

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Monett

THIRD CLASS CITY – COMMISSION FORM OF GOVERNMENT

James Orr, Mayor · Donald Roberson, Commissioner · Jerry Dierker, Commissioner
217 Fifth Street · P.O. Box 110 · Monett, Missouri 65708

City Clerk - (417) 235-3763
City Collector - (417) 235-3544
Council - (417) 235-3355
Fax - (417) 235-4608

Management's Discussion and Analysis

As management of the City of Monett, Missouri, we offer readers of the City of Monett, Missouri's financial statements this narrative overview and analysis of the financial activities of the City of Monett, Missouri for the fiscal year ended March 31, 2004. We encourage readers to consider the information presented here in conjunction with the transmittal letter and basic financial statements.

Financial Highlights

- The assets of the City of Monett, Missouri exceeded its liabilities at the close of the most recent fiscal year by \$23,133,067.22 (*net assets*). Of this amount, \$1,648,590.59 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. By far the largest portion of the City of Monett, Missouri's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Monett, Missouri uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Monett, Missouri's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- At the end of the current fiscal year, the City of Monett, Missouri is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.
- The government's total net assets increased by \$1,763,877.39. Governmental activities net assets increase by \$979,014.47 while business-type activities increased by \$784,862.92.
- As of the close of the current fiscal year, the City of Monett, Missouri's governmental funds reported combined ending fund balances of \$1,219,483.55 an increase of \$517,387.81 in comparison with the prior year. Approximately 35% of this total amount, \$433,310.39, is *available for spending* at the government's discretion (*undesignated fund balance*).
- The City of Monett, Missouri's total debt increased by \$8,888,698.71 (160 percent) during the current fiscal year. The key factor in this increase was the issuance of \$8,950,000 in revenue bonds for the sewer project and \$500,000 in a temporary note for Country Club project. The City fiscal year started with existing debt of \$5,550,795.58, principal payment of \$561,301.29 were made during the year, also, new debt issuance of \$9,450,000.00, which created ending fiscal year debt balance of \$ 14,639,494.29

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Monett, Missouri's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Monett, Missouri's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Monett, Missouri is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Monett, Missouri that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Monett, Missouri include policy development and administration, public safety, public works, parks and recreation, and municipal airport. The business-type activities of the City of Monett, Missouri include water, electric, sewer, sanitation and fiber optic operations.

The government-wide financial statements include not only the City of Monett, Missouri itself, but also a legally separate non-profit organization (The Monett Family Center, Inc.) for which the City of Monett, Missouri had control of the appointment of the original board of directors. Financial information for this *component units* is reported as an integral part of the City of Monett's financial information.

The government-wide financial statements can be found within the table of contents.

Fund financial statements. 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 Monett, Missouri, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Monett, Missouri can be divided into two categories: governmental funds and proprietary funds.

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Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Monett, Missouri maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City of Monett, Missouri adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the governmental fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found within the table of contents.

Proprietary funds. The City of Monett, Missouri maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Monett, Missouri uses enterprise funds to account for its water, electric, sewer, sanitation and fiber optic operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Monett, Missouri's various functions. The City of Monett, Missouri uses internal service funds to account for its hazardous material, safety, and mechanic operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, electric, sewer, sanitation and fiber optic operations, all of which are considered to be major funds of the City of Monett, Missouri. Individual fund data for the internal service funds is provided in the form of *combined statements* elsewhere in this report.

The basic proprietary fund financial statements can be found within the table of contents.

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.

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Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Monett, Missouri's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

Governmental activities

For the most part, revenues closely paralleled the prior fiscal year, with the following exceptions noted:

- Sales tax of \$2,629,878.00 showed an increase of \$162,661.90 (6.5%) compared to prior fiscal year. Most of this increase is the result of a rebounding economy from lower sales tax during 2002-2003.
- Investment income of \$109,082.95 showed an increase of \$87,080.55 (397%) compared to \$22,002.40 in 2002-2003. Mostly as a result of more aggressive investment strategies of the City and also due to the amount of reserve available for investments.
- Federal and state grants of \$84,558.68 showed a decrease of \$1,798,485.95 compared to \$1,883,004.63 in 2002-2003. Due to the completion during 2002-2003 of the airport grants of \$1,435,848.73 and the Eisenhower CDBG grant of \$643,499.97.

For the most part, increases in operating expenditures closely paralleled inflation and growth in the demand for services, with the following exceptions noted:

- Computer expenditures of \$26,547.51 showed an increase of \$8,536.90 (47%) compared to \$18,010.61 in 2002-2003. Most of this increase was from the Administration, Communications and Police departments.
- Insurance expenditures of \$85,710.32 showed a decrease of \$26,825.58 compared to \$112,535.90 in 2002-2003. This was due to the fact that the renewal date had been changed from March to September renewal.
- Workmen's Compensation of \$206,732.00 showed an increase of \$16,289.06 compared to \$190,442.94. Mostly the result of a significant rate increase.

