Report on the City's Financial Position for Fiscal Years 2024 and 2025

Introduction:

It has been some time since my last report to the community. After four months of serving as your City Manager and recently completing two annual financial audits, I believe this is an important opportunity to provide an update on the City's financial condition, the findings identified by our independent auditors, and the corrective actions we are taking to address them.

This week, the City's independent auditor presented the results of the City's 2024 and 2025 financial audits to the City Council. Completing the 2025 audit by October 31, 2025, was particularly important because failure to meet that deadline could have jeopardized approximately $1 million in grant funding.

Transparency and accountability are essential responsibilities of local government. With that in mind, I want to share a summary of the audit results, explain the significant findings,

2025 Financial Audit:

The auditor issued an **unmodified (clean) opinion** on the City's 2025 financial statements. This means the auditor concluded that the financial statements fairly present the City's financial position in accordance with applicable accounting standards.

While this is a positive result, the audit also identified several significant weaknesses in the City's internal financial controls and accounting procedures. These findings highlight areas where improvements are necessary to protect public funds, strengthen accountability, and ensure accurate financial reporting.

Below is a snapshot of the City's financial position for fiscal year 2025.

GENERAL FUND

The General Fund supports essential City operations, including administration, police, streets, and parks.

Description	Dollars
Total Revenue	2,729,295
Total Expenditures	(2,010,574)
Other Sources (Uses)	919,457
Ending Fund Balance	(334,648)
Months in Fund Balance	-1.4

The General Fund ended the fiscal year with a deficit balance. This is a serious financial concern that requires immediate attention and more disciplined budgeting practices moving forward.

Maintaining a healthy General Fund balance is important because it provides the financial resources necessary to support daily operations, address unexpected expenses, and maintain essential City services.

UTILITY FUNDS

The Utility Funds support the City's water and wastewater operations.

Description	Dollars
Operating Revenues	2,729,295
Operating Expenses	(2,010,574)
Other Revenue (Expenses)	(299,283)
Ending Position	2,056,153

The financial stability of our utility operations is essential to maintaining reliable water and wastewater services. Moving forward, we must strengthen utility billing and collection procedures, monitor operating expenses, and ensure that utility rates and revenues adequately support the cost of providing these services.

OTHER FUND BALANCES

The following table provides an overview of several additional City fund balances as of the end of fiscal year 2025.

Description	Dollars
Fire Fund	116,4511
PD Special	12,561
Debt Service	61,717
Street Fund	214,899
EDC	961,788
Municipal Court	135,528
TQIC	365,875
Animal Control	30,274

Significant Internal Control Findings in the 2025 Audit:

One of the most important purposes of an independent financial audit is to identify weaknesses in the City's financial procedures and internal controls. The auditor identified several material weaknesses that require corrective action.

A material weakness does not necessarily mean that funds were misappropriated or that fraud occurred. Rather, it means that existing procedures may not adequately prevent, identify, or correct financial errors in a timely manner.

The following are the major areas identified in the 2025 audit.

1. Utility Receivables:
The City has a significant amount of outstanding, uncollected utility account balances. As of September 30, 2025, the total outstanding balance was $567,253. Of that amount, $519,525 consisted of final accounts that had been closed, with customer deposits already applied to the outstanding balances.

This represents a significant collection challenge and potential loss of revenue for the city.

The city must improve its utility account management and collection procedures. **This includes reviewing disconnection policies to ensure that customers who fail to pay their utility bills are disconnected in a timely manner**. We must also strengthen collection efforts and improve procedures for handling accounts when customers discontinue service.

Our goal is to reduce outstanding balances and ensure that utility customers are treated consistently and fairly while protecting the financial health of our water and wastewater operations.

2. Bank Reconciliations:
The auditor found that the City's last completed bank reconciliation in its financial software, Incode, was for April 2023.

Bank reconciliations are a fundamental financial control. They ensure that the City's accounting records agree with actual bank balances and help identify errors, unauthorized transactions, and potential misuse of public funds.

Because reconciliations were not being completed regularly, the financial information generated by the City's accounting software was not consistently accurate during the year. The lack of timely reconciliations also delayed the identification of questionable credit card transactions and electronic payments that had not been properly recorded.

Moving forward, the City must complete and review bank reconciliations for every bank account on a monthly basis. This will be a priority in strengthening our financial oversight and protecting taxpayer dollars.

Payroll Tax Compliance:
The auditor identified significant problems with the City's federal payroll tax compliance.

Beginning in the third quarter of 2023, the City fell behind on required payroll tax deposits. This continued through the second quarter of 2025, resulting in a substantial outstanding tax liability to the Internal Revenue Service (IRS). Additionally, not all required payroll tax filings had been submitted. The city currently owes the IRS approximately $400,000 which includes interest and penalties. The entire $400,000 is due to poor financial management in 2024 and 2025.

Failure to make timely payroll tax deposits and file required reports can expose the City to significant penalties and interest.

The City must address its outstanding obligations, determine the full extent of any remaining liabilities, bring all required filings up to date, and establish procedures to ensure that payroll taxes are deposited and reported accurately and on time.

This is an important compliance issue that requires continued attention until it is fully resolved.

Budget Preparation Practices:
The auditor also identified concerns with the City's budget preparation practices for the 2024-2025 fiscal year.

The adopted General Fund budget authorized spending that exceeded the fund balance available to support those expenditures. In other words, the City budgeted to spend approximately $1.1 million from a fund balance that did not have sufficient resources to cover that amount.

As a result, the General Fund ended fiscal year 2025 with a deficit.

A responsible budget must be based on realistic revenue projections, available financial resources, and the City's actual ability to pay for its operations.

