

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, 2007. 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 \$26,620,170 (*net assets*). Of this amount, \$3,073,313 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$1,529,648. Of this amount, \$1,771,801 was from the City's "governmental activities" with a decrease in net assets of \$242,153 from the "business-type activities".
- The City total debt increased by \$663,503 during the current fiscal year. The key factor in this increase was the issuance of \$3,000,000 in capital lease obligations for the Police Station project. The City fiscal year started with existing debt of \$19,575,851, principal payment of \$2,336,497 were made during the year, also, new debt issuance of \$3,000,000, which created ending fiscal year debt balance of \$20,239,354.

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*) and 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 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'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, 2007, assets exceeded liabilities by \$26,620,170. 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, 2007 and 2006:

| | City of Monett Net Assets | | | | | |
|--|----------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | Governmental activities | | Business-Type activities | | Total | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other assets | \$ 8,793,173 | \$ 7,034,518 | \$ 5,736,758 | \$ 5,626,470 | \$14,529,931 | \$12,660,988 |
| Capital Assets | 11,344,151 | 10,099,963 | 23,387,780 | 24,218,470 | 34,731,931 | 34,318,433 |
| Total Assets | 20,137,324 | 17,134,481 | 29,124,538 | 29,844,940 | 49,261,862 | 46,979,421 |
| Long-term debt outstanding | 9,773,764 | 9,372,310 | 9,335,193 | 10,203,541 | 19,108,957 | 19,575,851 |
| Other liabilities | 1,477,735 | 593,722 | 2,055,000 | 1,664,901 | 3,532,735 | 2,258,623 |
| Total Liabilities | 11,251,499 | 9,966,032 | 11,390,193 | 11,868,442 | 22,641,692 | 21,834,474 |
| Net Assets: | | | | | | |
| Investment in capital assets, net of related debt | 853,770 | 727,653 | 13,638,798 | 14,014,929 | 14,492,568 | 14,742,582 |
| Restricted | 7,753,455 | 6,117,827 | 1,300,834 | 1,303,536 | 9,054,289 | 7,421,363 |
| Unrestricted | 278,600 | 268,544 | 2,794,713 | 2,658,033 | 3,073,313 | 2,926,577 |
| Total net assets | <u>\$ 8,885,825</u> | <u>\$ 7,114,024</u> | <u>\$17,734,345</u> | <u>\$17,976,498</u> | <u>\$26,620,170</u> | <u>\$25,090,522</u> |

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 \$26,620,170 from \$25,090,522 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$14,429,568 (54%), 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, \$9,054,289 (34%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$3,073,313 (12%), represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

Change in Net Assets

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 | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,484,915 | \$ 953,351 | \$ 19,934,661 | \$ 19,314,580 | \$ 21,419,576 | \$ 20,267,931 |
| Capital grants and contributions | 1,024,622 | 907,572 | 9,753 | | 1,034,375 | 907,572 |
| General revenues: | | | | | | |
| Sales taxes | 2,134,821 | 2,158,108 | | | 2,134,821 | 2,158,108 |
| TIF taxes | 1,117,325 | 824,422 | | | 1,117,325 | 824,422 |
| Franchise fees | 272,904 | 275,050 | | | 272,904 | 275,050 |
| Pilots in lieu of taxes | 1,925,805 | 1,461,906 | (1,925,805) | (1,461,906) | | |
| Other taxes | 113,993 | 120,224 | | | 113,993 | 120,224 |
| Other revenues | 279,036 | 142,960 | 638,005 | 452,486 | 917,041 | 595,446 |
| Total revenues | <u>8,353,421</u> | <u>6,843,593</u> | <u>18,656,614</u> | <u>18,305,160</u> | <u>27,010,035</u> | <u>25,148,753</u> |
| Expenses: | | | | | | |
| Policy development and administration | 276,242 | 272,835 | | | 276,242 | 272,835 |
| Public safety | 3,081,528 | 3,042,470 | | | 3,081,528 | 3,042,470 |
| Public works | 1,441,999 | 1,477,033 | | | 1,441,999 | 1,477,033 |
| Parks and recreation | 1,046,234 | 1,018,100 | | | 1,046,234 | 1,018,100 |
| Municipal airport | 420,614 | 137,982 | | | 420,614 | 137,982 |
| Interest on long-term debt | 515,003 | 334,486 | | | 515,003 | 334,486 |
| Waterworks | | | 1,567,362 | 1,379,444 | 1,567,362 | 1,379,444 |
| Electric | | | 13,908,842 | 13,840,616 | 13,908,842 | 13,840,616 |
| Wastewater-sewer | | | 2,593,346 | 2,205,935 | 2,593,346 | 2,205,935 |
| Sanitation | | | 501,379 | 495,557 | 501,379 | 495,557 |
| Fiber optics | | | 127,838 | 66,890 | 127,838 | 66,890 |
| Total Expenses | <u>6,781,620</u> | <u>6,282,906</u> | <u>18,698,767</u> | <u>17,988,442</u> | <u>25,480,387</u> | <u>24,271,348</u> |
| Increase in net assets before transfers | 1,571,801 | 560,687 | (42,153) | 316,718 | 1,529,648 | 877,405 |
| Transfers | 200,000 | 1,095,000 | (200,000) | (1,095,000) | | |
| Increase in net assets | 1,771,801 | 1,655,687 | (242,153) | (778,282) | 1,529,648 | 877,405 |
| Net assets, beginning | 7,114,024 | 5,458,337 | 17,976,498 | 18,754,780 | 25,090,522 | 24,213,117 |
| Net assets, ending | <u>\$ 8,885,825</u> | <u>\$ 7,114,024</u> | <u>\$ 17,734,345</u> | <u>\$ 17,976,498</u> | <u>\$ 26,620,170</u> | <u>\$ 25,090,522</u> |

