

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Monett

THIRD CLASS CITY – COMMISSION FORM OF GOVERNMENT
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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, 2005. 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 \$24,641,319.47 (*net assets*). Of this amount, \$4,471,190.08 (*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 (82 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 \$1,508,252.25. Governmental activities net assets increased by \$793,794.07 while business-type activities increased by \$714,458.18.
- As of the close of the current fiscal year, the City of Monett, Missouri's governmental funds reported combined ending fund balances of \$1,343,603.38 an increase of \$124,119.83 in comparison with the prior year. Approximately 32% of this total amount, \$434,718.72, is *available for spending* at the government's discretion (*undesignated fund balance*).
- The City of Monett, Missouri's total debt increased by \$859,000 (6 percent) during the current fiscal year. The key factor in this increase was the issuance of \$700,000 in lease obligations for the water tower project and \$159,000 in a lease obligation for a trash truck. The City fiscal year started with existing debt of \$14,639,494.29, principal payment of \$861,351.03 were made during the year, also, new debt issuance of \$859,000, which created ending fiscal year debt balance of \$ 14,637,143.26.

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*. Overtime, 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 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.

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.

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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.

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 \$2,658,069.07 showed an increase of \$28,191.07 (1%) compared to prior fiscal year. Most of this increase is the result of a rebounding economy from lower sales tax during 2003-2004.
- Investment income of \$16,416.74 showed a decrease of \$92,666.21 (85%) compared to \$109,082.95 in 2003-2004. Mostly as a result of the allocation of interest income between the government activities and the business-type activities. Average interest income increased from 4.2% during 2003-2004 to 5.23% during 2004-2005 mostly due to aggressive investment strategies of the City and also due to the amount of reserve available for investments.
- Federal and state grants of \$898.77 showed a decrease of \$83,659.91 compared to \$84,558.68 in 2003-2004. Due mostly to the completion during 2003-2004 of an airport grant of \$44,930 and a community development block grant of \$25,827.57.

City of Monett's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,671,944	\$ 1,478,203	\$ 9,600,817	\$ 13,358,551	\$ 11,272,761	\$ 14,836,754
Capital assets	8,667,017	8,643,986	21,617,193	16,329,842	30,284,210	24,973,828
Total assets	10,338,961	10,122,189	31,218,009	29,688,393	41,556,970	39,810,582
Long-term liabilities outstanding	3,470,000	4,397,788	9,524,230	9,985,000	12,994,230	14,382,788
Other liabilities	982,421	659,084	2,938,999	1,635,643	3,921,421	2,294,727
Total liabilities	4,452,421	5,056,871	12,463,229	11,620,643	16,915,651	16,677,515
Net assets:						
Invested in capital assets, net of related debt	5,151,453	4,109,869	11,413,653	5,950,782	16,565,107	10,060,650
Restricted	1,082,657	844,748	3,472,850	10,579,079	4,555,507	11,423,826
Unrestricted	(347,570)	110,701	3,868,276	1,537,889	3,520,706	1,648,591
Total net assets	\$ 5,886,540	\$ 5,065,318	\$ 18,754,780	\$ 18,067,749	\$ 24,641,319	\$ 23,133,067

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

- Computer, Education and Travel combined expenditures of \$79,574.63 showed an increase of \$16,419.30 (25%) compared to \$63,155.33 in 2003-2004. Most of this increase related to the new city-wide general/utility computer system placed in service during 2004-2005.
- Repair and Maintenance expenditure of \$740,220.27 showed an increase of \$175,199.62 (31%) compared to \$565,020.65 in 2003-2004. Most of this increase was a budgeted effort by City Council to allocation of funds for repair and maintenance items.
- Workmen's Compensation of \$274,306.55 showed an increase of \$67,574.55 compared

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to \$206,732.00. Mostly the result of a significant rate increase.

