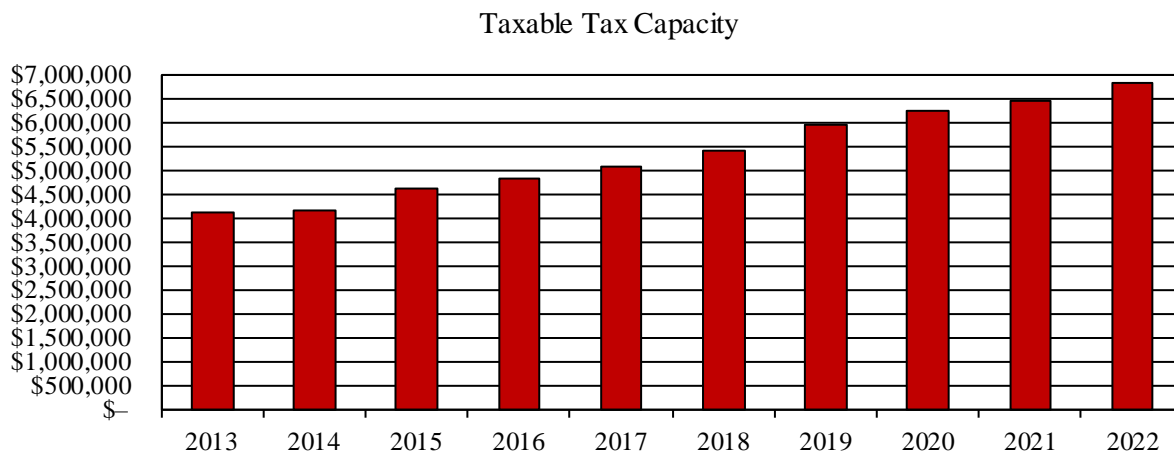
The City's taxable market value increased 12.1 percent for taxes payable in 2021 and increased 6.4 percent for taxes payable in 2022. The following graph shows the City's changes in taxable market value over the past 10 years:

Taxable Market Value



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 2.9 percent and 5.9 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:



Some of the increase in taxable tax capacity in 2015 is related to the decertification of tax increment districts by the City in previous 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 Saint Peter		
	2020	2021	2022
Average tax rate			
City	51.6	51.7	51.6
County	55.1	58.4	55.6
School	35.9	36.9	33.4
Special taxing	0.5	0.5	0.4
Total	<u>143.1</u>	<u>147.5</u>	<u>141.0</u>

The City’s portion of the average tax rate has been flat over the three years presented. The overall average tax rate was lower in calendar 2022 from declines in the county and school district rates.

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 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						
Year	State-Wide			City of Saint Peter		
	December 31, 2021			2020	2021	2022
Population	2,500-10,000	10,000-20,000	20,000-100,000	12,066	12,066	12,066
Property taxes	\$ 560	\$ 529	\$ 557	\$ 269	\$ 269	\$ 299
Tax increments	38	36	49	66	79	71
Franchise and other taxes	52	66	53	10	9	31
Special assessments	59	41	56	4	9	6
Licenses and permits	45	46	53	14	29	30
Intergovernmental revenues	421	293	202	416	343	492
Charges for services	135	111	110	32	49	51
Other	60	39	26	87	85	79
Total revenue	\$ 1,370	\$ 1,161	\$ 1,106	\$ 898	\$ 872	\$ 1,059

The City's lower than average tax revenue is primarily the result of the City relying on enterprise fund activities to finance the City's activities. This is due to the large amount of nontaxable property within the City.

In 2022, governmental funds revenue per capita increased \$187 per capita. The largest increase was in intergovernmental revenues, due to the City receiving local road improvement program funding of \$1.2 million in 2022. Property taxes increased \$30 per capita, due to an increase in the tax levy. Franchise and other taxes increased by \$22 per capita, due to an increase in sales taxes collected after the local option sales tax for the fire station construction was approved in 2021.

It is important to note that this table does not include operating transfers, which are used by the City to support governmental fund activities. This information is not included in the table, as the comparable information is not available.

GOVERNMENTAL FUNDS 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 Population	State-Wide			City of Saint Peter			
	December 31, 2021			2020	2021	2022	
	2,500–10,000	10,000–20,000	20,000–100,000	12,066	12,066	12,066	
Current							
General government	\$ 168	\$ 131	\$ 116	\$ 132	\$ 131	\$ 128	
Public safety	327	296	327	272	275	307	
Streets and highways	144	124	112	112	127	145	
Parks and recreation	108	124	107	154	174	188	
All other	101	79	77	121	75	53	
Total current	848	754	739	791	782	821	
Capital outlay and construction	525	407	317	119	194	636	
Debt service							
Principal	168	161	110	110	95	94	
Interest and fiscal charges	48	41	34	22	28	26	
Total debt service	216	202	144	132	123	120	
Total expenditures	<u>\$ 1,589</u>	<u>\$ 1,363</u>	<u>\$ 1,200</u>	<u>\$ 1,042</u>	<u>\$ 1,099</u>	<u>\$ 1,577</u>	

The City's governmental funds current per capita expenditures increased by \$478 per capita in fiscal 2022. Capital outlay and construction expenditures increased by \$442 per capita from the previous year, as this category changes each year based on the timing of projects in the City. Public safety increased \$32 per capita, as the City experienced an increase in public safety salaries, overtime wages, benefits, and insurance.

