

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Monett, Missouri

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 this narrative overview and analysis of the financial activities of the City of Monett, Missouri (the City) for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with the transmittal letter at the front of this report and the City's financial statements and footnotes, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$25,090,522 (*net assets*). Of this amount, \$2,926,577 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased over \$449,201. Of this amount, \$1,227,483 was from the City's "governmental activities" with a decrease in net assets of \$778,282 from the "business-type activities".
- The City total debt increased by \$4,937,259 during the current fiscal year. The key factor in this increase was the issuance of \$5,415,000 in Tax Increment Financing Bonds, \$148,000 in Neighborhood Improvement Bonds, \$200,000 note for land purchase, \$192,856 lease obligations for a fire truck. The City fiscal year started with existing debt of \$14,638,592, principal payment of \$1,018,597 were made during the year, also, new debt issuance of \$5,955,856, which created ending fiscal year debt balance of \$19,575,851.

Overview of the Financial Statements

This discussion and analysis is intended to provide an introduction to the basic financial statements. The basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are a broad overview of the City's finances, in a manner similar to a private business.

The *statement of net assets* presents all of the City's assets and liabilities with the difference between the two reported as *net assets*. Net assets are an important measure of the City's overall financial health. The increases or decreases in net assets can be monitored to determine whether the City's financial position is improving or deteriorating.

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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 report functions of the City 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 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.

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 uses fund accounting to ensure compliance with finance-related legal requirements. These funds are 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.

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*.

Proprietary funds. The City uses 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 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's various functions. The City 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.

Notes to the financial statements. The notes provide additional information that is essential to a

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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'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.

Government-wide Financial Analysis

Net assets may serve as a useful indicator of the City's financial position. As of March 31, 2006, assets exceeded liabilities by \$25,090,522. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

NET ASSETS

The following table reflects the condensed schedule of net assets as of March 31, 2006 and 2005:

	City of Monett Net Assets					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 7,034,518	\$ 1,671,944	\$ 5,626,470	\$ 9,600,817	\$ 12,660,988	\$ 11,272,761
Capital assets	10,099,963	8,667,017	24,218,470	21,617,192	34,318,433	30,284,209
Total assets	17,134,481	10,338,961	29,844,940	31,218,009	46,979,421	41,556,970
Long-term debt outstanding	9,372,310	3,994,936	10,203,541	10,643,656	19,575,851	14,638,592
Other liabilities	593,722	457,484	1,664,901	1,819,573	2,258,623	2,277,057
Total liabilities	9,966,032	4,452,420	11,868,442	12,463,229	21,834,474	16,915,649
Net assets:						
Invested in capital assets, net of related debt	727,653	5,151,453	14,014,929	11,413,653	14,742,582	16,565,106
Restricted	6,117,827	1,082,658	1,303,536	3,472,851	7,421,363	4,555,509
Unrestricted	268,544	(347,570)	2,658,033	3,868,276	2,926,577	3,520,706
Total net assets	\$ 7,114,024	\$ 5,886,541	\$ 17,976,498	\$ 18,754,780	\$ 25,090,522	\$ 24,641,321

At the end of the current fiscal year, the City 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 City's combined net assets increased to \$25,090,522 from \$24,641,320 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$14,742,582 (58%), reflects its investment in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. An additional portion of the City's net assets, \$7,421,363 (30%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$2,926,577 (12%), represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

Change in Net Assets

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The following table reflects the revenues and expenses from the City's activities:

