

## **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, 2008. 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 \$29,178,051 (*net assets*). Of this amount, \$4,766,126 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$2,586,758. Of this amount, \$2,305,383 was from the City's "governmental activities" with an increase in net assets of \$281,375 from the "business-type activities".
- The City total debt increased by \$8,238,947 during the current fiscal year. The key factor in this increase was the issuance of \$9,100,000 in revenue bonds for the Highway 60 expansion project and \$759,000 Police Station project. The City's fiscal year started with existing debt of \$20,300,223, principal payments of \$1,899,160 were made during the year, also, new debt issuance of \$10,138,106, which created ending fiscal year debt balance of \$28,539,170.

### 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.

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*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'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, 2008, assets exceeded liabilities by \$29,178,051. 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, 2008 and 2007:

**City of Monett Net Assets**

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$13,692,432	\$8,793,173	\$ 6,874,195	\$ 5,736,758	\$ 20,566,627	\$ 4,529,931
Capital assets	17,375,570	11,344,151	22,245,035	23,387,780	39,620,605	34,731,931
Total assets	<u>31,068,002</u>	<u>20,137,324</u>	<u>29,119,230</u>	<u>29,124,538</u>	<u>60,187,232</u>	<u>49,261,862</u>
Long-term debt outstanding	18,171,107	9,773,764	8,924,756	9,335,193	27,095,863	19,108,957
Other liabilities	1,705,687	1,477,735	2,207,631	2,055,000	3,913,321	3,532,735
Total liabilities	<u>19,876,794</u>	<u>11,251,499</u>	<u>11,132,387</u>	<u>11,390,193</u>	<u>31,009,181</u>	<u>22,641,692</u>
Net assets:						
Invested in capital assets, net of related debt	7,767,846	853,770	13,198,691	13,638,798	20,966,537	14,492,568
Restricted	2,229,396	7,753,455	1,215,992	1,300,834	3,445,388	9,054,289
Unrestricted	1,193,966	278,600	3,572,160	2,794,713	4,766,126	3,073,313
Total net assets	<u>\$11,191,208</u>	<u>\$8,885,825</u>	<u>\$17,986,843</u>	<u>\$ 17,734,345</u>	<u>\$ 29,178,051</u>	<u>\$26,620,170</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 \$29,178,051 from \$26,620,170 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$20,966,537 (72%), 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, \$3,445,388 (12%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets,

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\$4,766,126 (16%), represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

***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	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,360,178	\$1,484,915	\$22,128,935	\$ 19,934,661	\$23,489,113	\$ 21,419,576
Capital grants and contributions	1,492,579	1,024,622	-	9,755	1,492,579	1,034,375
General revenues:						
Sales taxes	2,726,868	2,134,821	-	-	2,726,868	2,134,821
TIF taxes	1,304,998	1,117,325	-	-	1,304,998	1,117,325
Franchise fees	295,305	272,904	-	-	295,305	272,904
Other taxes	126,130	113,993	-	-	126,130	113,993
Other revenues	262,272	279,036	404,876	638,005	667,148	917,041
<b>Total revenues</b>	<b>7,568,330</b>	<b>6,427,616</b>	<b>22,533,811</b>	<b>20,582,419</b>	<b>30,102,141</b>	<b>27,010,035</b>
<b>Expenses:</b>						
Policy development and administration	737,943	276,242	-	-	774,880	276,242
Public works	3,101,434	3,081,528	-	-	3,314,798	3,081,528
Public safety	1,563,160	1,441,999	-	-	1,374,431	1,441,999
Parks and recreation	1,077,859	1,046,234	-	-	1,095,516	1,046,234
Interest on long-term debt	603,927	420,614	-	-	515,427	420,614
Airport	439,608	515,003	-	-	448,880	515,003
Waterworks	-	-	1,568,458	1,567,362	1,745,665	1,724,480
Electric	-	-	15,116,987	13,908,842	15,116,987	13,908,842
Wastewater-sewer	-	-	2,680,219	2,593,346	2,902,863	2,814,751
Sanitation	-	-	526,084	501,379	526,084	501,379
Fiber optics	-	-	99,704	127,838	99,704	127,838
<b>Total expenses</b>	<b>7,523,932</b>	<b>6,781,620</b>	<b>19,991,452</b>	<b>18,698,767</b>	<b>27,515,383</b>	<b>25,480,387</b>
Increase in net assets before transfers	44,399	(354,004)	2,542,359	1,883,652	2,586,758	1,529,648
Transfers - Payments in lieu of taxes	2,110,984	1,925,805	(2,110,984)	(1,925,805)	-	-
Transfers	150,000	200,000	(150,000)	(200,000)	-	-
<b>Total transfers</b>	<b>2,260,984</b>	<b>2,125,805</b>	<b>(2,260,984)</b>	<b>(2,125,805)</b>	<b>-</b>	<b>-</b>
Increase in net assets	2,305,383	1,771,801	281,375	(242,153)	2,586,758	1,529,648
Net assets, beginning	8,885,825	7,114,024	17,734,345	17,976,498	26,620,170	25,090,522
Prior period adjustment	-	-	(28,877)	-	(28,877)	-
<b>Net assets, ending</b>	<b>\$ 11,191,208</b>	<b>\$8,885,825</b>	<b>\$17,986,843</b>	<b>\$ 17,734,345</b>	<b>\$29,178,051</b>	<b>\$26,620,170</b>