Business-type activities:

For the most part, revenues closely paralleled the prior fiscal year, with the following exceptions noted:

- Electric revenue of \$12,013,724.63 showed an increase of \$1,654,516.54 (15%) compared to \$10,359,208.10. Most of this was due to 12% wholesale cost rate increase.

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Also, during 2002-2003 there was a \$166,255.83 credit issued for a 2001-2002 overcharge.

For the most part, increases in operating expenditures closely paralleled inflation and growth in the demand for services, with the following exceptions noted:

- Electric expenses of \$8,749,657.29 showed an increase of \$939,518.68 (12%) compared to \$7,810,138.61 in 2002-2003. Most of this increase was from a wholesale rate increase.
- Insurance expenses of \$69,374.00 showed a decrease of \$68,202.75 compared to \$137,576.75 in 2002-2003. This was due to the fact that the renewal date had been changed from a March to September renewal.
- Workman's Compensation of \$124,863.00 showed an increase of \$27,751.00 compared to \$97,112.00. Mostly as a result significant rate increases.
- Repair/Maintenance and Supply expenses of \$704,975.65 showed a net decrease of \$88,757.44 compared to \$793,733.09, mostly from the electric department.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Monett, Missouri's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Monett, Missouri's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Monett, Missouri. At the end of the current fiscal year, unreserved fund balance of the general fund was \$433,310.39, while total fund balance reached \$1,219,483.55. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.4 percent of total general fund expenditures, while total fund balance represents 20.8 percent of that same amount.

The fund balance of the City of Monett, Missouri's general fund increased by \$517,387.81 during the current fiscal year. Key factors in this growth are as follows:

- An increase in the restricted fund for TIF by \$230,438.67.
- An increase in restricted fund for 911 by \$8,314.20.
- An increase in undesignated funds for general fund for \$278,634.94 from operating transfer from electric fund.

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Proprietary funds. The City of Monett, Missouri's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Enterprise Funds at the end of the year amounted to \$1,537,889.29. The total growth in net assets for the fund was \$784,862.92. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Monett, Missouri's business-type activities.

General Fund Budgetary Highlights

Differences between the governmental fund original budget and the final amended budget can be briefly summarized as follows:

- General actual revenues of \$4,693,674.61 showed a variance increase of \$50,774.61 compared to the original budget of \$4,642,900. This increase was mostly due to actual sales tax received exceeding budgetary projections.
- Tax increment financing actual revenues of \$699,428.88 showed a variance increase of \$21,428.88 compared to the original budget amount of \$478,000. This increase was due to actual sales tax received exceeding budgetary projections.
- General actual expenditures of \$5,755,039.67 showed a variance decrease of \$128,860.33 compared to the original budget of \$5,883,900. This decrease was mostly due to budgeted capital for the greenway project, which was not expended during 2003-2004.
- E-911 actual expenditures of \$81,622.85 showed a variance increase of \$9,122.85 compared to the original budget of \$72,500. Variance was mostly due to capital outlay, which are not included in the original budget.
- Tax increment financing actual expenditures of \$668,990.21 showed a variance increase of \$203,990.21 compared to the original budget of \$465,000. Variance was mostly due to actual work on Chapel drive project and also refinancing of \$48,020.75 during 2003-2004.

Capital Asset and Debt Administration

Capital assets. The City of Monett, Missouri's investment in capital assets for its governmental and business type activities as of March 31, 2004, amounts to \$10,060,650.35 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Monett, Missouri's investment in capital assets for the current fiscal year was 9 percent (a 4 percent increase for governmental activities and a 13 percent increase for business-type activities).

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Major capital asset events during the current fiscal year included the following:

- Tax increment financing infrastructure on Chapel Drive of \$48,020.79,
- Highway 60 and Eisenhower infrastructure of \$354,436.96,
- AS800 Computer Server of \$27,376,
- Electric department had a bucket truck \$75,000 and infrastructure of \$206,058.63,
- Fiber optic infrastructure of \$393,404.40,
- Sanitation department recycling building of \$69,000 and recycling infrastructure of \$47,103.74,
- Sewer department had Country Club project of \$410,448.88, construction on the new wastewater treatment plant of \$2,132,212.65 and Insituform of \$104,430,
- South Park festival of lights for \$108,481 and soccer field irrigation system of \$10,487.99,
- Water department had well infrastructure of \$25,583.66 and fluoride installment of \$71,393.87.

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates.

- The City of Monett, Missouri issued tax increment refinancing revenue bonds to refinance previously outstanding tax increment revenue bonds. The result is expected to be a decrease in future debt payments of \$181,700.27. This debt decreased from 5.99% interest rate to a 3.30% rate.

Requests for Information

This financial report is designed to provide a general overview of the City of Monett, Missouri's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 217 5th Street, Monett, Missouri, 65708.