City of Monett Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 953,351	\$ 1,001,493	\$ 19,314,580	\$ 16,646,403	\$ 20,267,931	\$ 17,647,896
Operating grants and contributions	-	-	-	768,967	-	768,967
Capital grants and contributions	907,572	211,293	-	-	907,572	211,293
General revenues:						
Sales taxes	2,158,108	2,128,003	-	-	2,158,108	2,128,003
TIF taxes	824,422	742,767	-	-	824,422	742,767
Franchise fees	275,050	211,353	-	-	275,050	211,353
Pilots in lieu of taxes	1,461,906	1,085,760	(1,461,906)	(1,085,760)	-	-
Other taxes	120,224	119,639	-	-	120,224	119,639
Other revenues	142,960	18,158	452,486	450,962	595,446	469,120
Total revenues	6,843,593	5,518,466	18,305,160	16,780,572	25,148,753	22,299,038
Expenses:						
Policy development and administration	272,835	399,114	-	-	272,835	399,114
Public works	1,477,033	1,251,906	-	-	1,477,033	1,251,906
Public safety	3,042,470	2,961,579	-	-	3,042,470	2,961,579
Parks and recreation	1,018,100	1,071,259	-	-	1,018,100	1,071,259
Interest on long-term debt	137,982	216,650	-	-	137,982	216,650
Airport	334,486	343,254	-	-	334,486	343,254
Waterworks	-	-	1,379,444	1,093,533	1,379,444	1,093,533
Electric	-	-	13,840,616	10,879,614	13,840,616	10,879,614
Wastewater-sewer	-	-	2,205,935	2,008,335	2,205,935	2,008,335
Sanitation	-	-	495,557	519,036	495,557	519,036
Fiber optics	-	-	66,890	51,553	66,890	51,553
Total expenses	6,282,906	6,243,762	17,988,442	14,552,071	24,271,348	20,795,833
Increase in net assets before transfers	560,687	(725,296)	316,718	2,228,501	877,405	1,503,205
Transfers	1,095,000	1,541,470	(1,095,000)	(1,541,470)	-	-
Increase in net assets	1,655,687	816,174	(778,282)	687,031	877,405	1,503,205
Net assets, beginning	5,886,541	5,065,318	18,754,780	18,067,749	24,641,321	23,133,067
Prior period adjustment	(428,204)	5,049	-	-	(428,204)	5,049
Net assets, ending	\$ 7,114,024	\$ 5,886,541	\$ 17,976,498	\$ 18,754,780	\$ 25,090,522	\$ 24,641,321

Governmental Activities

Governmental activities increased the City's net assets by \$1,227,483. Sales tax revenues, the largest governmental category, were \$2,158,108, or 32%. For the fiscal year ended March 31, 2006, revenues totaled \$25,148,754 (governmental and business-type). Revenues from governmental activities total \$6,843,594, or 27%, of the total City revenues. City revenues grew \$1,325,128 within the governmental activities.

Certain revenues are generated that are specific to governmental program activity. These totaled \$953,352. The following table shows expenses and program revenues of the governmental activities for the year ended March 31, 2006 and 2005:

Net Cost of City of Monett Governmental Activities

	Total cost of service		Net cost of service	
	2006	2005	2006	2005
Policy development and administration	\$ 272,835	\$ 399,114	\$ 168,927	\$ 127,155
Public safety	3,042,470	2,961,579	2,744,857	2,892,046
Public works	1,477,033	1,251,906	868,488	855,568
Parks and recreation	1,018,100	1,071,259	645,867	725,637
Municipal Airport	334,486	343,254	(144,139)	213,921
Interest on long-term debt	137,982	216,650	137,982	216,650
Total net assets	\$ 6,282,906	\$ 6,243,762	\$ 4,421,982	\$ 5,030,977

As previously noted, expenses from governmental activities total \$6,282,906 million. However, net costs of these services were \$4,421,982. The difference represents direct revenues received from charges for services of \$953,352 and capital grants and contributions of \$907,572. Taxes and other revenues of \$6,077,670 million were collected to cover these net costs.

Business-type Activities

Business-type activities decreased the City's net assets by \$778,282. Key elements of this decrease are as follows:

- The water recorded a decrease of \$95,085 in net assets for the year, which is attributed to increases in supplies expenses of \$141,815 over prior year expenses, an increase in repair and maintenance of \$42,147 over prior year expenses, an increase in utility of \$64,313 over prior year expenses and increase in pilot of \$23,533 over prior year expenses..
- The electric recorded a decrease of \$715,100 in net assets for the year, which is attributed to increases in supplies expenses of \$153,515 over prior year expenses, an increase in repair and maintenance of \$123,215 over prior year expenses and an increase in pilot of \$289,129 over prior year expenses.

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- The sewer recorded a decrease of \$30,452 in net assets for the year, which is attributed to increases in supplies expenses of \$10,790 over prior year expenses, an increase in repair and maintenance of \$112,675 over prior year expenses, an increase in utility of \$57,724 over prior year expenses and an increase in pilot of \$61,935 over prior year expenses.

Financial Analysis of the City's Funds

As of the end of the fiscal year, the City's governmental funds report a combined fund balance of \$6,689,737 (an increase of approximately 437%). The majority of the increase is attributable to the planned capital outlay in the Tax Increment Finance Fund of \$5,415,000. The fund balance of the General Fund increased slightly to \$846,254 at the end of the fiscal year.

The net assets in the E-911 Fund decreased \$102,721 (41%) in the fiscal year. This decrease is due to capital outlay expenditures of \$159,831.

The Water Fund's net assets decreased \$95,085 (2%) in the current year as a result of increases in supplies, repair and maintenance, utilities, and pilot expenditures.

The Electric Fund's net assets decreased \$715,100 (26%) in the current year as a result of increases in supplies, repair and maintenance and pilot expenditures.

The Sewer Fund's net assets decreased \$30,452 (0.2%) in the current year as a result of increases in supplies, utilities, repair and maintenance and pilot expenditures..