***Governmental Activities***

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Governmental activities increased the City's net assets by \$2,305,383. Sales tax revenues, the largest governmental category, were \$2,726,868, or 36%. For the fiscal year ended March 31, 2008, revenues totaled \$30,102,141 (governmental and business-type). Revenues from governmental activities total \$7,568,330, or 25%, of the total City revenues. City revenues grew \$1,140,714 within the governmental activities.

Certain revenues are generated that are specific to governmental program activity. These totaled \$1,360,178. The following table shows expenses and program revenues of the governmental activities for the year ended March 31, 2008 and 2007:

**Net Cost of City of Monett Governmental Activities**

	Total cost of service		Net cost of service	
	2008	2007	2008	2007
Policy development and administration	\$ 737,943	\$ 276,242	\$ 15,555	\$ 33,924
Public safety	3,101,434	3,081,528	3,009,765	3,013,012
Public works	1,563,160	1,441,999	157,159	795,386
Parks and recreation	1,077,859	1,046,234	712,920	662,565
Municipal Airport	439,608	420,614	171,848	276,815
Interest on long-term debt	603,927	515,003	603,927	515,003
	<u>\$ 7,523,931</u>	<u>\$ 6,781,620</u>	<u>\$ 4,671,174</u>	<u>\$ 5,296,705</u>

As previously noted, expenses from governmental activities total \$7,523,931 million. However, net costs of these services were \$4,671,174. The difference represents direct revenues received from charges for services of \$1,360,178 and capital grants and contributions of \$1,492,579. Taxes, other revenues and transfers of \$6,976,557 were collected to cover these net costs.

***Business-type Activities***

Business-type activities increased the City's net assets by \$252,497. Key elements of this increase are as follows:

- The water recorded net income of \$193,788 for the year. Revenues relating to charges for services increased \$174,177. Operating expenses increased \$3,371 compared to prior year expenses, payment in lieu of taxes increased \$20,089, which is directly related to the revenue increases.
- The electric recorded net income of \$2,723,992 for the year. Revenues relating to charges for services increased \$1,396,722 due to fee increases and \$552,585 FEMA reimbursement revenue. Operating expenses increased \$1,208,145 due to higher electric purchases. Payments in lieu of taxes increased \$157,191 compared to the prior year.

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- The sewer recorded a net loss of \$522,003 for the year. Revenues relating to charges for services increased \$36,818. Increases in cost included \$133,443 in supplies, repair and maintenance 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 \$11,191,208 (an increase of approximately 26%). The majority of the increase is attributable to the planned capital outlay in the Highway 60 project of \$9,100,000.

