

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, 2011. 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, including 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 \$36,598,444 (*net assets*). Of this amount, \$5,935,812 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$3,677,971. Of this amount, \$3,421,795 was from the City's "governmental activities" and \$256,176 from the "business-type activities".
- The City total debt increased by \$1,603,423 during the current fiscal year. The City's fiscal year started with existing debt of \$24,238,501, principal payments of \$1,255,577 were made during the year, also, new debt issuance of \$2,859,000, which created ending fiscal year debt balance of \$25,841,924. The debt increase was due to water infrastructure improvements.

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 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 incurred 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.

Government-wide Financial Analysis

Net assets may serve as a useful indicator of the City's financial position. As of March 31, 2011, assets exceeded liabilities by \$36,598,444. The City uses capital assets to provide services to citizens; consequently, \$20,418,318 (these assets, net of related debt) are not available for future spending.

NET ASSETS

The following table reflects the condensed schedule of net assets as of March 31, 2011 and 2010:

City of Monett Net Assets

	Governmental Activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,968,711	\$ 4,040,991	\$ 10,979,891	\$ 8,989,916	\$ 18,948,602	\$ 13,030,907
Capital assets	25,362,926	26,653,822	20,897,316	20,076,267	46,260,242	46,730,089
Total assets	33,331,637	30,694,813	31,877,207	29,066,183	65,208,844	59,760,996
Long-term debt outstanding	10,625,341	15,075,839	10,331,237	8,032,133	20,956,578	23,107,972
Other liabilities	5,173,596	1,508,069	2,480,226	2,224,482	7,653,822	3,732,551
Total liabilities	15,798,937	16,583,908	12,811,463	10,256,615	28,610,400	26,840,523
Net assets:						
Invested in capital assets, net of related debt	10,394,669	10,885,894	10,023,649	11,605,694	20,418,318	22,491,588
Restricted	5,483,574	2,071,194	4,760,740	3,442,461	10,244,314	5,513,655
Unrestricted	1,654,457	1,153,817	4,281,355	3,761,413	5,935,812	4,915,230
Total net assets	\$ 17,532,700	\$ 14,110,905	\$ 19,065,744	\$ 18,809,568	\$ 36,598,444	\$ 32,920,473

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 \$36,598,444 from \$32,920,473 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$20,418,318 (56%), reflects its investment in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, and

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infrastructure), less any related debt used to acquire those assets that are still outstanding. An additional portion of the City's net assets, \$10,244,314 (28%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$5,935,812 (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:

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 848,886	\$ 940,042	\$ 24,354,479	\$ 22,217,164	\$ 25,203,365	\$ 23,157,206
Capital grants and contributions	128,475	187,335	-	-	128,475	187,335
General revenues:						
Sales taxes	2,621,106	2,611,282	-	-	2,621,106	2,611,282
TIF taxes	634,484	699,493	-	-	634,484	699,493
TIF reimbursement	3,761,985	1,120,692	-	-	3,761,985	1,120,692
Franchise fees	523,107	502,202	-	-	523,107	502,202
Other taxes	68,546	74,578	-	-	68,546	74,578
Other revenues	87,528	152,485	299,517	334,140	387,045	486,625
Total revenues	8,674,117	6,288,109	24,653,996	22,551,304	33,328,113	28,839,413
Expenses:						
Policy development and administration	475,200	446,791	-	-	475,200	446,791
Public works	3,391,968	2,180,829	-	-	3,391,968	2,180,829
Public safety	2,430,261	3,396,137	-	-	2,430,261	3,396,137
Parks and recreation	1,128,066	1,043,041	-	-	1,128,066	1,043,041
Interest on long-term debt	661,375	719,677	-	-	661,375	719,677
Airport	491,772	431,390	-	-	491,772	431,390
Waterworks	-	-	1,863,647	1,950,533	1,863,647	1,950,533
Electric	-	-	16,261,792	14,608,794	16,261,792	14,608,794
Wastewater-sewer	-	-	2,435,723	2,643,779	2,435,723	2,643,779
Sanitation	-	-	493,804	478,446	493,804	478,446
Fiber optics	-	-	44,850	111,733	44,850	111,733
Total expenses	8,578,642	8,217,865	21,099,816	19,793,285	29,678,458	28,011,150
Gain on sale of assets	625	40,628	16,100	-	16,725	40,628
Settlement	11,591	651,036	-	-	11,591	651,036
Other Sources	12,216	691,664	16,100	-	28,316	691,664
Increase in net assets before transfers	107,691	(1,238,092)	3,570,280	2,758,019	3,677,971	1,519,927
Transfers - Payments in lieu of taxes	2,339,104	2,113,366	(2,339,104)	(2,113,366)	-	-
Transfers	975,000	396,000	(975,000)	(396,000)	-	-
Total transfers	3,314,104	2,509,366	(3,314,104)	(2,509,366)	-	-
Increase in net assets	3,421,795	1,271,274	256,176	248,653	3,677,971	1,519,927
Net assets, beginning	14,110,905	12,839,631	18,809,568	18,560,915	32,920,473	31,400,546
Net assets, ending	\$ 17,532,700	\$ 14,110,905	\$ 19,065,744	\$ 18,809,568	\$ 36,598,444	\$ 32,920,473

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Governmental Activities

Governmental activities increased the City's net assets by \$3,421,795. Sales tax revenues, one of the largest governmental category, was \$2,621,106. TIF intergovernmental revenue of \$4,396,469 included \$3,761,985 from the Missouri Department of Transportation that represented the State's 50% cost-share for the Highway 60 Expansion Project. For the fiscal year ended March 31, 2011, revenues totaled \$33,356,429 (governmental and business-type). Revenues from governmental activities total \$8,674,117, or 26%, of the total City revenues. City revenues increased \$2,386,008 within the governmental activities primarily due to the reimbursement of \$3,761,985 from MoDOT.