The Sanitation Fund's net assets increased \$62,133 (15%) in the current year as a result of the increased sanitation service charged to customers.

General Fund Budgetary Highlights

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

- The original revenue budget of \$22.3 million was increased to \$24.7 million.
- The total original expenditure budget of \$26.1 million was decreased to \$25.8 million.

Actual revenues were \$2.4 million more than originally budgeted. Electric and Sewer revenues exceeded the original estimate by \$3 million, Public Safety revenues exceeded the original estimate by \$226,000, Parks and Recreation exceeded the original estimated by \$ 93,000, Airport exceeded the original estimate by \$345,000, Street revenues exceeded the original estimate by \$229,000 and Tax Increment Financing revenues were under the original estimate by \$ 1.53 million.

Ending fund balance increased slightly to \$449,203.

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Capital Asset and Debt Administration Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of March 31, 2006, amounts to \$34.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

Capital events during the current fiscal year included the following:

- E-911 dispatching equipment totaling \$159,813.
- Communication radio consoles totaling \$85,691.
- Fire 8X16 Coose Bumber Cargo for \$5,633, 18-scba Survivair for \$57,474, breathing air compressor for \$29,518 and a fire truck for \$192,856.
- Police construction in progress for police station for \$14,961, cross band repeater for \$8,000, mobile radio \$2,000, 49-portable radios for \$26,600, land for \$200,000 and a 2005 Ford Crown Victoria for \$24,541.
- Tax Increment Financing construction in progress for \$700,346.
- Street EFCO project for \$10,660, ¾ ton Ford pickup for \$23,798, and F450 Ford truck for \$36,238.
- Casino roof replacement for \$23,500.
- Golf aerator for \$11,800.
- North Park concession building for \$32,652.
- South Park lighting displays for \$35,175.
- Airport apron for \$415,765 and sewer system for \$90,468.
- Water Fund generator for well#2 for \$42,245, chlorine analyzer for \$10,250, water tower for \$1,203,944, and infrastructure for \$152,427.
- Electric Fund generator for City Hall \$20,665, itron equipment for \$6,200, infrastructure for \$109,742.
- Sewer Fund itron equipment for \$6,200, wastewater treatment plant for \$1,744,529 and infrastructure for \$124,983.
- Fiber Fund equipment for \$17,674.
- Sanitation 2005 Side Loader for \$158,174 and Case Tractor for \$39,600.

City of Monett Capital Assets
(net of accumulated depreciation)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 922,438	\$ 722,438	\$ 210,160	\$ 210,160	\$ 1,132,598	\$ 932,598
Construction in progress	18,011	26,920	-	8,287,796	18,011	8,314,716
Buildings and improvements	2,017,110	2,046,191	800,599	853,736	2,817,709	2,899,927
Machinery and equipment	1,589,925	1,241,761	842,810	723,929	2,432,735	1,965,690
Infrastructure	5,552,479	4,629,707	22,364,901	11,541,572	27,917,380	16,171,279
Total	<u>\$ 10,099,963</u>	<u>\$ 8,667,017</u>	<u>\$ 24,218,470</u>	<u>\$ 21,617,193</u>	<u>\$ 34,318,433</u>	<u>\$ 30,284,210</u>

For additional information on capital assets, see note 2(c) in the notes to financial statements.

Debt Administration

The City, at the end of fiscal 2006, had a total of \$19,575,851 of outstanding long-term debt. This was an increase of \$4,937,259 from the previous year. During the fiscal year 2005-2006, the City issued approximately \$5,563,000 million governmental activity bonds related to various capital projects and \$192,856 in capital lease agreements and a note payable for \$200,000 relating to a land purchase agreement.

City of Monett Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 148,000	\$ -	\$ 380,000	\$ 394,231	\$ 528,000	\$ 394,231
Revenue bonds	7,945,000	2,870,000	9,130,000	9,445,000	17,075,000	12,315,000
Notes payable	200,000	-	-	-	200,000	-
Capital lease obligations	1,079,310	1,124,936	693,541	804,425	1,772,851	1,929,361
Total	<u>\$ 9,372,310</u>	<u>\$ 3,994,936</u>	<u>\$ 10,203,541</u>	<u>\$ 10,643,656</u>	<u>\$ 19,575,851</u>	<u>\$ 14,638,592</u>

For Additional information on debt administration, see note 2(d) in the notes to financial statements.

Requests for Information

This financial report is designed to provide the reader a general overview of the City's finances. Questions or requests for more information concerning any of the information provided in this report should be directed to Dorothy Pendergrass, Director of Finance, City of Monett, PO Box 110, 217 5th Street, Monett, MO 65708.