Management’s Discussion and Analysis

As management of the City of Dogwood (the “City”), we offer readers of the City of Dogwood’s financial statements this narrative overview and analysis of the financial activities of the City of Dogwood for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City’s financial statements, which follow this narrative.

**Note to preparer:** The MD&A is an opportunity for management to proactively address any issues that might be affecting the unit’s financial status or questions that might be posed by readers of the financial statements. A thoughtful discussion and analysis of economic, financial, or budgetary factors that might influence the unit should be presented. This discussion should be based on currently known facts, decisions, or conditions. Currently known means information that management is aware of as of the date of the auditor’s report.

# Financial Highlights

* The assets and deferred outflows of resources of the City of Dogwood exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $14,286,254 (*net position*).
* As of the close of the current fiscal year, the City of Dogwood’s governmental funds reported combined ending fund balances of $665,075 with a net increase of $5,616 in fund balance. Approximately 34.2% of this total amount, or $227,447, is non-spendable or restricted.
* The City of Dogwood experienced a record-breaking flood and the collapse of the Cardinal Point Dam on July 2, 2022. The wastewater aerating facility was severely damaged as was the Tar Heel Municipal Building. After repair costs and insurance recovery, the City recognized an extraordinary gain of Note to $1,281,046 in the Water and Sewer Fund.
* The City of Dogwood’s total long-term liabilities increased by $262,055 (4.14%) during the current fiscal year. The key factors in this increase; an increase of $307,969 in the net pension liability for the Local Government Employees Retirement System (LGERS); and $200,000 in certificates of participation for parking improvements at Municipal Park. Increases were offset by planned debt service principal payments of $369,725.
* The City of Dogwood’s other liabilities increased by $490,708. This was attributable to the issuance of bond anticipation notes of $675,000 for Water and Sewer improvements.
* The City of Dogwood maintained its AAA bond rating for the 10th consecutive year.

**Note to preparer**: Continue to list any other significant financial highlights here.

# Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Dogwood’s basic financial statements. The City’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the City of Dogwood.

## Required Components of Annual Financial Report

Figure 1

Basic

Financial

Statements

Management’s Discussion and Analysis

Government-wide Financial

Statements

Notes to the

Financial Statements

Fund

Financial

Statements

Summary Detail

**Basic Financial Statements**

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City’s financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City’s government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements for major governmental funds; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City’s individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

**Government-Wide Financial Analysis**

**Note to Preparer.** GASBS 34 ¶9. Indicates that the “MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.”

GASBS 34 ¶11. c. provides for, at a minimum, inclusion of “[a]n analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include *reasons* for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year should be discussed.”

The government-wide financial statements are designed to provide the reader with a broad overview of the City’s finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City’s financial status as a whole.

The two government-wide statements report the City’s net position and how it has changed. Net position is the difference between the City’s total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City’s financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City’s basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and electric services offered by the City of Dogwood. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. The City exercises control over the Board by appointing its members and the Board is required to distribute its profits to the City.

The government-wide financial statements are Exhibits 1 and 2 of this report.

**Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the City’s most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Dogwood, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City’s budget ordinance. All the funds of City of Dogwood can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if more or fewer financial resources are available to finance the City’s programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Dogwood adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – City of Dogwood has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Dogwood uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of City of Dogwood. The City uses an internal service fund to account for one activity – its central garage operations. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Dogwood’s progress in funding its obligation to provide pension and OPEB benefits to its employees.

**Interdependence with Other Entities:**  The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina.  Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.  It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

# Government-Wide Financial Analysis

## **City of Dogwood’s Net Position**

Figure 2

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets and deferred outflows of the City of Dogwood exceeded liabilities and deferred inflows by $14,286,254 as of June 30, 2023. Current and other assets decreased by $312,845 from the prior year. A significant contributing factor to the decrease was the flood caused by the collapse of the Cardinal Point Dam. The event caused a need for significant cleanup and restoration activity. Insurance recoveries provided cash to pay for a portion of these activities. Ultimately, the City had to use some of the resources on hand to complete certain projects.

Other liabilities increased by $490,708 from the previous year. The main factor causing the increase was the issuance of a short-term Bond Anticipation Note for $675,000. These resources will be used for various projects of the Water and Sewer Enterprise Fund. This increase was partially offset by the reduction of accounts payable.

