

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, 2012. 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 \$37,353,509 (*net assets*). Of this amount, \$6,129,424 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased \$755,065. Of this amount, (\$658,317) was from the City's "governmental activities" and a gain of \$1,413,382 from the "business-type activities".
- The City total debt decreased by \$4,885,379 during the current fiscal year. The City's fiscal year started with existing debt of \$25,841,924, principal payments of \$4,885,379 were made during the year, which created ending fiscal year debt balance of \$20,956,545. The debt decrease was mainly due to a TIF 1 principal payment of \$3,710,000 in October of 2011. The City had received intergovernmental funding from Missouri Department of Transportation in the prior fiscal year for \$3,761,985, which represented the State's 50% cost-share for the Highway 60 Expansion Project approved in 2007.

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, 2012, assets exceeded liabilities by \$37,353,509. The City uses capital assets to provide services to citizens; consequently, these assets (\$24,587,134 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, 2012 and 2011:

	Activities		activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,503,788	\$ 7,968,711	\$ 11,573,100	\$ 10,979,891	\$ 16,076,888	\$ 18,948,602
Capital assets	24,290,190	25,362,926	21,303,489	20,897,316	45,593,679	46,260,242
Total assets	<u>28,793,978</u>	<u>33,331,637</u>	<u>32,876,589</u>	<u>31,877,207</u>	<u>61,670,567</u>	<u>65,208,844</u>
Long-term debt outstanding	9,563,682	10,625,341	9,798,545	10,331,237	19,362,227	20,956,578
Other liabilities	2,305,913	5,173,596	2,598,918	2,480,226	4,904,831	7,653,822
Total liabilities	<u>11,869,595</u>	<u>15,798,937</u>	<u>12,397,463</u>	<u>12,811,463</u>	<u>24,267,058</u>	<u>28,610,400</u>
Net assets:						
Invested in capital assets, net of related debt	13,614,885	10,394,669	10,972,249	10,023,649	24,587,134	20,418,318
Restricted	2,062,638	5,483,574	4,574,313	4,760,740	6,636,951	10,244,314
Unrestricted	1,196,860	1,654,457	4,932,564	4,281,355	6,129,424	5,935,812
Total net assets	<u>\$ 16,874,383</u>	<u>\$ 17,532,700</u>	<u>\$ 20,479,126</u>	<u>\$ 19,065,744</u>	<u>\$ 37,353,509</u>	<u>\$ 36,598,444</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 \$37,353,509 from \$36,598,444 as a result of the increase in net assets reflected in the next table.

The largest portion of the City's net assets, \$24,587,134 (66%), 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, \$6,636,951 (18%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets, \$6,129,424 (16%), 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:

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 719,064	\$ 848,886	\$ 24,341,542	\$ 24,354,479	\$ 25,060,606	\$ 25,203,365
Capital grants and contributions	84,088	128,475	318,054	-	402,142	128,475
General revenues:						
Sales taxes	2,795,552	2,621,106	-	-	2,795,552	2,621,106
TIF taxes	909,465	634,484	-	-	909,465	634,484
TIF reimbursement	-	3,761,985	-	-	-	3,761,985
Franchise fees	499,386	523,107	-	-	499,386	523,107
Other taxes	79,066	68,546	-	-	79,066	68,546
Other revenues	88,990	87,528	203,895	299,517	292,885	387,045
Total revenues	5,175,611	8,674,117	24,863,491	24,653,996	30,039,102	33,328,113
Expenses:						
Policy development and administration	549,895	475,200	-	-	549,895	475,200
Public works	3,522,642	3,391,968	-	-	3,522,642	3,391,968
Public safety	2,531,339	2,430,261	-	-	2,531,339	2,430,261
Parks and recreation	1,268,520	1,128,066	-	-	1,268,520	1,128,066
Interest on long-term debt	396,490	661,375	-	-	396,490	661,375
Airport	551,570	491,772	-	-	551,570	491,772
Waterworks	-	-	2,022,274	1,863,647	2,022,274	1,863,647
Electric	-	-	15,237,089	16,261,792	15,237,089	16,261,792
Wastewater-sewer	-	-	2,531,127	2,435,723	2,531,127	2,435,723
Sanitation	-	-	541,432	493,804	541,432	493,804
Fiber optics	-	-	110,623	44,850	110,623	44,850
Total expenses	8,820,456	8,578,642	20,442,545	21,099,816	29,263,001	29,678,458
Gain (loss) on sale of assets	642	625	(21,678)	16,100	(21,036)	16,725
Settlement	-	11,591	-	-	-	11,591
Other Sources	642	12,216	(21,678)	16,100	(21,036)	28,316
Increase in net assets before transfers	(3,644,203)	107,691	4,399,268	3,570,280	755,065	3,677,971
Transfers - Payments in lieu of taxes	2,348,636	2,339,104	(2,348,636)	(2,339,104)	-	-
Transfers	637,250	975,000	(637,250)	(975,000)	-	-
Total transfers	2,985,886	3,314,104	(2,985,886)	(3,314,104)	-	-
Increase in net assets	(658,317)	3,421,795	1,413,382	256,176	755,065	3,677,971
Net assets, beginning	17,532,700	14,110,905	19,065,744	18,809,568	36,598,444	32,920,473
Net assets, ending	\$ 16,874,383	\$ 17,532,700	\$ 20,479,126	\$ 19,065,744	\$ 37,352,875	\$ 36,598,444

Governmental Activities

Governmental activities decreased the City's net assets by \$658,317. Sales tax revenues, one of the largest governmental category, was \$2,795,552. For the fiscal year ended March 31, 2012, revenues from all sources totaled \$30,039,102 (governmental and business-type). Revenues from governmental activities total \$5,175,611, or 17%, of the total City revenues. City revenues decreased

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\$3,498,506 within the governmental activities primarily due to the prior year reimbursement of \$3,761,985 from MoDOT and increases within the current year sales tax revenue.