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 fund:

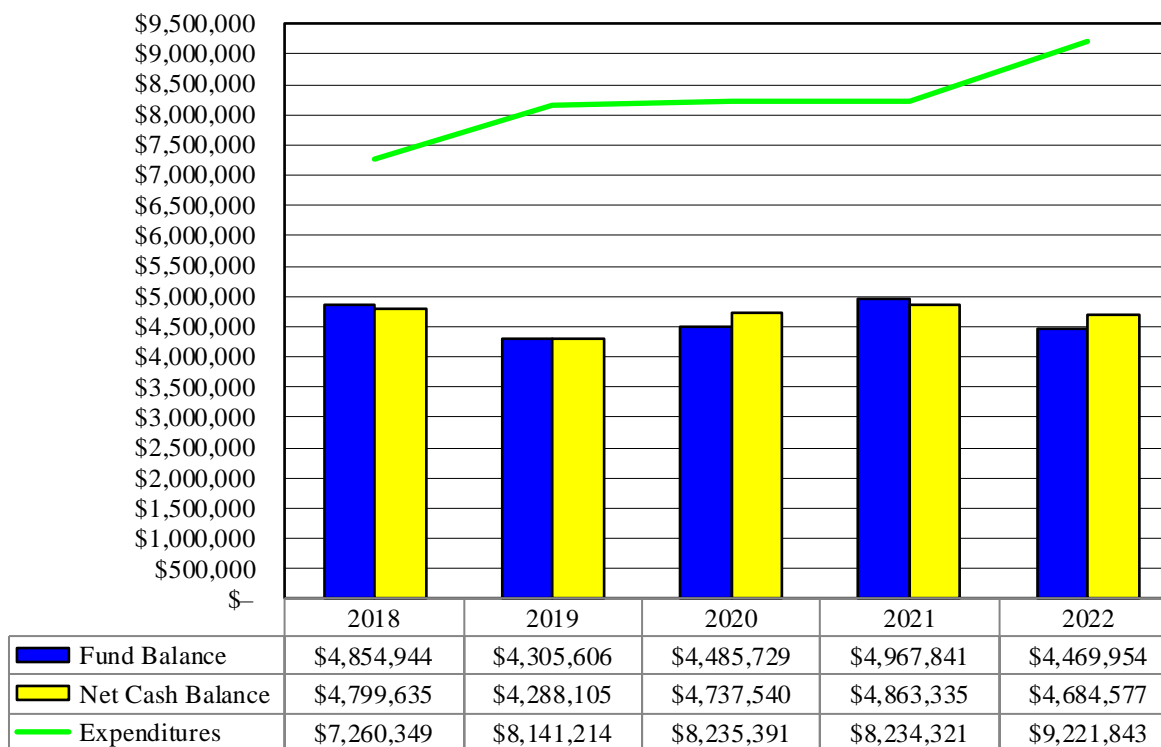
Governmental Funds Change in Fund Balance			
	Fund Balance as of December 31,		Change
	<u>2021</u>	<u>2022</u>	
Fund balances of governmental funds			
Total by classification			
Nonspendable	\$ 2,987	\$ 24,132	\$ 21,145
Restricted	5,693,510	6,322,576	629,066
Committed	871,824	940,478	68,654
Assigned	568,872	468,447	(100,425)
Unassigned	<u>3,699,063</u>	<u>1,689,541</u>	<u>(2,009,522)</u>
Total governmental funds	<u>\$ 10,836,256</u>	<u>\$ 9,445,174</u>	<u>\$ (1,391,082)</u>
Total by fund			
General	\$ 4,967,841	\$ 4,469,954	\$ (497,887)
Capital Projects – Traverse Green TIF District	89,282	119,936	30,654
Capital Projects – Permanent Improvement	693,462	374,149	(319,313)
Capital Projects – Fire Station	(148,870)	(1,345,283)	(1,196,413)
Nonmajor	<u>5,234,541</u>	<u>5,826,418</u>	<u>591,877</u>
Total governmental funds	<u>\$ 10,836,256</u>	<u>\$ 9,445,174</u>	<u>\$ (1,391,082)</u>

In total, the fund balances of the City's governmental funds decreased by \$1,391,082 during the year ended December 31, 2022. The increase in the restricted fund balance was primarily due to the increase in amounts restricted to pay future debt service and tax increment financing agreements. The decrease in unassigned fund balance is mostly related to the deficit fund balance in the Fire Station Capital Projects Fund. This deficit fund balance will be covered by future draws on the 2022 General Obligation Temporary Sales Tax Revenue Bonds that were issued in 2022. The decline in the unassigned fund balance was also impacted by the decline in the General Fund balance, which was anticipated in the City's final budget.

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, street and highway maintenance, parks 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 investments balance decrease in the current year is the result of the decrease to fund balance. The total fund balance at December 31, 2022 was \$4,469,954, a decrease of \$497,887, as compared to a budgeted decrease of \$509,123.

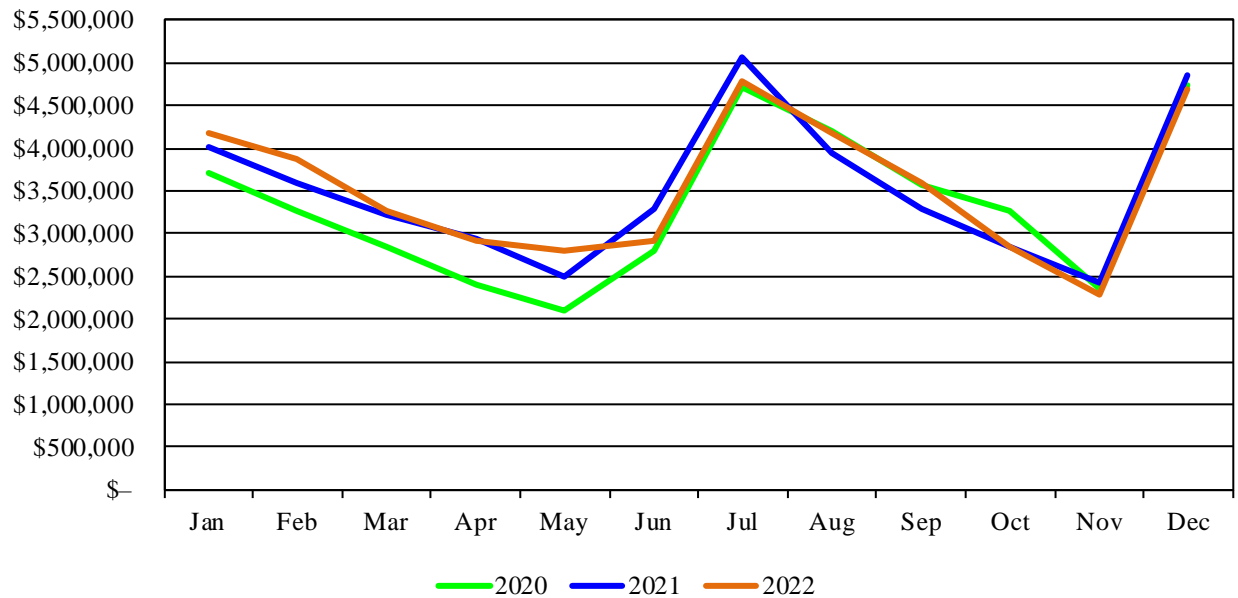
As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position 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.