Long-term liabilities which include bonds, notes, leases, IT subscriptions, compensated absences, and postemployment obligations of the primary governments increased by $262,055. The main cause of the increase were the issuance of a $200,000 installment purchase obligation, and an increase of $307,969 for the City’s net pension liability for the Local Government Employees’ Retirement System. The overall increase in long-term liabilities were partially offset by the reduction of bonds payable based on the debt service principal payments made during the current year.

By far, the largest portion reflects the City’s net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment). The City of Dogwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Dogwood’s net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City of Dogwood’s net position, $335,866, represents resources that are subject to external restrictions on how they may be used. As of the end of the current year, the City of Dogwood’s unrestricted net position was a deficit balance of $815,381. The deficit is caused primarily by the approximately $2.1 million in postemployment liabilities for the City of Dogwood’s two pension plans ($874,148) and its other postemployment benefit plan for retiree healthcare ($1,197,320).

**City of Dogwood’s Changes in Net Position**

**Figure 3**

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The city of Dogwood’s overall net position increased $2,162,137 from the prior year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental activities**. Governmental activities increased the City’s net position by $346,542, accounting for 16.03% of the total growth in the net position of the City of Dogwood. During the current year City management continued to reduce non-essential programs to a minimum and implemented cost saving strategies across City departments. Certain nonrecurring expenses were either postponed or renegotiated to maintain a healthy net position. These efforts helped to minimize expenses for the current fiscal year. As a result, the City of Dogwood did not experience a significant increase in any of the functional expenditure categories of governmental activities. The $124,781 (4.3% over the prior year) increase in total expenses was largely attributable to salary increases provided to employees during the current fiscal year.

Management believes healthy investment in the City will result in additional revenues, adding to the City’s net position by investing in capital assets. The City was able to fund some items in its capital spending plan with cultural, recreational, and economic development grant revenues. This effort was aided through an insurance recovery of $325,000 that was used to repair the flood damage to the Tarheel Municipal Building.

The total revenues of City of Dogwood increased by $471,105 (15.8% over the prior year). One of the main factors contributed to this overall increase was that the property valuation used in the calculation of the FY23 tax levy increased by $24,970,000 which in turn caused a $139,927 increase in the net levy. In addition, there was an increase in revenues from grants and contributions of $192,010. These federal and state grants were to aid in the cleanup, recovery, and restoration related to the flood damage sustained by the City.

City management recognizes that 2023 was a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

**Note to preparer** - Include anything in the above discussion that you wish to highlight with regards to governmental activities as a factor in changing your net position for the current year. For example, fee revenue or tax revenue increases due to annexation and/or economic growth, reductions in spending, savings from debt refunding, new operating grants received, etc.

**Business-type activities.** Business-type activities increased the City of Dogwood’s net position by $1,815,595, accounting for 83.97% of the total growth in the government’s net position. A key element of this increase was due to an extraordinary gain on insurance recovery of $1,281,046 due to the collapse of the Cardinal Point Dam and subsequent flooding of the wastewater aeration facility. The City received $3,650,000 in insurance recovery to offset the asset impairment loss of $2,368,954 resulting in an extraordinary gain of $1,281,046. Restoration cost of $3,800,000 has been capitalized in the Water and Sewer Fund. Overall Water and Sewer Enterprise fund expenses increased by $566,298 (80.96% over the prior year). Expenses for the cleanup, recovery and restoration related to the flood were the cause of the increase.

Cost-saving measures were able to limit the expenses of the Electric Enterprise Fund. The increase in those expenses was $150,994 (5.61% over the prior year). This was largely attributable to salary increases provided to employees during the current fiscal year. The City’s adopted budget included rate increases for both the Electric and Water and Rate Enterprise funds. The 5% increase in rates plus increases in the consumption of electric and water services resulted in an increase of $497,928 in those revenues.

**Note to preparer -** Include anything in the above discussion that you wish to highlight with regards to business-type activities as reasons for increases in net position.

## **Financial Analysis of the City’s Funds**

**Note to Preparer.** GASBS 34 ¶11.d. provides for, at a minimum, inclusion of “[a]n analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

As noted earlier, the City of Dogwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**. The focus of the City of Dogwood’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Dogwood’s financing requirements.

The general fund is the chief operating fund of the City of Dogwood. At the end of the current fiscal year, City of Dogwood’s fund balance available in the General Fund was $414,228, while total fund balance reached $606,909. The Governing Body of City of Dogwood has determined that the City should maintain an available fund balance of 5% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 17.01% of general fund expenditures, and total fund balance represents 24.92% of the same amount.