Certain revenues are generated that are specific to governmental program activity. These totaled \$977,361. The following table shows expenses and program revenues of the governmental activities for the years ended March 31, 2011 and 2010:

Net Cost of City of Monett Governmental Activities

	Total cost of service		Net cost of service	
	2011	2010	2011	2010
Policy development and administration	\$ 475,200	\$ 446,791	\$ 272,206	\$ 217,143
Public safety	3,391,968	3,396,137	3,309,532	3,326,679
Public works	2,430,261	2,180,829	2,331,285	1,910,788
Parks and recreation	1,128,066	1,043,041	704,759	645,103
Municipal airport	491,772	431,390	322,124	271,098
Interest on long-term debt	661,375	719,677	661,375	719,677
	<u>\$8,578,642</u>	<u>\$8,217,865</u>	<u>\$7,601,281</u>	<u>\$7,090,488</u>

As previously noted, expenses from governmental activities total \$8,578,642 million. However, net costs of these services were \$7,601,281.

Business-type Activities

Business-type activities increased the City's net assets by \$256,176. Key elements of this increase are as follows:

- The water recorded net income of \$474,251 for the year. Revenues relating to charges for services increased \$502,244. Operating expenses decreased \$197,273 compared to prior year expenses due to decreases in repairs and maintenance expense. Interest expense increased \$110,387.
- The electric recorded net loss of \$305,962 for the year. Revenues relating to charges for services increased \$1,436,179. Operating expenses increased \$1,652,998, due to increase in electricity purchase charges of \$1,500,486 and supplies of \$114,670.

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- The sewer recorded a net loss of \$195,892 for the year. Revenues relating to charges for services increased \$163,644. Operating expenses decreased \$123,607 due to reduced in payroll of \$20,426, depreciation charges of \$63,617, professional charges of \$14,169 and repair and maintenance of \$13,623.

Financial Analysis of the City's Funds

As of the end of the fiscal year, the City's governmental funds report a total fund balance of \$7,402,710, including an intergovernmental payment of \$3,761,985 from the Missouri Department of Transportation. MoDOT had approved payment of its share of the costs in 2007 and incorporated it into their 5-Year Plan with reimbursement to the Monett TIF to occur in FY 2011.

The fund balance of the General Fund increased to \$1,919,136 at the end of the fiscal year due to increases in PILOTS and transfers from the electric fund.

The fund balance in the E-911 Fund decreased to \$80,564 (decrease of \$44,416 or 35%) 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, 2011, amounts to \$46.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

Capital acquisitions during the current fiscal year included the following:

- Fire – Res-Q-Jack (rescue equipment) \$6,574.
- Police – Dog Box for Animal Control \$10,870, Ford F250 Truck \$18,119, and 2010 Ford Crown Victoria \$22,852.
- Cemetery – 2006 Caterpillar 303C Excavator \$29,800.
- Street – Crafcoc Crack Seal Machine \$28,313, Eisenhower Bridge \$1,707, (2) 2011 International 7400 Dump Trucks \$225,302.
- Golf – 10 Carts \$14,000.
- South Park – Lighting Displays \$11,594 (donated).
- Airport – West Awning \$7,386.
- Sewer – West Lift Station \$382,917.

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- Water – Water System Project \$1,223,951 and Case Backhoe \$75,602.
- Electric – Double Bucket Truck \$176,882, and PCB Building \$15,887.
- Sanitation – Refuse Truck \$128,755.
- Fiber – Band Boost Equipment \$70,122.

**City of Monett Capital Assets
(net of accumulated depreciation)**

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 937,038	\$ 937,038	\$ 222,261	\$ 222,261	\$ 1,159,299	\$ 1,159,299
Building and improvements	4,620,048	4,834,020	578,471	616,924	5,198,519	5,450,944
Machinery and equipment	1,872,710	1,882,828	1,099,034	788,464	2,971,744	2,671,292
Infrastructure	17,933,130	18,999,937	18,997,550	18,448,615	36,930,680	37,448,552
Total	<u>\$ 25,362,926</u>	<u>\$ 26,653,823</u>	<u>\$ 20,897,316</u>	<u>\$ 20,076,264</u>	<u>\$ 46,260,242</u>	<u>\$ 46,730,087</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 2011, had a total of \$25,841,924 of outstanding long-term debt. This was an increase of \$1,603,423 from the previous year. During the fiscal year 2010/2011, the City repaid principal in the amount of \$1,255,577 and incurred \$2,859,000 water infrastructure debt.

City of Monett Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 80,647	\$ 95,091	\$ 305,000	\$ 320,000	\$ 385,647	\$ 415,091
Revenue bonds	11,750,000	11,895,000	7,400,000	7,770,000	19,150,000	19,665,000
Developers Agreements	540,194	540,194			540,194	540,194
Capital leases and participation obligations	2,597,416	3,237,643	3,168,667	380,573	5,766,083	3,618,216
Total	<u>\$ 14,968,257</u>	<u>\$ 15,767,928</u>	<u>\$ 10,873,667</u>	<u>\$ 8,470,573</u>	<u>\$ 25,841,924</u>	<u>\$ 24,238,501</u>

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

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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.