The City Council has formally adopted a fund balance policy regarding the fund balance for the General Fund. The policy establishes that the City will strive to maintain an unassigned fund balance in the range of 35.0–50.0 percent of the following year's budgeted expenditures. At December 31, 2022, the unassigned fund balance of the General Fund was 39.0 percent of the subsequent year's budgeted expenditures. The total fund balance was 47.7 percent of subsequent year's budgeted expenditures.

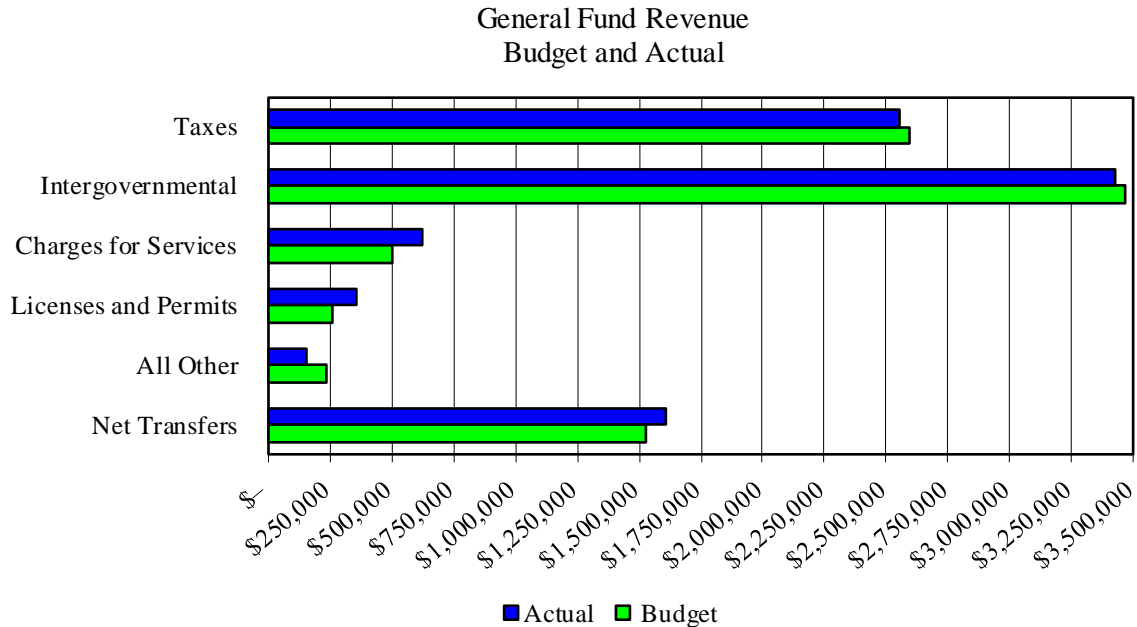
A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year, other than the impact of seasonal services, such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes and state aids comprise about 84.1 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 following graph illustrates the monthly cash flow of the General Fund in recent years (excluding interfund borrowing). Adequate fund balances in the General Fund have provided for positive month-end balances for all three years presented.

General Fund Cash and Investment Flow
Month-End Balances

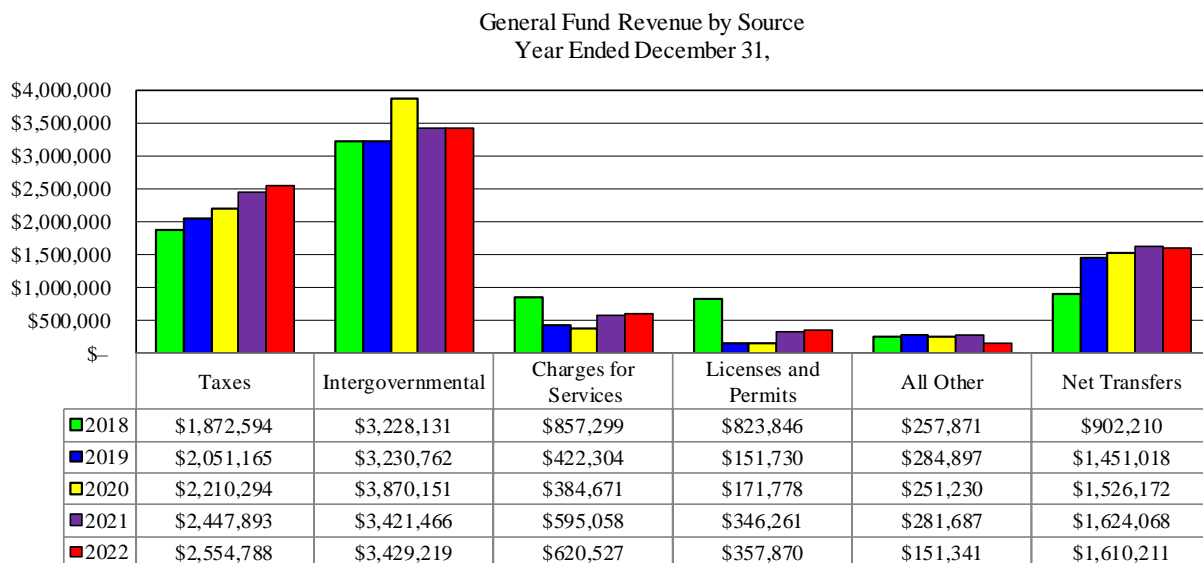


The following graph reflects the City’s General Fund revenues and net transfers, budget and actual, for 2022:



Total General Fund revenues and net transfers in 2022 were \$8,723,956, which was \$136,669 more than the final budget. Licenses and permits exceeded budgeted amounts by \$100,405, due to increased construction activity in the City. Charges for services were over budget by \$114,897, due to an increase in plan checking fees and more than anticipated recreation program activities. Operating transfers in/out were over budget by \$82,111, mainly from enterprise fund transfers being higher than projected. These items were offset by lower than anticipated amounts in the “all other” category, mainly in investment earnings and miscellaneous revenue from contributions, donations, and refunds.