City of Monett's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 665,667	\$ 770,383	\$ 16,646,403	\$ 15,451,294	\$ 17,312,070	\$ 16,221,678
Capital grants and contributions	211,293	84,559	768,967	591,933	980,260	676,492
General revenues:						
Sales taxes	2,128,003	2,107,816	-	-	2,128,003	2,107,816
TIF taxes	742,767	697,113	-	-	742,767	697,113
Other taxes	455,465	420,692	-	-	455,465	420,692
Franchise fees	211,353	248,821	-	-	211,353	248,821
Pilots in lieu of taxes	1,085,760	1,044,574	(1,085,760)	(1,044,574)	-	-
Other	18,158	109,083	450,962	441,823	469,120	550,906
Total revenues	5,518,465	5,483,041	16,780,571	15,440,477	22,299,037	20,923,517
Expenses:						
Policy development and admin.	399,114	309,776	-	-	399,114	309,776
Public safety	2,961,579	2,669,911	-	-	2,961,579	2,669,911
Public works	1,251,906	1,003,991	-	-	1,251,906	1,003,991
Parks and recreation	1,071,259	1,148,503	-	-	1,071,259	1,148,503
Municipal Airport	343,254	337,963	-	-	343,254	337,963
Interest on long-term debt	216,650	204,101	-	-	216,650	204,101
Fiscal agent fees	-	169,781	-	-	-	169,781
Waterworks	-	-	1,093,533	953,069	1,093,533	953,069
Electric	-	-	10,879,614	10,110,009	10,879,614	10,110,009
Wastewater-sewer	-	-	2,008,335	1,823,205	2,008,335	1,823,205
Sanitation	-	-	519,036	426,164	519,036	426,164
Fiber optics	-	-	51,553	3,167	51,553	3,167
Total expenses	6,243,762	5,844,026	14,552,071	13,315,614	20,795,833	19,159,640
Increase(decrease) in net assets before transfers	(725,297)	(360,986)	2,228,501	2,124,863	1,503,204	1,763,877
Transfers	1,541,470	1,340,000	(1,541,470)	(1,340,000)	-	-
Increase in net assets	816,173	979,014	687,031	784,863	1,503,204	1,763,877
Net assets - beginning of year	5,065,318	4,086,303	18,067,749	17,027,697	23,133,067	21,114,000
Prior period adjustment	5,049	-	-	255,190	5,049	255,190
Net assets - end of year	\$ 5,886,540	\$ 5,065,318	\$ 18,754,780	\$ 18,067,749	\$ 24,641,319	\$ 23,133,067

Business-type activities:

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

- Electric revenue of \$12,513,246.14 showed an increase of \$499,521.51 (4%) compared to \$12,013,724.63. Most of this was due to growth in system sales.

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 \$10,879,709.75 showed an increase of \$769,699.70 (8%) compared to \$10,110,009.05 in 2003-2004. Most of this increase (\$698,748.05) was from an increase in power consumption.

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- Insurance expenses of \$145,694.60 showed an increase of \$76,320.60 compared to \$69,374.00 in 2003-2004. This was due to the fact that the renewal date had been changed from a March to September renewal during 2003-2004 and there was only a half year payment billed during 2003-2004.
- Workman's Compensation of \$139,038.62 showed an increase of \$14,175.62 compared to \$124,863.00. Mostly as a result significant rate increases.
- Repair/Maintenance and Supply expenses of \$763,516.72 showed a increase of \$58,541.07 compared to \$704,975.65, 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.

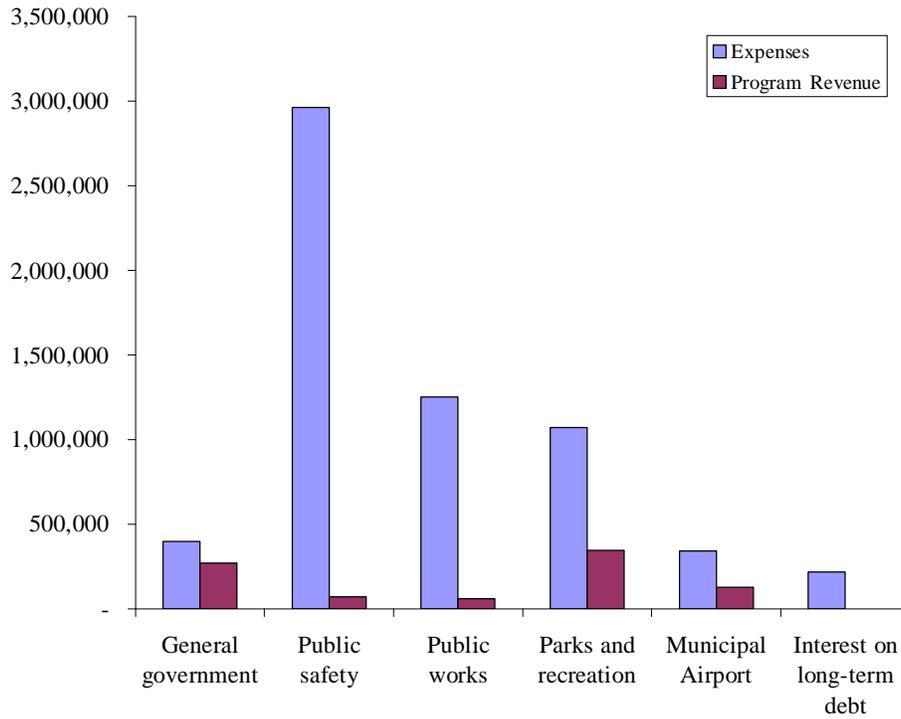
Governmental funds. The focus of the City of Monett, Missouri's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Monett, Missouri's financing requirements. In particular, *unreserved 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 \$336,569.13, while total fund balance reached \$1,245,453.79. 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 5.32 percent of total general fund expenditures, while total governmental fund balance represents 17.70 percent of that same amount.