Governmental Activities

Governmental activities increased the City's net assets by \$1,771,801. Sales tax revenues, the largest governmental category, were \$2,134,821, or 26%. For the fiscal year ended March 31, 2007, revenues totaled \$27,010,035 (governmental and business-type). Revenues from governmental activities total \$8,353,421, or 31%, of the total City revenues. City revenues grew \$1,509,828 within the governmental activities.

Certain revenues are generated that are specific to governmental program activity. These totaled \$1,484,915. The following table shows expenses and program revenues of the governmental activities for the year ended March 31, 2007 and 2006:

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Net Cost of Governmental Activities

| | Total cost of service | | Net cost of service | |
|---------------------------------------|------------------------------|---------------------|----------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Policy development and administration | \$ 276,242 | \$ 272,835 | \$ 33,924 | \$ 168,927 |
| Public safety | 3,081,528 | 3,042,470 | 3,002,585 | 2,744,857 |
| Public works | 1,441,999 | 1,477,033 | 795,386 | 868,488 |
| Parks and recreation | 1,046,234 | 1,018,100 | 662,565 | 645,867 |
| Municipal airport | 420,614 | 137,982 | 213,152 | (144,139) |
| Interest on long-term debt | 515,003 | 334,486 | 515,003 | 137,982 |
| | \$ 6,781,620 | \$ 6,282,906 | \$ 5,222,615 | \$ 4,421,982 |

As previously noted, expenses from governmental activities total \$6,781,620 million. However, net costs of these services were \$5,222,615. The difference represents direct revenues received from charges for services of \$1,484,915 and capital grants and contributions of \$74,090. Taxes and other revenues of \$6,043,884 million were collected to cover these net costs.

Business-type Activities

Business-type activities decreased the City's net assets by \$242,153. Key elements of this decrease are as follows:

- The water recorded an increase of \$33,218 in net income for the year. Revenues relating to charges for services increased \$170,132, a donation of \$160,000 relating to the water tower, \$34,000 relating to sale of supplies and a decrease in costs relating to repair and maintenance of \$98,428 provided funding for increases in cost of supplies of \$32,349, increases in employee expenses of \$11,844, increases in utilities of \$189,968, increases in pilot of \$48,343 and increased supplies of \$32,349 over prior year expenses..
- The electric recorded an increase of \$413,539 in net income for the year. Revenues relating to charges for services increased \$432,215. Pilots increased \$371,466 over the prior year expenses
- The sewer recorded a decrease of \$555,356 in net income for the year. Revenues relating to charges for services decreased \$98,147. Increases in cost included the an increase in depreciation of \$335,887, increase in pilots of \$37,176 and increase in utilities of \$146,240 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 \$8,122,186 (an increase of approximately 21%). The majority of the increase is attributable to the planned capital outlay in the police station project of \$3,000,000. The fund balance of the General Fund increased to \$3,489,538 at the end of the fiscal year.