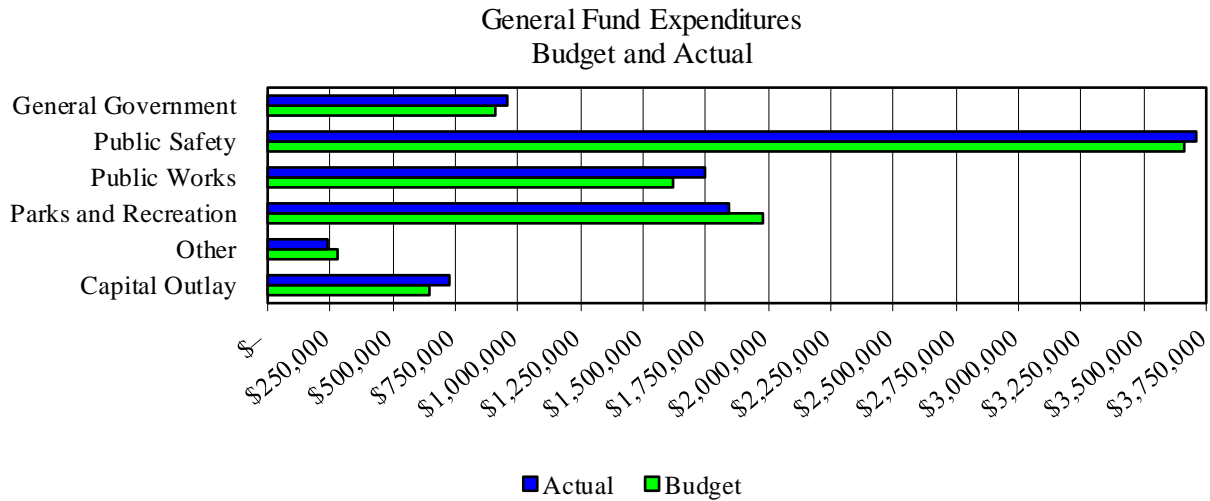
The following graph presents the City’s General Fund revenue sources for the last five years:



Revenues and net transfers for the year ended December 31, 2022 increased by \$7,523. Taxes increased \$106,895, mainly due to an increase in the tax levy in the current year. The “all other” category decreased, due to having less miscellaneous revenue from contributions, donations, and refunds.

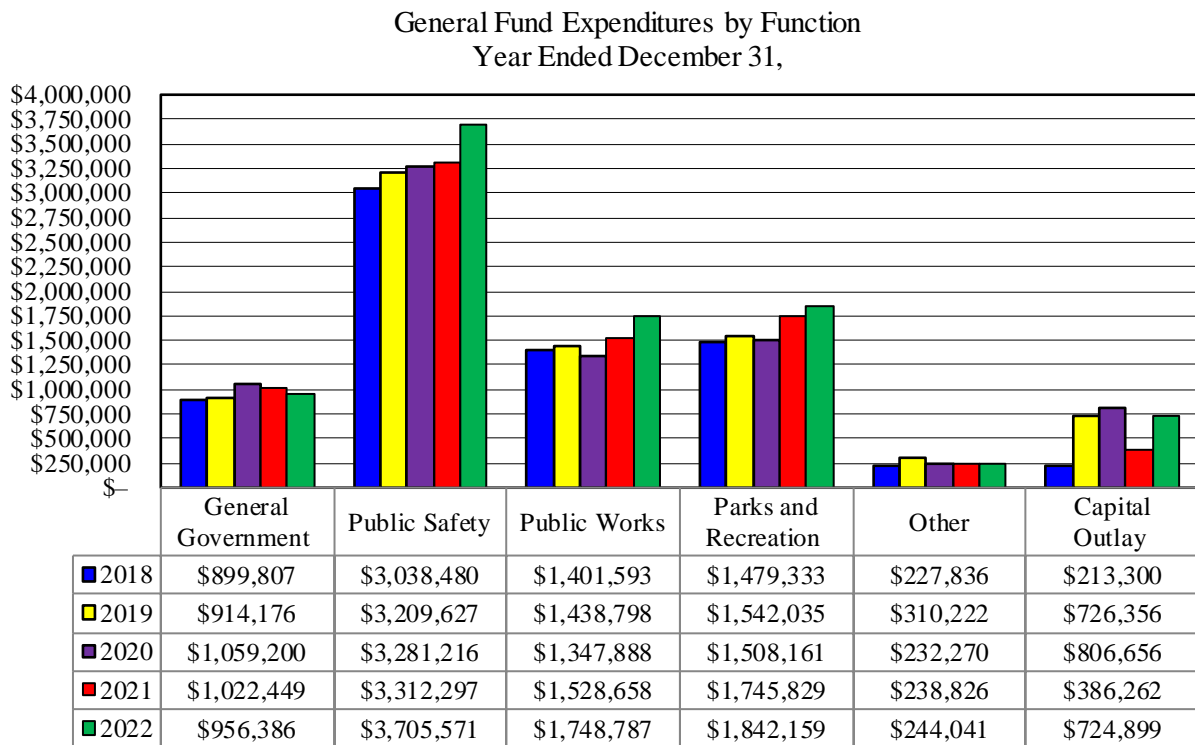
The large amount of tax-exempt property in the City causes historically, heavily relied upon intergovernmental revenue (mainly state aid) and transfers from its enterprise funds to help support General Fund operations.

