

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, 2009. 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 \$31,400,546 (*net assets*). Of this amount, \$3,505,326 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$1,519,562. Of this amount, \$1,648,423 was from the City's "governmental activities" with a decrease in net assets of \$128,861 from the "business-type activities". Additionally, a prior period adjustment was recorded in the amount of \$702,933 for the "business-type activities" to reflect a change in the accounting for supplies held as inventories to maintain operational effectiveness.
- The City total debt decreased by \$1,404,253 during the current fiscal year. The City's fiscal year started with existing debt of \$28,539,170, principal payments of \$2,046,416 were made during the year, also, new debt issuance of \$642,163, which created ending fiscal year debt balance of \$27,134,917. The debt increase was due to \$86,024 relating to police cars and \$556,139 for tax increment financing developer agreements.

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, 2009, assets exceeded liabilities by \$31,400,546. 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, 2009 and 2008:

	Governmental Activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 4,340,309	\$ 13,692,432	\$ 8,053,929	\$ 6,874,195	\$ 12,394,238	\$ 20,566,627
Capital assets	27,722,031	17,375,570	21,122,590	22,245,035	48,844,621	39,620,605
Total assets	<u>32,062,340</u>	<u>31,068,002</u>	<u>29,176,519</u>	<u>29,119,230</u>	<u>61,238,859</u>	<u>60,187,232</u>
Long-term obligations	16,985,476	18,171,107	8,491,965	8,924,756	25,477,441	27,095,863
Other liabilities	2,237,233	1,705,687	2,123,639	2,207,631	4,360,872	3,913,318
Total liabilities	<u>19,222,709</u>	<u>19,876,794</u>	<u>10,615,604</u>	<u>11,132,387</u>	<u>29,838,313</u>	<u>31,009,181</u>
Net assets:						
Invested in capital assets, net of related debt	9,511,873	7,767,846	12,197,854	13,198,691	21,709,727	20,966,537
Restricted	2,957,292	2,229,396	3,228,201	1,215,992	6,185,493	3,445,388
Unrestricted	370,466	1,193,966	3,134,860	3,572,160	3,505,326	4,766,126
Total net assets	<u>\$ 12,839,631</u>	<u>\$ 11,191,208</u>	<u>\$ 18,560,915</u>	<u>\$ 17,986,843</u>	<u>\$ 31,400,546</u>	<u>\$ 29,178,051</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 \$31,400,546 from \$29,178,051 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$21,709,727 (69%), 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

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additional portion of the City's net assets, \$6,185,493 (20%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$3,505,326 (11%), 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	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 991,382	\$ 1,360,178	\$ 21,791,322	\$ 22,128,935	\$ 22,782,704	\$ 23,489,113
Capital grants and contributions	1,303,457	1,492,579	-	-	1,303,457	1,492,579
General revenues:						
Sales taxes	2,892,812	2,726,868	-	-	2,892,812	2,726,868
TIF taxes	1,202,033	1,304,998	-	-	1,202,033	1,304,998
Franchise fees	423,246	295,305	-	-	423,246	295,305
Other taxes	121,023	126,130	-	-	121,023	126,130
Other revenues	234,011	262,273	422,917	404,876	656,928	667,149
Total revenues	7,167,964	7,568,331	22,214,239	22,533,811	29,382,203	30,102,142
Expenses:						
Policy development and administration	628,863	737,943	-	-	628,863	737,943
Public works	1,581,321	3,101,434	-	-	1,581,321	3,101,434
Public safety	3,501,412	1,563,160	-	-	3,501,412	1,563,160
Parks and recreation	1,035,047	1,077,859	-	-	1,035,047	1,077,859
Interest on long-term debt	921,817	603,927	-	-	921,817	603,927
Airport	442,779	439,608	-	-	442,779	439,608
Waterworks	-	-	1,784,867	1,568,458	1,784,867	1,568,458
Electric	-	-	14,739,071	15,116,987	14,739,071	15,116,987
Wastewater-sewer	-	-	2,813,032	2,680,219	2,813,032	2,680,219
Sanitation	-	-	503,868	526,084	503,868	526,084
Fiber optics	-	-	94,695	99,704	94,695	99,704
Total expenses	8,111,239	7,523,932	19,935,533	19,991,452	28,046,772	27,515,383
Gain(Loss) Sale of Assets	(12,243)	-	-	-	(12,243)	-
Settlement	196,374	-	-	-	196,374	-
Other Sources	184,131	-	-	-	184,131	-
Increase in net assets before transfers	(759,144)	44,399	2,278,706	2,542,359	1,519,562	2,586,759
Transfers - Payments in lieu of taxes	2,107,567	2,110,984	(2,107,567)	(2,110,984)	-	-
Transfers	300,000	150,000	(300,000)	(150,000)	-	-
Total transfers	2,407,567	2,260,984	(2,407,567)	(2,260,984)	-	-
Increase in net assets	1,648,423	2,305,383	(128,861)	281,375	1,519,562	2,586,759
Net assets, beginning	11,191,208	8,885,825	17,986,843	17,734,345	29,178,051	26,620,170
Prior period adjustment	-	-	702,933	(28,877)	702,933	(28,877)
Net assets, ending	\$ 12,839,631	\$ 11,191,208	\$ 18,560,915	\$ 17,986,843	\$ 31,400,546	\$ 29,178,051

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Governmental Activities

Governmental activities increased the City's net assets by \$1,648,423. Sales tax revenues, the largest governmental category, were \$2,892,812. For the fiscal year ended March 31, 2009, revenues totaled \$29,382,203 (governmental and business-type). Revenues from governmental activities total \$7,167,964, or 24%, of the total City revenues. City revenues decreased \$400,367 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, 2009 and 2008:

