

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, 2010. 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 \$32,920,473 (*net assets*). Of this amount, \$4,915,230 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$1,519,927. Of this amount, \$1,271,274 was from the City's "governmental activities" and \$248,653 from the "business-type activities".
- The City total debt decreased by \$2,896,416 during the current fiscal year. The City's fiscal year started with existing debt of \$27,134,917, principal payments of \$2,982,716 were made during the year, also, new debt issuance of \$86,300, which created ending fiscal year debt balance of \$24,238,501. The debt increase was due to golf cart purchases.

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, 2010, assets exceeded liabilities by \$32,920,473. 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, 2010 and 2009:

City of Monett Net Assets

	Governmental Activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2008
Current and other assets	\$ 4,040,991	\$ 4,340,309	\$ 8,989,916	\$ 8,053,929	\$ 13,030,907	\$ 12,394,238
Capital assets	26,653,822	27,722,031	20,076,267	21,122,590	46,730,089	48,844,621
Total assets	30,694,813	32,062,340	29,066,183	29,176,519	59,760,996	61,238,859
Long-term debt outstanding	15,075,839	16,985,476	8,032,133	8,491,965	23,107,972	25,477,441
Other liabilities	1,508,069	2,237,233	2,224,482	2,123,639	3,732,551	4,360,872
Total liabilities	16,583,908	19,222,709	10,256,615	10,615,604	26,840,523	29,838,313
Net assets:						
Invested in capital assets, net of related debt	10,885,894	9,511,873	11,605,694	12,197,854	22,491,588	21,709,727
Restricted	2,071,194	2,957,292	3,442,461	3,228,201	5,513,655	6,185,493
Unrestricted	1,153,817	370,466	3,761,413	3,134,860	4,915,230	3,505,326
Total net assets	\$ 14,110,905	\$ 12,839,631	\$ 18,809,568	\$ 18,560,915	\$ 32,920,473	\$ 31,400,546

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 \$32,920,473 from \$31,400,546 as a result of the increase in net assets reflected in the next table.

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The largest portion of the City's net assets, \$22,491,588 (68%), 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, \$5,513,655 (17%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$4,915,230 (15%), represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

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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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 940,042	\$ 991,382	\$ 22,217,164	\$ 21,791,322	\$ 23,157,206	\$ 22,782,704
Capital grants and contributions	187,335	1,303,457	-	-	187,335	1,303,457
General revenues:						
Sales taxes	2,611,282	2,892,812	-	-	2,611,282	2,892,812
TIF taxes	1,820,185	1,202,033	-	-	1,820,185	1,202,033
Franchise fees	502,202	423,246	-	-	502,202	423,246
Other taxes	74,578	121,023	-	-	74,578	121,023
Other revenues	152,485	234,011	334,140	422,917	486,625	656,928
Total revenues	6,288,109	7,167,964	22,551,304	22,214,239	28,839,413	29,382,203
Expenses:						
Policy development and administration	446,791	628,863	-	-	446,791	628,863
Public works	2,180,829	1,581,321	-	-	2,180,829	1,581,321
Public safety	3,396,137	3,501,412	-	-	3,396,137	3,501,412
Parks and recreation	1,043,041	1,035,047	-	-	1,043,041	1,035,047
Interest on long-term debt	719,677	921,817	-	-	719,677	921,817
Airport	431,390	442,779	-	-	431,390	442,779
Waterworks	-	-	1,950,533	1,784,867	1,950,533	1,784,867
Electric	-	-	14,608,794	14,739,071	14,608,794	14,739,071
Wastewater-sewer	-	-	2,643,779	2,813,032	2,643,779	2,813,032
Sanitation	-	-	478,446	503,868	478,446	503,868
Fiber optics	-	-	111,733	94,695	111,733	94,695
Total expenses	8,217,865	8,111,239	19,793,285	19,935,533	28,011,150	28,046,772
Gain(Loss) Sale of Assets	40,628	(12,243)	-	-	40,628	(12,243)
Settlement	651,036	196,374	-	-	651,036	196,374
Other Sources	691,664	184,131	-	-	691,664	184,131
Increase in net assets before transfers	(1,238,092)	(759,144)	2,758,019	2,278,706	1,519,927	1,519,562
Transfers - Payments in lieu of taxes	2,113,366	2,107,567	(2,113,366)	(2,107,567)	-	-
Transfers	396,000	300,000	(396,000)	(300,000)	-	-
Total transfers	2,509,366	2,407,567	(2,509,366)	(2,407,567)	-	-
Increase in net assets	1,271,274	1,648,423	248,653	-128,861	1,519,927	1,519,562
Net assets, beginning	12,839,631	11,191,208	18,560,915	17,986,843	31,400,546	29,178,051
Prior period adjustment	-	-	-	702,933	-	702,933
Net assets, ending	\$ 14,110,905	\$ 12,839,631	\$ 18,809,568	\$ 18,560,915	\$ 32,920,473	\$ 31,400,546

Governmental Activities

Governmental activities increased the City's net assets by \$1,271,274. Sales tax revenues, the largest governmental category, were \$2,611,282. For the fiscal year ended March 31, 2010, revenues totaled \$28,839,413 (governmental and business-type). Revenues from governmental activities total \$6,288,109, or 22%, of the total City revenues. City revenues decreased \$879,855 within the governmental activities due to a reduction in capital grants and contributions.