The following graph provides the components of the City’s General Fund spending for 2022 compared to budget:



Total General Fund expenditures for 2022 were \$9,221,843, which was \$125,433 more than budget. Parks and recreation were under budget by \$136,642, mainly due to vacant positions and lower than expected spending at the swimming pool for office and utility expenditures. Public works was over budget by \$126,450, due to higher than budgeted spending for street-related projects. Capital outlay was \$80,119 over budget for public works projects and equipment purchases completed that were not included in the approved budget.

The following graph presents the components of the City’s General Fund spending for the past five years:



In 2022, total General Fund expenditures increased by \$987,522. Capital outlay increased \$388,637. Capital outlay can fluctuate year-over-year, due to the timing and number of ongoing projects. Public works increased \$220,129, due to increased professional service costs for streets. Public safety increased \$393,274, mainly in the police department for increased wages, overtime costs, employee benefits, and insurance.

THIS PAGE INTENTIONALLY LEFT BLANK

ENTERPRISE FUNDS OVERVIEW

The City maintains a number of 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.

ENTERPRISE FUNDS FINANCIAL POSITION

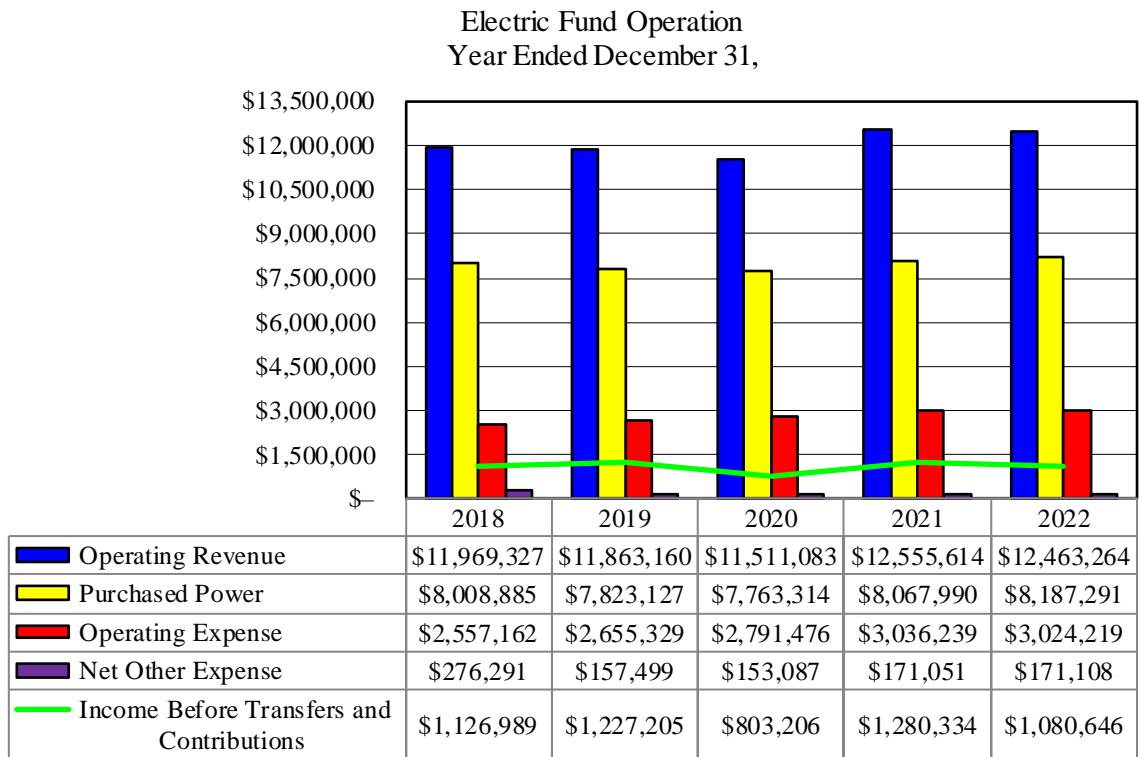
The following table summarizes the changes in the financial position of the City’s enterprise funds during the years ended December 31, 2021 and 2022, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Change
	2021	2022	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 52,597,223	\$ 53,300,476	\$ 703,253
Restricted for debt service	656,477	656,477	–
Unrestricted	3,403,571	3,867,231	463,660
	<u>\$ 56,657,271</u>	<u>\$ 57,824,184</u>	<u>\$ 1,166,913</u>
Total by fund			
Electric	\$ 17,064,546	\$ 17,213,855	\$ 149,309
Water	9,710,484	10,095,409	384,925
Environmental Services	14,475	(106,609)	(121,084)
Wastewater	21,967,556	22,520,689	553,133
Storm Water	5,229,440	5,444,916	215,476
Telecommunications Conduit	139,039	126,941	(12,098)
Medical Office Building	2,531,731	2,528,983	(2,748)
	<u>\$ 56,657,271</u>	<u>\$ 57,824,184</u>	<u>\$ 1,166,913</u>

In total, net position of the City’s enterprise funds increased by \$1,166,913 during the year ended December 31, 2022. The financial results of the most significant funds are further described on the following pages.

ELECTRIC FUND

The following graph presents five years of comparative data for the City's Electric Fund:



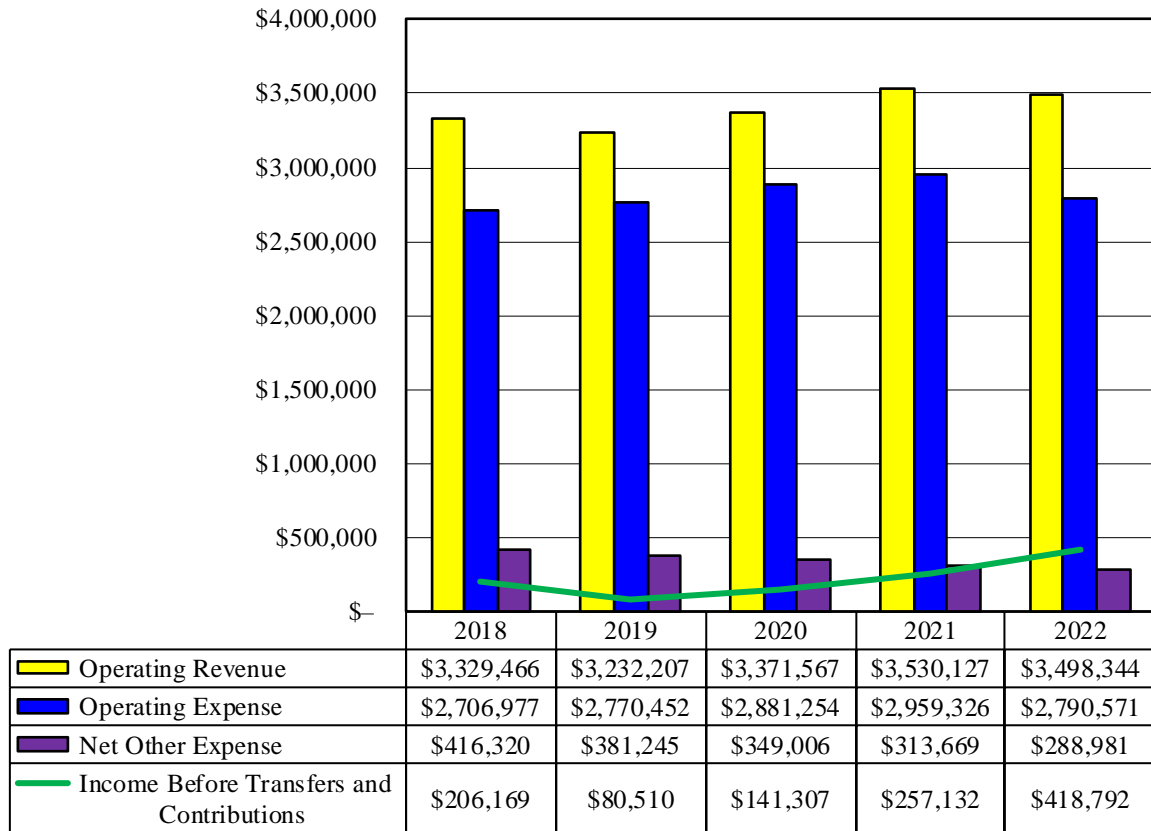
At December 31, 2022, the Electric Fund had a total net position of \$17,213,855, of which \$656,477 was restricted for debt service; \$13,912,773 was the net investment in capital assets; and \$2,644,605 was unrestricted.

Electric Fund operating revenue was \$12,463,264 for 2022, a decrease of \$92,350 (0.7 percent), due to rebates received from Southern Minnesota Municipal Power in the prior year.

WATER FUND

The following graph presents selected data for the City's Water Fund for the past five years:

Water Fund Operation
Year Ended December 31,

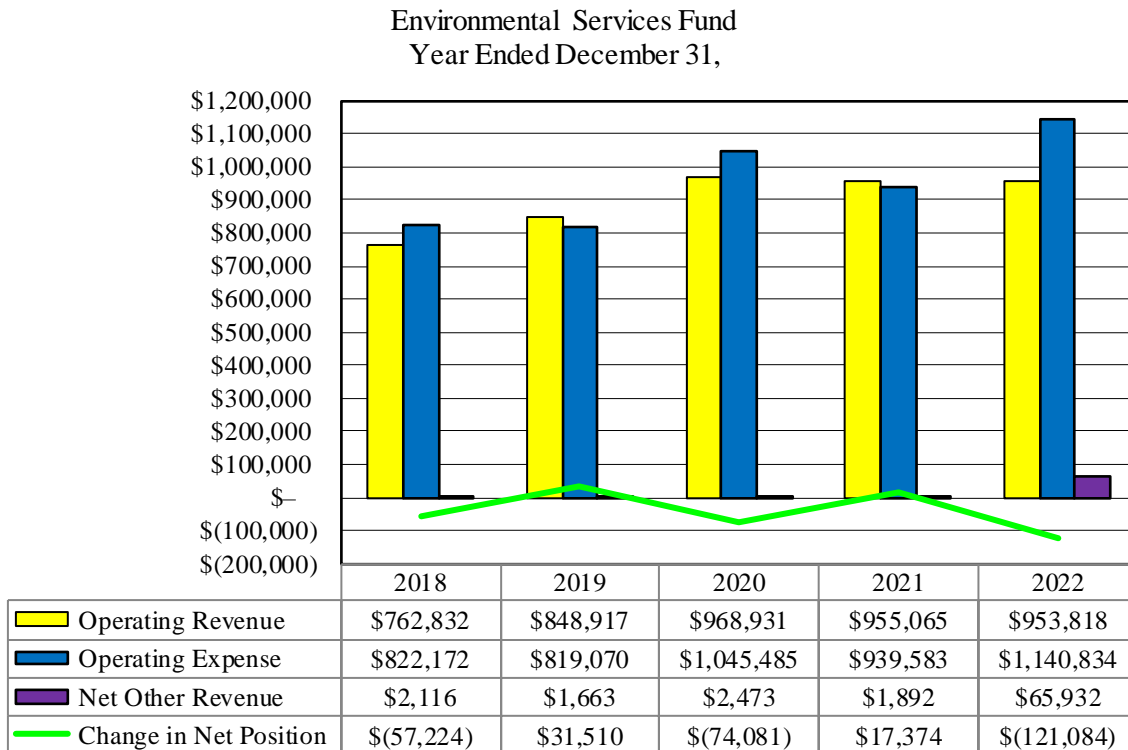


At December 31, 2022, the Water Fund had a total net position of \$10,095,409, of which \$10,518,491 was the net investment in capital assets and a negative \$423,082 was unrestricted.

Water Fund operating revenue was \$3,498,344 for 2022, a decrease of \$31,783 (0.9 percent), which was primarily the result of a decrease in consumption. Operating expenses decreased by \$168,755 (5.7 percent), mainly due to a decrease in depreciation/amortization due to infrastructure assets becoming fully depreciated.