The net assets in the E-911 Fund increased to \$114,280 (increase of \$11,559 or 11%) in the fiscal year due to retention of restricted revenues for 911 purposes.

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The Water Fund's net assets increased \$433,218 (10%) in the current year as a result of a transfer of \$400,000 from the Sewer Fund to the Water Fund.

The Electric Fund's net assets increased \$213,539 (11%) in the current year as a result of increased electric services charged to customers.

The Sewer Fund's net assets decreased \$955,356 (0.8%) in the current year as a result of increases in supplies, utilities, repairs and maintenance and pilot expenditures.

The Sanitation Fund's net assets increased \$81,149 (17%) 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 \$28.4 million was decreased to \$28.3 million.
- The total original expenditure budget of \$32.9 million was decreased to \$29.9 million.

Actual revenues were \$111,899 more than originally budgeted.

Capital Assets and Debt Administration Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of March 31, 2007, amounts to \$34.7 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:

- Administrative lighting/sound system for City Hall totaling \$55,325.
- Airport tractor for \$19,470 and sewer system for \$33,702.
- Electric Fund infrastructure for \$49,840.
- Emergency Management storm siren \$14,524.
- Fiber Fund equipment for \$13,172.
- Fire (10) portable radios for \$11,012 and F350 truck for \$35,810.
- Golf Jacobsen mower for \$4,293.
- North park concession building for \$46,437.
- Police station for \$99,587 and 2006 Chevrolet for \$16,908.
- Sanitation equipment for \$12,037.

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- Sewer wastewater treatment plant for \$104,916.
- South Park lighting displays for \$22,422 and Kubota mower \$14,272.
- Street overpass project construction in progress for \$76,913.
- Tax Increment Financing construction in progress for \$1,564,478.
- Water well #21 for \$201,694, fence for \$18,170, water tower for \$128,964 and infrastructure for \$143,734.

| | City of Monett Capital Assets (net of accumulated depreciation) | | | | | |
|---------------------------|---|---------------|-----------------------------|---------------|---------------|---------------|
| | Governmental activities | | Business-Type activities | | Total | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land | \$ 939,344 | \$ 922,438 | \$ 210,160 | \$ 210,160 | \$ 1,149,504 | \$ 1,132,598 |
| Construction in progress | 117,600 | 18,011 | | | 117,600 | 18,011 |
| Building and Improvements | 1,957,679 | 2,017,110 | 747,463 | 800,599 | 2,705,142 | 2,817,709 |
| Machinery and equipment | 1,474,443 | 1,589,925 | 690,570 | 842,810 | 2,165,013 | 2,432,735 |
| Infrastructure | 6,855,085 | 5,552,478 | 21,739,587 | 22,364,901 | 28,594,672 | 27,917,379 |
| Total Capital Assets | \$ 11,344,151 | \$ 10,099,962 | \$ 23,387,780 | \$ 24,218,470 | \$ 34,731,931 | \$ 34,318,432 |

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 2007, had a total of \$20,239,354 of outstanding long-term debt. This was an increase of \$663,503 from the previous year. During the fiscal year 2006-2007, the City issued approximately \$3,000,000 million governmental activity lease purchase obligations related to the police station project.

| | City of Monett Outstanding Debt | | | | | |
|---------------------------|---------------------------------|--------------|-----------------------------|---------------|---------------|---------------|
| | Governmental activities | | Business-Type activities | | Total | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| General obligations bonds | \$ 136,125 | \$ 148,000 | \$ 365,000 | \$ 380,000 | \$ 501,125 | \$ 528,000 |
| Revenue bonds | 6,350,000 | 6,695,000 | 8,805,000 | 9,130,000 | 15,155,000 | 15,825,000 |
| Notes payable | 150,000 | 1,450,000 | - | - | 150,000 | 1,450,000 |
| Capital lease obligations | 3,854,256 | 1,079,310 | 578,982 | 693,541 | 4,433,238 | 1,772,851 |
| Total Assets | \$ 10,490,381 | \$ 9,372,310 | \$ 9,748,982 | \$ 10,203,541 | \$ 20,239,363 | \$ 19,575,851 |

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, Fiscal Services, City of Monett, PO Box 110, 217 5th Street, Monett, MO 65708.