At June 30, 2023, governmental funds reported a combined fund balance of $665,075 with a net increase in fund balance of $5,616. Included in this change in fund balance is an increase in fund balance in the Capital Projects Fund.

Like governmental activities, the General fund also had increased property tax revenues because of the increased property valuation used for the calculation of the current year tax levy. During the current year the City of Dogwood enhanced its tax collection policies and procedures. The effort focused on the collection of prior year unpaid taxes. On the accrual basis used for government-wide financial statements the taxes were previously recognized as revenue in the period they were intended to finance. However, on the modified accrual basis used for governmental fund financial statements property tax revenues must be available to be recognized as revenue. The unpaid taxes of prior years only become available when they are actually collected. The enhanced collection efforts in the current year resulted in the collection and recognition of revenue of approximately $29,000.

**General Fund Budgetary Highlights.**  During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

**Note to preparer** - Insert a brief discussion here about differences between budgeted and actual numbers and why this occurs. The following is an example based on City of Dogwood.

There were several reasons the City revised its General fund budget throughout the year. There was a budget amendment to increase unrestricted intergovernmental revenues for resources that became available for distribution in 2023. At the same time the restricted intergovernmental revenue was reduced for grants that were no longer available.

The City also found it necessary to amend the budget in the General Fund for General Government expenditures to account for unexpected cleanup, restoration, and capital outlay expenditures caused by the flood. Simultaneously the budget was also changed to include an other financing source for the insurance recovery the City received.

The implementation of GASB Statement No. 96 for the current year also required a budget amendment to increase debt service principal and interest expenditures. GASB 96 also required a change to include a budget amount for an other financing source for an IT subscription agreement.

While the City was generally in compliance with budgetary requirements there was one instance of spending in excess of the budget amount. While the City had amended the budget for general government expenditures for unexpected amounts caused by the flood it was discovered after year end that a valid current year expenditure for capital outlay related to the flood had not been included in the budget amendment. Since the budget could no longer be revised the City had to report and disclose this $3,846 excess of expenditures over appropriations. City management and the Board will more closely review budget reports to ensure compliance in future years.

**Proprietary Funds**. The City of Dogwood’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position for the Water and Sewer Fund at the end of the fiscal year amounted to a deficit of $245,657, and the Electric Fund had a positive amount of $18,064. The total change in net position for the Water and Sewer and the Electric Funds was $1,831,714 increase and $16,419 decrease, respectively. The change in net position in the Water and Sewer Fund is a result of the gain from insurance proceeds as a result of the collapse in the Cardinal Point Dam and subsequent damage to the wastewater aerating facility. As mentioned earlier in the discussion of business-type activities rate increases for these funds also contributed to the overall increase in net position.

**Capital Asset and Debt Administration**

**Note to Preparer.** GASBS 34 ¶11.d. provides for, at a minimum, inclusion of “[a] description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

**Capital assets.** The City of Dogwood’s capital assets for its governmental and business–type activities as of June 30, 2023, totals $18,049,559 (net of accumulated depreciation) an increase of 20.44% over the prior year. These assets include buildings, infrastructure, land, machinery and equipment, park facilities, vehicles and right to use assets for leases and IT subscriptions.

Major capital asset transactions during the year include the following:

**Note to preparer** - List major activities, including demolitions or impairments. The following is an example based on the City of Dogwood.

Governmental Activities

* Restoration costs of $395,240 for flood damage repairs to the municipal building were capitalized.
* $590,000 was added to construction in progress for additional amounts spent on the parking deck and various recreational facilities.
* While not significant, the implementation of GASB 96 added $72,338 of right to use assets for IT subscriptions (a beginning balance of $23,557 and a new arrangement of $48,781 during the year).

Business-type Activities

* Restoration costs of $3,925,364 for flood damage repairs to the wastewater aerating facility were capitalized.
* $1,147,613 was added to construction in progress for additional amounts spent on water and sewer treatment facilities.

## **City of Dogwood’s Capital Assets**

**(Net of depreciation/amortization)**

Figure 4

Additional information on the City’s capital assets can be found in Note III.A.5 of the Basic Financial Statements.

**Long-term Debt**. As of June 30, 2023, the City of Dogwood had total bonded debt outstanding of $3,925,537. Of this, $3,018,614 is debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources (e.g., revenue bonds).