ENVIRONMENTAL SERVICES FUND

The following graph presents selected data for the City's Environmental Services Fund for the past five years:

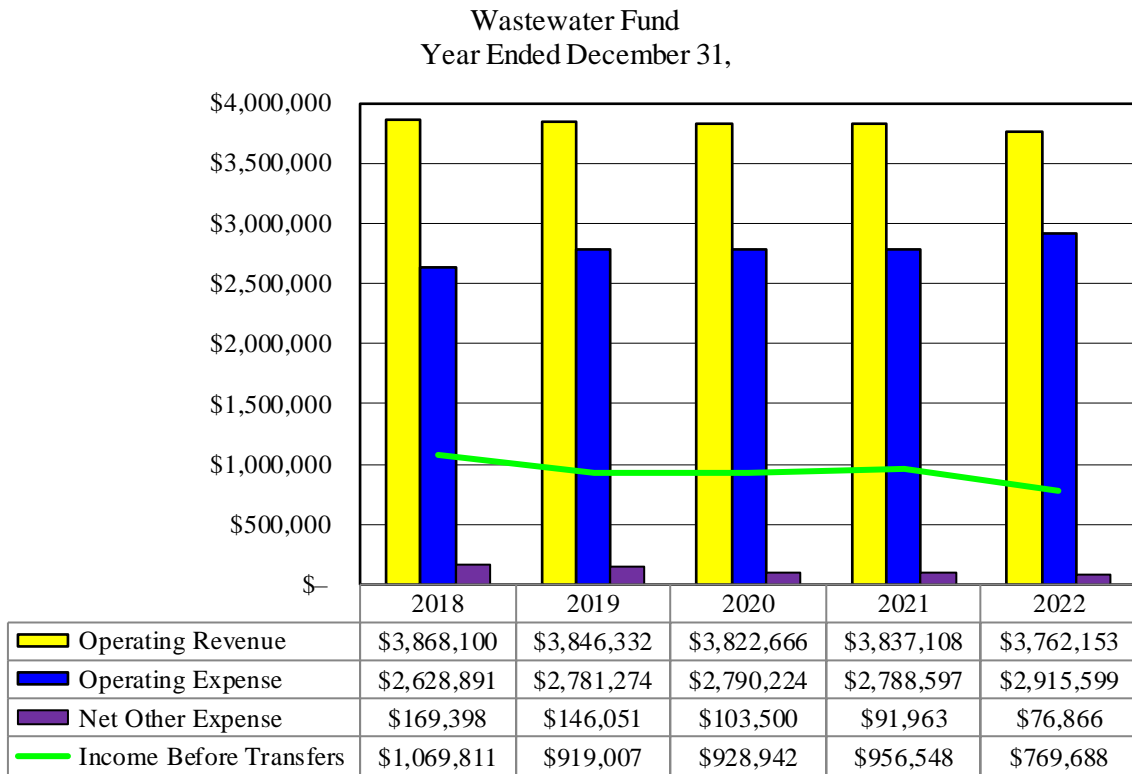


At December 31, 2022, the Environmental Services Fund had a total negative net position of \$106,609, of which \$162,510 was the net investment in capital assets and negative \$269,119 was unrestricted.

Environmental Services Fund operating revenue was \$953,818 for 2022, a decrease of \$1,247 (0.1 percent). Operating expenses increased by \$201,251 (21.4 percent) in 2022, mainly due to increased personnel costs and supplies and materials.

WASTEWATER FUND

The following graph presents selected data for the City's Wastewater Fund for the past five years:

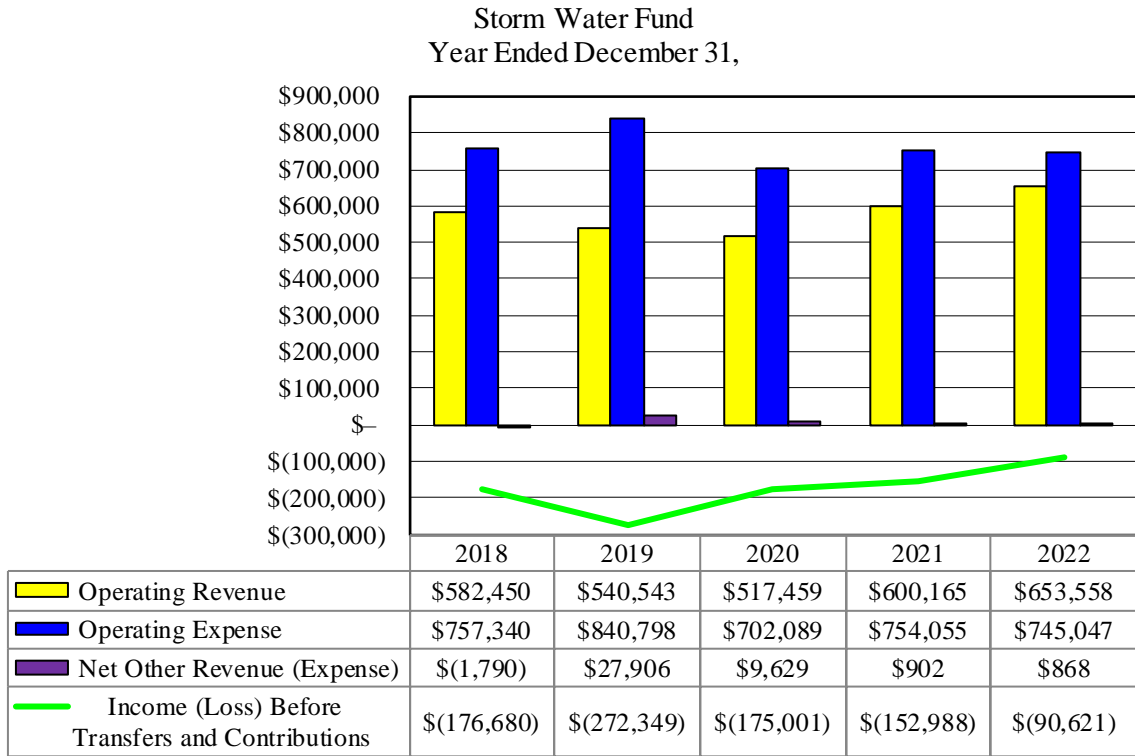


At December 31, 2022, the Wastewater Fund had a total net position of \$22,520,689, of which \$20,936,461 was the net investment in capital assets and \$1,584,228 was unrestricted.