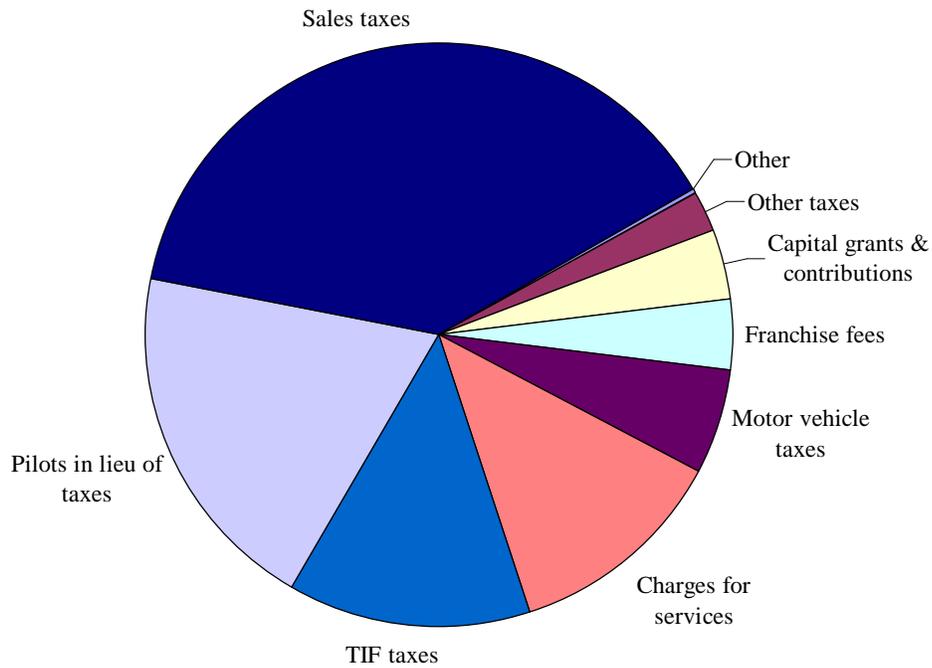
The fund balance of the City of Monett, Missouri's general fund increased by \$124,119.83 during the current fiscal year. Key factors in this growth are as follows:

- An increase in the restricted fund for TIF by \$105,135.90.
- An increase in restricted fund for E-911 by \$18,249.46.
- An increase in undesignated funds for the general fund of \$734.47 from operating transfers from the electric fund.