Certain revenues are generated that are specific to governmental program activity. These totaled \$803,152. The following table shows expenses and program revenues of the governmental activities for the years ended March 31, 2012 and 2011:

Net Cost of City of Monett Governmental Activities

	Total cost of service		Net cost of service	
	2012	2011	2012	2011
Policy development and administration	\$ 549,895	\$ 475,200	\$ 345,473	\$ 272,206
Public safety	3,522,642	3,391,968	3,413,148	3,309,532
Public works	2,531,339	2,430,261	2,474,677	2,331,285
Parks and recreation	1,268,520	1,128,066	991,842	704,759
Municipal airport	396,490	491,772	240,594	322,124
Interest on long-term debt	551,570	661,375	551,570	661,375
	<u>\$8,820,456</u>	<u>\$8,578,642</u>	<u>\$8,017,304</u>	<u>\$7,601,281</u>

As previously noted, expenses from governmental activities total \$8,820,456 million. However, net costs of these services were \$8,017,304.

Business-type Activities

Business-type activities increased the City's net assets by \$1,413,382. Key elements of this increase are as follows:

- The water recorded net income of \$720,964 for the year. Revenues relating to charges for services increased \$426,060. Operating expenses increased \$106,543 compared to prior year expenses due to increases in repairs and maintenance expense. Interest expense increased \$52,084.
- The electric recorded net income of \$808,943 for the year. Revenues relating to charges for services decreased \$370,749. Operating expenses decreased \$1,024,703, due to decreases in electricity purchase charges of \$710,786 and supplies of \$291,424.
- The sewer recorded a net loss of \$179,033 for the year. Revenues relating to charges for services increased \$33,940. Operating expenses increased \$88,786 due to increases in payroll of \$19,483, depreciation charges of \$10,842, insurance charges of \$7,973 and repair and maintenance of \$29,261.

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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 \$3,490,356.

The fund balance of the General Fund decreased \$491,418 at the end of the fiscal year mainly due to a condemnation fee within the Street department for \$297,598 and capital outlay costs for Casino/Community Building of \$38,479, North Park cost increases of \$61,456 and South Park cost increases of \$103,849.

The fund balance in the E-911 Fund decreased to \$40,752 (decrease of \$39,812 or 49%) in the fiscal year due to operating expenditures in excess of restricted revenues for 911 purposes.

The fund balance in the TIF – District 1 Fund decreased to \$1,206,674 (decrease of \$3,401,156) in the fiscal year due to principal payment due for \$3,710,000.

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, 2012, amounts to \$45.5 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:

- Admin. – Building at 508 Bond Street \$50,466.
- Fire – Bunker Gear \$40,228 and Amkus Power Unit \$6,280
- Police – 2012 Watch Guard D-V Car Camera \$10,140 and (2) 2011 Crown Victoria \$47,301.
- Cemetery – John Deere 1545 Front Mower \$20,266
- Street – Salt Barn \$64,586 and 2011 F-350 Truck \$56,091.
- Casino – Community Building \$38,479.
- Golf – Golf Club House \$12,401.
- North Park – Sand Pro 304 w/ Ballfield Groomer \$15,831 and Outdoor Basketball Court \$31,176
- South Park – John Deere 1545 Front Mower \$19,836.

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- Airport – Runway Regulator Building \$8,617, Kubota Mower \$11,000, Sterling Fuel Truck \$25,000, and AWOS – Automated Weather Observer \$83,893.
- Sewer – West Lift Station \$6,810 and Land (32.93 acres) \$83,243.
- Water – Construction in Progress \$136,876, Water Infrastructure \$1,125,186, 2012 F-450 with a Utility Body \$50,762 and 2012 F-250 \$24,793.
- Electric – 2012 Ford F-250 \$24,794 and 2012 F-550 Bucket Truck \$113,539.
- Sanitation – 2012 Side Loader Refuse Truck \$227,348.

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

	Governmental Activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 937,038	\$ 937,038	\$ 305,504	\$ 222,261	\$ 1,242,542	\$ 1,159,299
Construction in progress	50,880	-	136,876	-	187,756	-
Building and improvements	4,521,401	4,620,048	524,000	578,471	5,045,401	5,198,519
Machinery and equipment	1,832,318	1,872,710	1,311,979	1,099,034	3,144,297	2,971,744
Infrastructure	16,898,553	17,933,130	19,025,130	18,997,550	35,923,683	36,930,680
Total	\$ 24,240,190	\$ 25,362,926	\$ 21,303,489	\$ 20,897,316	\$ 45,543,679	\$ 46,260,242

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 2012, had a total of \$20,956,545 of outstanding long-term debt. This was an decrease of \$4,885,379 from the previous year.

City of Monett Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 65,604	\$ 80,647	\$ 290,000	\$ 305,000	\$ 355,604	\$ 385,647
Revenue bonds	7,422,091	11,750,000	7,015,000	7,400,000	14,437,091	19,150,000
Developers Agreements	540,194	540,194			540,194	540,194
Capital leases and participation obligations	2,597,416	2,597,416	3,026,240	3,168,667	5,623,656	5,766,083
Total	\$ 10,625,305	\$ 14,968,257	\$ 10,331,240	\$ 10,873,667	\$ 20,956,545	\$ 25,841,924

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.