The fund balance of the General Fund decreased to \$2,225,454 at the end of the fiscal year due to capital expenditures.

The net assets in the E-911 Fund increased to \$134,910 (increase of \$20,630 or 18%) in the fiscal year due to retention of restricted revenues for 911 purposes.

The Electric Fund's net assets increased \$882,091 (39%) in the current year as a result of the 2006 increase in electric service fees charged to residential and commercial customers.

The Sewer Fund's net assets decreased \$744,648 (0.7%) in the current year as a result of operating expenses and debt service payments in excess of operating revenues.

***General Fund Budgetary Highlights***

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

- The original revenue budget of \$31.5 million was increased to \$32.0 million.
- The total original expenditure budget of \$34.2 million was increased to \$36.8 million.

Actual revenues were \$552,703 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, 2008, amounts to \$39.6 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:

- Fire turbo jet nozzle \$7,670.
- Police station construction \$2,613,896, (8) computers in vehicles \$22,840, surveillance equipment \$127,650, 200' communication tower \$174,953, (2) 2004 Ford explorers \$34,588, 2008 Ford \$23,565 and a 1952 police car \$15,000 (acquired by donation).

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- Cemetery 72' Kubota deck mower \$14,495.
- TIF #1 \$1,522,493 and TIF #2 \$1,584,449 infrastructure improvements.
- Street trailer – pro patch \$59,180, street infrastructure improvements \$508,192.
- Golf (24) golf carts \$83,477, (2) utility carts \$15,500, mower \$23,342.
- South park festival of light displays \$18,939.
- Airport taxi way construction \$12,648.
- Sanitation truck \$174,144.
- Electric infrastructure \$ 81,150 and fence \$21,140.
- Sewer wastewater treatment plant for \$83,568.
- Water Scada system \$4,000 and wells #21, 4, 17 for \$13,511.
- Fiber infrastructure \$40,610.

(net of accumulated depreciation)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 939,344	\$ 939,344	\$ 210,160	\$ 210,160	\$ 1,149,504	\$ 1,149,504
Construction in progress	-	117,600	-	-	-	117,600
Buildings and improvements	4,584,323	1,957,679	694,325	747,463	5,278,648	2,705,142
Machinery and equipment	1,797,188	1,474,443	736,861	690,570	2,534,049	2,165,013
Infrastructure	10,054,713	6,855,085	20,603,687	21,739,587	30,658,400	28,594,672
Total	\$ 17,375,568	\$ 11,344,151	\$ 22,245,033	\$ 23,387,780	\$ 39,620,601	\$ 34,731,931

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

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***Debt Administration***

The City, at the end of fiscal 2008, had a total of \$28,539,170 of outstanding long-term debt. This was an increase of \$8,235,947 from the previous year. During the fiscal year 2007-2008, the City issued \$9,100,000 million governmental activity revenue bonds, \$759,000 capital lease purchase obligations related to the police station project, \$174,143 sanitation truck and \$105,963 for (24) golf carts and (2) golf utility carts.

**City of Monett Outstanding Debt**

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 122,271	\$ 135,051	\$ 350,000	\$ 365,000	\$ 472,271	\$ 500,051
Revenue bonds	14,510,000	6,350,000	8,470,000	8,805,000	22,980,000	15,155,000
Notes payable	100,000	150,000			100,000	150,000
Capital leases and participation obligations	4,400,557	3,916,190	586,342	578,982	4,986,899	4,495,172
<b>Total</b>	<b>\$ 19,132,828</b>	<b>\$ 10,551,241</b>	<b>\$ 9,406,342</b>	<b>\$ 9,748,982</b>	<b>\$ 28,539,170</b>	<b>\$ 20,300,223</b>

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 Janie Knight, City Clerk of the City of Monett, PO Box 110, 217 5<sup>th</sup> Street, Monett, MO 65708.