Operating revenue decreased \$74,955 in fiscal 2022, mainly due to changes in consumption. Operating expenses increased \$127,002, mainly from increased costs for repairs and maintenance.

STORM WATER FUND

The following graph presents selected data for the City’s Storm Water Fund for the past five years:



At December 31, 2022, the Storm Water Fund had a total net position of \$5,444,916, of which \$5,186,921 is the net investment in capital assets and \$257,995 is considered unrestricted.

Storm Water Fund operating revenue was \$653,558 for 2022, an increase of \$53,393 (8.9 percent), mainly due to increased rates.

DEBT SERVICE

The following table shows outstanding debt per capita (excluding unamortized premiums) for the City's governmental activities and comparable state-wide averages:

Outstanding Debt per Capita Governmental Activities With State-Wide Comparable Information					
Bond Type	State-Wide as of December 31,		City of Saint Peter as of December 31,		
	2020	2021	2020	2021	2022
General obligation	621	\$ 651	\$ 213	\$ 275	\$ 506
Tax increment	71	68	268	246	217
Special assessment	413	405	-	-	-
General obligation revenue	415	414	232	206	178
Revenue	189	178	-	-	-
Other	1	-	-	-	-
Governmental activities total	<u>\$ 1,710</u>	<u>\$ 1,716</u>	<u>\$ 713</u>	<u>\$ 727</u>	<u>\$ 901</u>

The following table shows outstanding debt per capita for the City's enterprise funds and comparable state-wide averages:

Outstanding Debt per Capita Enterprise Funds With State-Wide Comparable Information					
Fund	State-Wide as of December 31,		City of Saint Peter as of December 31,		
	2020	2021	2020	2021	2022
Electric	\$ 417	\$ 423	\$ 580	\$ 524	\$ 469
Water	196	203	1,050	937	824
Wastewater	190	188	336	228	179
Storm Water	30	30	-	-	-
Total enterprise funds	<u>\$ 833</u>	<u>\$ 844</u>	<u>\$ 1,966</u>	<u>\$ 1,689</u>	<u>\$ 1,472</u>
Primary government totals	<u>\$ 2,543</u>	<u>\$ 2,560</u>	<u>\$ 2,679</u>	<u>\$ 2,416</u>	<u>\$ 2,373</u>

As seen in the table above, the City has less outstanding debt per capita than the average Minnesota city. This lower than average debt balance is a combination of lower than average amounts in the governmental activities and higher than average balances in the enterprise funds, mostly related to balances within the Water Fund.

THIS PAGE INTENTIONALLY LEFT BLANK

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

	As of December 31,		Change
	2021	2022	
Net position			
Governmental activities			
Net investment in capital assets	\$ 31,259,193	\$ 34,582,568	\$ 3,323,375
Restricted	8,022,473	7,085,916	(936,557)
Unrestricted	1,351,066	178,231	(1,172,835)
Total governmental activities	<u>40,632,732</u>	<u>41,846,715</u>	1,213,983
Business-type activities			
Net investment in capital assets	52,597,223	53,300,476	703,253
Restricted	656,477	656,477	-
Unrestricted	3,403,571	3,867,231	463,660
Total business-type activities	<u>56,657,271</u>	<u>57,824,184</u>	1,166,913
Total net position – primary government	<u>\$ 97,290,003</u>	<u>\$ 99,670,899</u>	<u>\$ 2,380,896</u>

Much of the City's net position is restricted by virtue of external restrictions (statutory reserves) or by the nature of the fund it is in. Further, a significant portion of net position has been identified as invested in capital assets, net of related debt, which leaves the balance unrestricted.

The increase in the net investment in capital assets balance in governmental activities is due to significant construction-related additions in the current year. The decrease in restricted net position is a combination of a number of items mostly related to decreases in amounts restricted for capital projects. The decrease in unrestricted net position in the governmental activities mostly relates to the decline in the General Fund balance previously discussed. The changes in the business-type activities are consistent with information discussed earlier in this report regarding enterprise funds financial results.

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/amortization 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, 2021 and 2022:

	2021	2022		Net Change
	Net Change	Expenses	Program Revenues	
Net (expense) revenue				
Governmental activities				
General government	\$ (919,359)	\$ 1,575,352	\$ 534,844	\$ (1,040,508)
Public safety	(2,123,485)	4,027,070	976,540	(3,050,530)
Public works	(1,208,580)	2,996,007	1,915,765	(1,080,242)
Parks and recreation	(2,251,989)	2,647,673	263,258	(2,384,415)
Economic development	(428,294)	651,841	209,802	(442,039)
Interest and fiscal charges	(297,449)	277,032	–	(277,032)
Business-type activities				
Electric	1,273,695	11,373,941	12,465,793	1,091,852
Water	256,808	3,081,500	3,499,706	418,206
Environmental services	17,374	1,140,834	1,019,750	(121,084)
Wastewater	953,410	2,987,022	3,763,754	776,732
Storm water	(153,622)	745,047	654,417	(90,630)
Telecommunications conduit	(12,039)	14,264	2,225	(12,039)
Medical office building	5,609	292,547	290,515	(2,032)
	(4,887,921)	<u>\$ 31,810,130</u>	<u>\$ 25,596,369</u>	(6,213,761)
General revenues				
Taxes	4,305,684			4,839,106
Unrestricted grants and contributions	3,660,221			3,672,668
Investment earnings (charges)	(1,548)			(77,765)
Other revenues	549,487			160,648
Total general revenues	<u>8,513,844</u>			<u>8,594,657</u>
Change in net position	3,625,923			2,380,896
Net position – beginning	<u>93,664,080</u>			<u>97,290,003</u>
Net position – ending	<u>\$ 97,290,003</u>			<u>\$ 99,670,899</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 if 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.

The change in public safety relates to changes in pension-related obligations in both fiscal 2022 and 2021. The increase in taxes is primarily due to an increase in the property tax levy, as well as a local option sales tax being approved, which began to be collected in the current year.

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.

THIS PAGE INTENTIONALLY LEFT BLANK