Going forward, we must strengthen our budget preparation process, improve financial forecasting, monitor expenditures throughout the year, and ensure that spending decisions are supported by available resources.

Our responsibility is to develop budgets that are financially responsible, sustainable, and reflective of the community's priorities.

2024 Financial Audit

Unlike the 2025 audit, the auditor did not issue an opinion on the City's 2024 financial statements. This is referred to as a disclaimer of opinion.

A disclaimer of opinion means the auditor was unable to obtain sufficient and appropriate supporting evidence to determine whether the City's financial statements were fairly presented. As explained in the audit report, the significance of the outstanding issues and the lack of supporting documentation prevented the auditor from completing the necessary procedures to issue an opinion.

This does not automatically mean the financial statements are inaccurate. Rather, it means the auditor did not have enough reliable information to verify them.

Over the next 12 months, City staff will continue working to locate missing financial records and provide the additional documentation requested by the auditor. If sufficient supporting evidence can be recovered, the auditor may be able to perform additional procedures and potentially issue an opinion on the 2024 financial statements.

Our goal is to address these outstanding documentation issues and bring the City's financial reporting up to the standards expected of a well-managed municipal government.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS The following financial information reflects the City's governmental activities, including administration, police, parks, and streets.

Description	Dollars
Total Revenues	1,920,115
Total Expenditures	3,869,774
Excess of Revenues Over Expenditures	(1,949,659)
Other Financing Sources	278,401
Net Change in Fund Balance	(1,671,258)
Fund Balances at End of Year	627,039

These figures reflect the financial challenges experienced by the City's governmental operations during fiscal year 2024. The significant difference between revenues and expenditures reinforces the importance of responsible budgeting, expenditure monitoring, and maintaining adequate financial reserves.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS The following information reflects the City's enterprise operations, including water, wastewater, and sanitation.

Description	Dollars
Total Operating Revenues	2,399,813
Total Operating Expenses	2,105,934
Operating Income	293,879
Nonoperating Revenue	(2,326)
Income Before Transfers	291,553
Total Transfers	(278,401)
Net Position at Beginning of Year	13,152
Prior Period Adjustment	(208,666)
Net Position at End of Year	1,636,716

EDC AND TQIC NET POSITION

Description	Dollars
EDC	834,946
TQIC	307,192

Significant Internal Control Findings in the 2024 Audit

The auditor identified many of the same internal control weaknesses in the 2024 audit that were also reported in the 2025 audit. These included concerns involving utility account receivables, bank reconciliations, payroll tax compliance, and budget preparation practices.

In addition to those findings, the 2024 audit identified a specific concern involving the City's ability to provide supporting documentation for financial transactions.

1. Financial Transaction Documentation

During the audit, City management was unable to provide original supporting documentation for several bills that had already been paid.

The city has experienced significant employee turnover over the years, and it is possible that some of these records still exist but could not be located when requested by the auditor.

Regardless of the reason, the inability to produce supporting documentation creates a gap in the City's financial records. Without proper documentation, the auditor cannot adequately verify that transactions were:

- Recorded in the correct accounting account.
- Posted during the correct fiscal period.
- Recorded for the correct amount.
- Properly supported and authorized.

Maintaining complete financial records is a fundamental responsibility of City government. Every expenditure of public funds should have an adequate paper or electronic trail demonstrating what was purchased, who authorized the expenditure, and that the payment was made for a legitimate City purpose.

The City must establish and maintain a comprehensive records management system to ensure that invoices, purchase orders, receipts, payment records, approvals, and other financial documents are properly retained and readily accessible.

Moving forward, we will work to strengthen document retention practices and establish consistent procedures to ensure that financial records are preserved for the periods required by applicable laws and regulations.

These improvements will help ensure that future audits can be completed with the documentation necessary to verify the City's financial activities.

Moving Forward: Accountability and Financial Improvement

The findings in the 2024 and 2025 audit make it clear that the City has work to do. Some of these issues developed over an extended period and will not be resolved overnight. However, identifying these problems is an important first step toward correcting them.

As City Manager, I take these findings seriously. My responsibility is to ensure that the City's financial operations are properly managed, that public funds are protected, and that the governing body and residents receive accurate and timely financial information.

Our priorities moving forward include:

- **Strengthening financial controls:** Establishing consistent monthly bank reconciliations and improving oversight of financial transactions.
- **Addressing outstanding obligations:** Resolving payroll tax compliance issues and improving utility account collections.
- **Improving budget practices:** Ensuring future budgets are based on realistic revenue projections and available financial resources.
- **Modernizing accounting procedures:** Expanding pooled cash implementation where appropriate and reducing unnecessary manual transactions.
- **Increasing accountability:** Establishing clearer procedures, responsibilities, and oversight to ensure that financial issues are identified and addressed promptly.

These priorities will require consistent effort, improved procedures, and a commitment from everyone involved in managing the City's finances.

I believe the community deserves transparency about the City's financial condition, including the challenges we face and the steps being taken to correct them. My commitment is to keep the governing body and residents informed as we work through these issues.

We have an opportunity to strengthen the City's financial foundation, improve our internal operations, and establish better practices for the future. That work starts with accountability, transparency, and a commitment to doing things the right way.

The complete financial audits for fiscal years 2024 and 2025 are available on the City's website. Residents can access these documents by visiting the **Transparency** section and selecting **Budget and Financial Reports**.

I encourage residents to review these reports and remain engaged in the financial affairs of their City.

In the coming weeks, I will provide another report to the community outlining the status of ongoing projects, upcoming initiatives, and other important developments within the City. Thank you for your continued interest, support, and commitment to our community.

Respectfully,

Scott L. Albert
City Manager