**Outstanding Debt**

**Figure 5**

**City of Dogwood’s Outstanding Debt.** The City of Dogwood’s total debt increased by $262,055 (4.14% over the prior year) during the current fiscal year. The key factors in this increase were the issuance of $200,000 in installment purchase financing for parking improvements at Municipal Park. This obligation will be paid by the General fund. There was also an increase in the net pension liability for the Local Government Employees Retirement System (LGERS) of $307,969. Of the increase in the liability to LGERS $186,320 relates to governmental activities and $121,649 relates to business-type activities. These increases were offset by planned debt service principal payments of $369,725.

The implementation of GASB 96 resulted in an increase in IT subscription liabilities for governmental activities of $72,338 ($23,557 was an increase to the beginning balance of liabilities and $48,781 was an IT subscription arrangement the City executed in the current year).

The City also issued a bond anticipation note (BAN) of $675,000 for Water and Sewer improvements. While a short-term liability (amount is due November 23, 2023), it was issued with the intent to issue long-term debt of $750,000 during the next fiscal year to provide resources to payoff the BAN and to provide some additional resources for water and sewer projects.

For the 10th consecutive year, the City of Dogwood maintained its Aaa bond rating from Moody’s Investors Service, and a AAA rating from both Standard and Poor’s Financial Services and Fitch Ratings. This bond rating is a clear indication of the sound financial condition of City of Dogwood. The City of Dogwood is one of the few municipalities in the country that maintains the highest financial rating from all three major rating agencies. This achievement is a primary factor in keeping interest costs low on the City’s outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for City of Dogwood is $10,847,306. The City has $1,000,000 in bonds authorized but unissued at June 30, 2023.

Additional information regarding the City of Dogwood’s long-term debt can be found in Note III.B.6 of this report.

**Economic Factors and Next Year’s Budgets and Rates**

The following key economic indicators reflect the growth and prosperity of the City.

**Note to preparer** - List items such as the number of new jobs created, the number of occupied square feet of business property, the unemployment rate and how it compares to state average, total retail sales for the unit for the year, etc. This is also an opportunity to discuss the impact of unusual events such as the effects of COVID-19 on the unit’s economy. North Carolina Local Government COVID-19 resources may be found [here](https://www.nctreasurer.com/local-government-covid-19-resources).

The following is an example based on the City of Dogwood.

* Low unemployment. The City of Dogwood unemployment rate of 3.9% is well below the State average.
* New manufacturing jobs. Management’s emphasis on economic development continues to attract business. The City added approximately 4,000 new jobs last year in the manufacturing sector with the opening of the Doohickey Factory.
* Occupancy rates on office and retail space. The City’s occupancy rates are about 90% for the year, which is an increase from last year and higher than the area average of 85%. Management expects that the occupancy rate for fiscal year 2023 will remain high.

**Budget Highlights for the Fiscal Year Ending June 30, 2023**

**Governmental Activities:** Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue by 2%. The City will use these increases in revenues to finance programs currently in place. Management has seen some improvement in areas that were affected by the recession and anticipates more growth in coming years.

Budgeted expenditures in the General Fund are expected to rise approximately 5% to $2,535,000. The largest increments are in employee compensation, including both salary and benefits adjustments.

The City has chosen not to appropriate fund balance in the fiscal year 2024 budget. Management believes that increased revenues and continued limitations on spending will maintain the City’s financial position. As the City considers future revenue sources, it has determined that each $0.01 increase in the property tax rate will result in additional revenues of approximately $16,000 at current property values and tax collection rate. Though management believes current growth will generate enough revenue to support City operations, a careful analysis of property tax revenue will be considered in future years’ budgets.

**Note to preparer** - Add here any other discussion about the General Fund budget for the new fiscal year that you wish to highlight.

**Business–type Activities:** The aftermath of the Cardinal Point dam collapse in this past year water and sewer rates in the City will again increase by 5%. These resources will primarily cover increased costs of operations and infrastructure maintenance. General operating expenses of the water and sewer enterprise fund will increase by 2% to cover increased personnel costs, and 2.5% to cover increased costs of material, supplies, and other operating expenses. Rates for electricity will also again increase, this year by an average of 4%, to cover an equal increase in operating costs, primarily personnel and equipment maintenance expense.

## **Requests for Information**

This report is designed to provide an overview of the City’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Dogwood, 789 Government Drive, Dogwood, NC 00000. One can also call (000)-000-0000, visit our website www.CityofDogwood.com or send an email to samplecity@dogwood.com for more information.

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