Expense and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

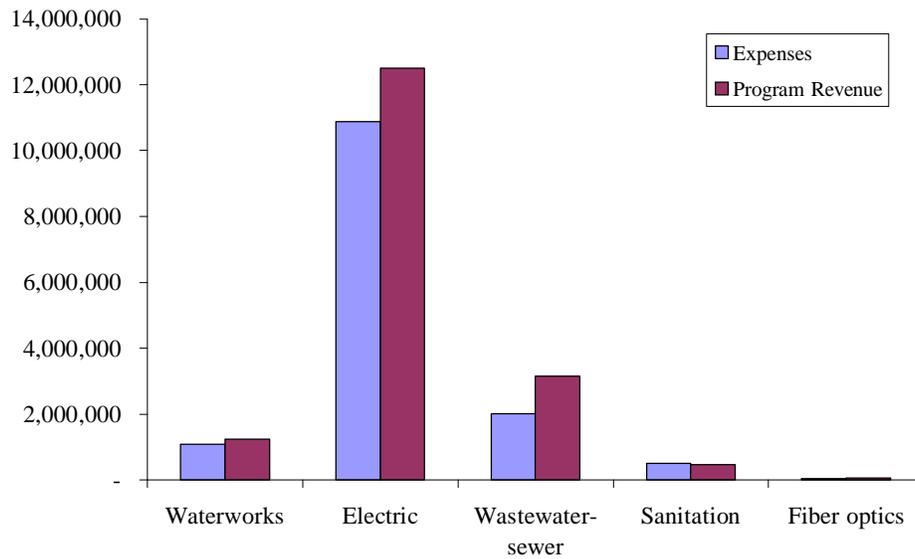


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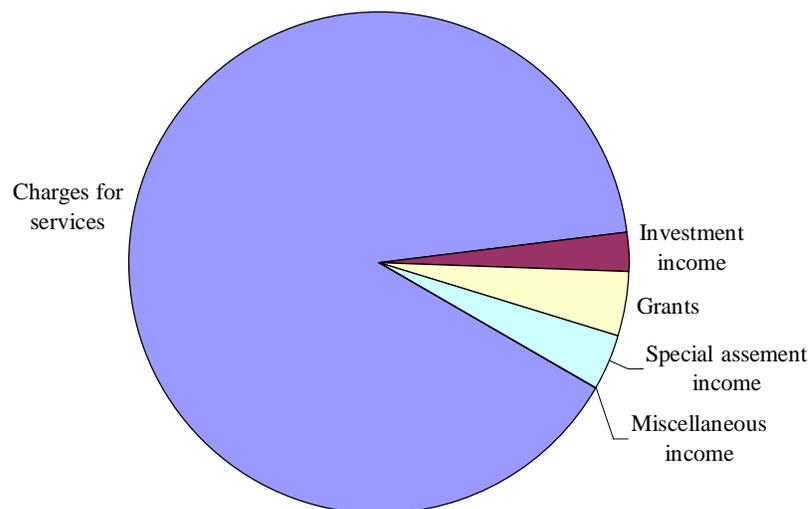
Proprietary funds. The City of Monett, Missouri's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Enterprise Funds at the end of the year amounted to \$1,187,519.63. The total growth in net assets for the fund was \$687,030.50. 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.

Expense and Program Revenues – Business-type Activities



Revenues by Source – 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 \$3,599,258.84 showed a variance decrease of \$161,541.16 compared to the original budget of \$3,760,800. This decrease was mostly due to budgetary projections exceeding actual sales tax and motor fuel tax received.
- Tax increment financing actual revenues of \$745,210.06 showed a variance increase of \$68,210.06 compared to the original budget amount of \$677,000. This increase was due to actual sales tax and real estate taxes received exceeding budgetary projections.
- General actual expenditures of \$6,323,820.10 showed a variance decrease of \$150,414.05 compared to the original budget of \$6,465,900. This decrease was mostly due to budgeted capital for the greenway project, which was not expended during 2004-2005.
- E-911 actual expenditures of \$68,883.60 showed a variance decrease of \$6,516.40 compared to the original budget of \$75,400. Variance was mostly due to less being expended for education and retirement expenditures than projected in the original budget.
- Tax increment financing actual expenditures of \$642,510.67 showed a variance increase of \$172,510.67 compared to the original budget of \$470,000. Variance was mostly due to actual capital outlay and interest expenditures exceeding original budget.

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, 2005, amounts to \$30,284,209.66 (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 26 percent.

City of Monett's Capital Assets

	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
Land, Buildings, & Improvements	\$ 3,799,708	\$ 3,798,085	\$ 1,961,830	\$ 1,963,453	\$ 5,761,538	\$ 5,761,538
Infrastructure	10,824,172	10,372,374	24,834,342	23,296,878	35,658,513	33,669,252
Furniture, Fixtures & Equipment	4,133,741	4,527,886	1,903,364	965,044	6,037,105	5,492,929
Construction in Progress	26,920	67,170	8,287,796	3,612,354	8,314,715	3,679,524
Total	\$ 18,784,541	\$ 18,765,514	\$ 36,987,332	\$ 29,837,729	\$ 55,771,872	\$ 48,603,243

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

- Tax increment financing infrastructure on Chapel Drive of \$40,250,
- Eisenhower infrastructure of \$155,097,
- Caselle computer software of \$105,384, computer hardware relating to Caselle system \$46,918 and office furniture \$14,201,
- GIS software of \$43,656,
- Electric department infrastructure of \$70,732,
- Fiber optic infrastructure of \$110,349,
- Emergency management storm sirens (2) of \$20,208,
- Sewer department had Country Club project of \$153,262, construction on the new wastewater treatment plant of \$5,502,687, F250 Ford Truck of \$22,587, back hoe of \$66,169 (1/2 charged to Sewer and 1/2 charged to Water) and infrastructure of \$45,480,
- South Park festival of lights for \$26,647 and tractor of \$13,900,
- North Park concession building of \$14,033,
- Gymnastic parking lot of \$16,816,
- Water department had well infrastructure of \$224,654 and water tower project of \$44,552,
- Street department dump truck of \$85,165, 3/4 ton Ford pickup of \$23,798, Valley View street project of \$231,747 and infrastructure of \$5,101,
- Police department new police station of \$3,050 and (2) patrol cars of \$42,263,
- Fire department exhaust system of \$33,280,
- Airport apron of \$6,644.

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.