Net Cost of City of Monett Governmental Activities

	Total cost of service		Net cost of service	
	2009	2008	2009	2008
Policy development and administration	\$ 628,863	\$ 737,943	\$ 420,539	\$ 15,555
Public safety	3,501,412	3,101,434	3,460,172	3,009,765
Public works	1,581,321	1,563,160	455,779	157,159
Parks and recreation	1,035,047	1,077,859	667,268	712,920
Municipal airport	442,779	439,608	(109,175)	171,848
Interest on long-term debt	921,817	603,927	921,817	603,927
	<u>\$ 8,111,239</u>	<u>\$ 7,523,931</u>	<u>\$ 5,816,400</u>	<u>\$ 4,671,174</u>

As previously noted, expenses from governmental activities total \$8,111,239 million. However, net costs of these services were \$5,816,400. The difference represents direct revenues received from charges for services of \$991,382 and capital grants and contributions of \$1,303,457. Taxes and other revenues of \$7,464,823 were collected to cover these net costs.

Business-type Activities

Business-type activities decreased the City's net assets by \$128,861. Key elements of this decrease are as follows:

- The water recorded net loss of \$44,646 for the year. Revenues relating to charges for services increased \$181,462. Operating expenses increased \$218,655 compared to prior year expenses due to increases in repairs and maintenance expense.
- The electric recorded net income of \$590,762 for the year. Revenues relating to charges for services increased \$47,158. Operating expenses decreased \$377,917 due to storm related expenditures incurred in the prior year.

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- The sewer recorded a net loss of \$807,818 for the year. Revenues relating to charges for services decreased \$603. Increases in cost included \$74,765 in 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 \$12,839,631 (an increase of approximately 15%). This increase is largely due to the repayment of principal on debt service obligations.

The fund balance of the General Fund decreased to \$1,478,584 at the end of the fiscal year due to capital expenditures.

The net assets in the E-911 Fund increased to \$137,225 (increase of \$2,315 or 2%) in the fiscal year due to retention of restricted revenues for 911 purposes.

The Electric Fund's net assets increased \$590,762 (19%) in the current year as a result of the 2007 storm related expenditures from the prior year.

The Sewer Fund's net assets decreased \$807,818 (0.8%) 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 \$6.58 million was decreased to \$6.46 million.
- The total original expenditure budget of \$9.98 million was increased to \$10.55 million.

Actual revenues were \$787,692 less 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, 2009, amounts to \$48.8 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:

- Airport taxiway \$355,277.
- Electric infrastructure \$25,995 and digger truck \$187,676.
- Fiber optic infrastructure \$4,599.

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- Golf chlorine contact basin \$26,984 and tractor \$22,031.
- North Park mower \$14,692.
- Police station building \$602,292, (8) computers for vehicles \$22,840, surveillance equipment \$127,650, 200' communication tower \$267,918, security system \$44,145, mobile filing \$124,523, E-911 workstations \$51,074, (4) computer server/computer rack \$28,650, ice maker \$1,348, refrigerator \$1,614, phone system \$20,049, furniture \$97,525, and (3) 2009 Dodge Charger police cars \$86,024.
- Recreation roof at 205 Euclid \$53,420.
- Sewer chlorine basin \$26,984, portable generator \$66,363, camera system \$56,126, and flow meter package \$38,250.
- South Park festival of lights \$5,058 and resurface (4) tennis courts \$20,430.
- Streets department wheel loader \$112,341, overhead calcium equipment \$8,110, roller screed \$6,200, infrastructure – Clear Creek \$325,990, Eisenhower Bridge \$1,239,916, Greenway Project \$49,630, Cleveland overlay \$152,991, TIF 1 infrastructure \$7,913,911.
- Water Scada system \$8,186.

(net of accumulated depreciation)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 939,346	\$ 939,344	\$ 210,160	\$ 210,160	\$ 1,149,506	\$ 1,149,504
Construction in progress	110,384	-	-	-	110,384	-
Building and improvements	4,947,519	4,584,323	668,171	694,325	5,615,690	5,278,648
Machinery and equipment	2,188,605	1,797,188	941,799	736,861	3,130,404	2,534,049
Infrastructure	19,536,177	10,054,713	19,302,457	20,603,687	38,838,634	30,658,400
Total	<u>\$ 27,722,031</u>	<u>\$ 17,375,568</u>	<u>\$ 21,122,587</u>	<u>\$ 22,245,033</u>	<u>\$ 48,844,618</u>	<u>\$ 39,620,601</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 2009, had a total of \$27,134,917 of outstanding long-term debt. This was a decrease of \$1,404,253 from the previous year. During the fiscal year 2008/2009, the City repaid principal in the amount of \$2,039,432 and incurred \$549,155 developer agreements payable relating to TIF 1 infrastructure and incurred \$86,024 capital lease obligations for the purchase of police cars.

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City of Monett Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 108,954	\$ 122,271	\$ 335,000	\$ 350,000	\$ 443,954	\$ 472,271
Revenue bonds	13,655,000	14,510,000	8,125,000	8,470,000	21,780,000	22,980,000
Obligations payable	599,155	100,000	-	-	599,155	100,000
Capital leases and participation obligations	3,847,051	4,400,557	464,757	586,342	4,311,808	4,986,899
Total	<u>\$ 18,210,160</u>	<u>\$ 19,132,828</u>	<u>\$ 8,924,757</u>	<u>\$ 9,406,342</u>	<u>\$ 27,134,917</u>	<u>\$ 28,539,170</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 Janie Knight, City Clerk of the City of Monett, PO Box 110, 217 5th Street, Monett, MO 65708.