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Certain revenues are generated that are specific to governmental program activity. These totaled \$1,127,377. The following table shows expenses and program revenues of the governmental activities for the year ended March 31, 2010 and 2009:

Net Cost of City of Monett Governmental Activities

	<u>Total cost of service</u>		<u>Net cost of service</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Policy development and administration	\$ 446,791	\$ 628,863	\$ 217,143	\$ 420,539
Public safety	3,396,137	3,501,412	3,326,679	3,460,172
Public works	2,180,829	1,581,321	1,910,788	455,779
Parks and recreation	1,043,041	1,035,047	645,103	667,268
Municipal airport	431,390	442,779	271,098	(109,175)
Interest on long-term debt	719,677	921,817	719,677	921,817
	<u>\$8,217,865</u>	<u>\$8,111,239</u>	<u>\$7,090,488</u>	<u>\$5,816,400</u>

As previously noted, expenses from governmental activities total \$8,217,865 million. However, net costs of these services were \$7,090,488.

Business-type Activities

Business-type activities increased the City's net assets by \$248,653. Key elements of this increase are as follows:

- The water recorded net loss of \$79,138 for the year. Revenues relating to charges for services increased \$146,086. Operating expenses increased \$168,038 compared to prior year expenses due to increases in repairs and maintenance expense.
- The electric recorded net income of \$645,957 for the year. Revenues relating to charges for services decreased \$8,159. Operating expenses decreased \$130,277, due to reduced electricity purchase charges.
- The sewer recorded a net loss of \$518,236 for the year. Revenues relating to charges for services increased \$222,219. Operating expenses decreased \$153,164 due to reduced depreciation charges.

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 \$14,110,905 (an increase of approximately 10%). This increase is largely due to intergovernmental payment of \$1,120,692 from MODoT to the TIF 1 fund. This payment was for reimbursement of construction costs relating to Hwy 60.

The fund balance of the General Fund increased to \$1,389,996 at the end of the fiscal year due to reduction in operating costs and also reduced capital outlay.

The net assets in the E-911 Fund decreased to \$124,980 (decrease of \$12,245 or 9%) in the fiscal year due to operating expenditures in excess of restricted revenues for 911 purposes.

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, 2010, amounts to \$46.7 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:

- Administration – 5th Street Parking Lot \$17,060, N Central Land \$2,500.
- Airport – Credit Card Reader \$6,220
- Fire – Thermal Imager \$8,100.
- Street – Roof Replacement \$41,923, Vermeer Clipper \$33,840, Clear Creek Bridget \$185,418, Eisenhower Bridge \$123,331, Greenway Project \$49,218, TIF 1 Hwy 60 addition \$141,836 and land \$12,100.
- Golf – 24 carts \$103,190.
- Mechanic – Roof Replacement \$19,312
- North Park – HVAC unit \$5,500 (donated)
- South Park – Lighting Displays \$5,758 (donated) and 2002 Kubota Tractor \$20,000
- Electric – PCB building \$2,743 and Electric System Improvement \$101,764
- Sewer – Sewer System Improvements \$158,706.
- Sanitation – Land purchase \$12,100.

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(net of accumulated depreciation)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 937,038	\$ 939,346	\$ 222,261	\$ 210,160	\$ 1,159,299	\$ 1,149,506
Construction in progress	-	110,384	-	-	-	110,384
Building and improvements	4,834,020	4,947,519	616,924	668,171	5,450,944	5,615,690
Machinery and equipment	1,882,828	2,188,605	788,464	941,799	2,671,292	3,130,404
Infrastructure	18,999,937	19,536,177	18,448,615	19,302,457	37,448,552	38,838,634
Total	\$ 26,653,823	\$ 27,722,031	\$ 20,076,264	\$ 21,122,587	\$ 46,730,087	\$ 48,844,618

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 2010, had a total of \$24,238,501 of outstanding long-term debt. This was a decrease of \$2,896,416 from the previous year. During the fiscal year 2009/2010, the City repaid principal in the amount of \$2,982,716 and incurred \$86,300 capital lease obligations for the purchase of golf carts.

City of Monett Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 95,091	\$ 108,954	\$ 320,000	\$ 335,000	\$ 415,091	\$ 443,954
Revenue bonds	11,895,000	13,655,000	7,770,000	8,125,000	19,665,000	21,780,000
Note payable	540,194	599,155			540,194	599,155
Capital leases and participation obligations	3,237,643	3,847,051	380,573	464,757	3,618,216	4,311,808
Total	\$15,767,928	\$18,210,160	\$8,470,573	\$8,924,757	\$24,238,501	\$27,134,917

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.