

Management Report  
for  
City of Ramsey, Minnesota  
December 31, 2010



PRINCIPALS

Kenneth W. Malloy, CPA  
Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA

To the City Council  
City of Ramsey  
Ramsey, Minnesota

We have prepared this management report in conjunction with our audit of the City of Ramsey, Minnesota's (the City) financial statements for the year ended December 31, 2010. The purpose of this report is to communicate information resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Funding Cities in Minnesota
- Governmental Funds Overview
- Financial Trends and Conditions of Selected Funds
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Karnowski, Radosevich, & Co., P.A.*

June 1, 2011

## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2010. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### **AUDIT OPINION AND FINDINGS**

Based on our audit of the City's financial statements for the year ended December 31, 2010:

- We have issued an unqualified opinion on the City's basic financial statements.
- We reported no matters involving the City's internal control over financial reporting that we consider to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

### **AUDIT COMMENTS**

**Land Held for Resale** – The City currently holds a significant amount of land for resale in the Housing and Redevelopment Special Revenue Fund, which management reports at the lower of cost or net realizable value. For assets that are not considered readily available for spending, a reservation of fund balance is required resulting in a deficit unreserved, undesignated fund balance in this fund. We recognize the City is working on an ongoing basis to utilize these assets in the best interest of the City. We recommend that the City continue to review these property values and related internal loans on an ongoing basis to ensure a proper reporting of city assets and financial activity between funds is accurately presented.

### **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

## **SIGNIFICANT ACCOUNTING POLICIES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

## **ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were as follows:

- **Value of Land Held for Resale** – These assets are stated at the lower of cost or net realizable value based on management's estimates.
- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.
- **Net Other Post-Employment Benefit (OPEB) Liabilities** – Actuarial estimates of the net OPEB obligation is based on eligible participants, estimated future health insurance premiums, and estimated retirement dates.

Management expects any differences between estimates and actual amounts of these estimates to be insignificant. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated June 1, 2011.

## **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## FUNDING CITIES IN MINNESOTA

### LEGISLATION

The following is a summary of significant legislative activity passed in calendar year 2010 affecting the finances of Minnesota cities:

**Local Government Aid and Market Value Homestead Credit** – The 2009 legislative session ended without an agreement on how to address significant projected state budget deficits for the 2009 and 2010 fiscal years. The Governor vetoed the budget bill proposed by the Legislature and balanced the budget using his power of unallotment. The Governor’s unallotment plan included delays in the payment of state revenues to school districts, and a reduction in appropriations to other state programs, including local government aid (LGA) and market value homestead credit (MVHC) to Minnesota cities. The unallotments included reductions of approximately \$128 million to calendar year 2010 LGA and MVHC, calculated at 7.64 percent of the total calendar year 2009 aggregated levy and LGA of the city, not to exceed \$55 per capita. Cuts were to be first taken from LGA and then from MVHC, as necessary. Cities with populations below 1,000 and below the state-wide average tax base per capita were exempted from these cuts.

The February 2010 state budget forecast predicted an additional shortfall of \$994 million for the remainder of the 2010–2011 biennium. The 2010 Legislature passed a supplemental budget bill in April that addressed roughly \$312 million of the additional shortfall. The bill reduced fiscal 2010 LGA and MVHC for cities by an additional \$52.5 million, calculated at 3.43 percent of the total 2010 aggregated levy, LGA, and taconite aid of the city, not to exceed \$28 per capita. These cuts were to be first taken from MVHC and then from LGA, as necessary. Cities with populations below 1,000 exempted from previous LGA and MVHC cuts were included in this round of cuts.

The April 2010 supplemental budget bill also reduces city LGA and MVHC for fiscal 2011 by \$56.5 million. About \$25.4 million of this reduction is a permanent extension of the MVHC portion of the cuts originally made through the Governor’s unallotments. The Legislature also made a permanent reduction of \$31.1 million to the state’s annual LGA appropriation for cities, beginning in 2011.

In May 2010, the Minnesota Supreme Court issued a ruling on a lawsuit overturning the Governor’s unallotment of funding to a state special nutrition program. The decision, which applied only to the cuts to this specific program, called into question all of the Governor’s July 2009 unallotments. In a one-day special session in May, the 2010 Legislature took action to ratify the majority of the Governor’s 2010 unallotments, and dealt with the remaining projected shortfall.

**Levy Limitations** – A 2008 law limited general operating property tax levy increases for cities with populations over 2,500 to an inflationary increase based on the state determined implicit price deflator (IPD) to a maximum of 3.9 percent annually for the next three calendar years. Modifications were made in subsequent legislative sessions to allow cities subject to levy limitation to declare “special levies” to replace the LGA and MVHC losses described above. The 2010 Legislature also established a floor of zero percent for the inflationary increase, so levies would not be reduced in the event of IPD deflation. The Governor’s proposal to extend levy limits was not adopted by the 2010 Legislature, and levy limits remain set to expire after the 2011 tax year. However, the extension of levy limits is expected to be revisited by the 2011 Legislature.

**State Stimulus/Jobs Bill** – This jobs creation bill included a number of provisions that applied to cities, including:

- Authority for local governments to finance energy conservation improvements and collect repayments as special assessments at the request of the property owner.
- Creation of a new “compact development” type of tax increment financing (TIF) district.
- Expanded authority to use TIF for general economic development for one year.
- Expanded authority to use excess TIF to finance new private development.
- Expanded authority for certain cities to use TIF for housing replacement in response to the foreclosure crisis.

**Interest Rates on Awards and Judgments** – The 2010 Legislature exempted government entities from a 2009 law change that increased the required interest rate on awards and judgments over \$50,000 to 10 percent, returning the rate to the pre-2009 maximum of the greater of 4 percent or the secondary market rate of one year U.S. Treasury bills as determined in December each year.

**Pension Funding and Sustainability** – The 2010 Legislature made a number of changes to improve the sustainability of state-wide pension plans, including those administered by the Public Employees Retirement Association (PERA). Among the changes to the Public Employee Retirement Fund Coordinated Plan were required increases to the employer and employee contribution rates of 0.25 percent of salary each, effective January 1, 2011. Public Employee’s Police and Fire Fund employee and employer contribution rates also increased 0.2 percent and 0.3 percent of salary, respectively, effective January 1, 2011.

## **STATE OUTLOOK AND IMPORTANCE OF INTERNAL CONTROLS**

The state of Minnesota has experienced a series of major budget shortfalls and a steadily deteriorating financial condition in recent years. Local governments and other entities dependent on the state for funding have, in turn, had to deal with the resulting state aid cuts, holdbacks, and unallotments. For the fiscal year 2010–2011 biennium, the state budget was balanced using several large accounting “shifts” and one-time federal stabilization funds that greatly reduced the amount of actual aid reductions necessary. The accounting shifts included delaying state aid payments to and accelerating property tax revenue recognition of Minnesota school districts, essentially utilizing cash “borrowed” from the districts to help balance the state budget. The state intends to pay these shifts back when it has the financial ability.

Current state budget projections for 2011–2012 predict further significant shortfalls that will need to be addressed. Realistically, the state has already used up most of the accounting shifts available for this purpose, and additional federal assistance cannot be counted on. The economy, while showing some signs of recovery, is unlikely to turn around quickly enough to solve the state’s budget issues in the short-term. All of this adds up to a period of continued financial uncertainty and a strong likelihood of further funding cuts for Minnesota municipalities.

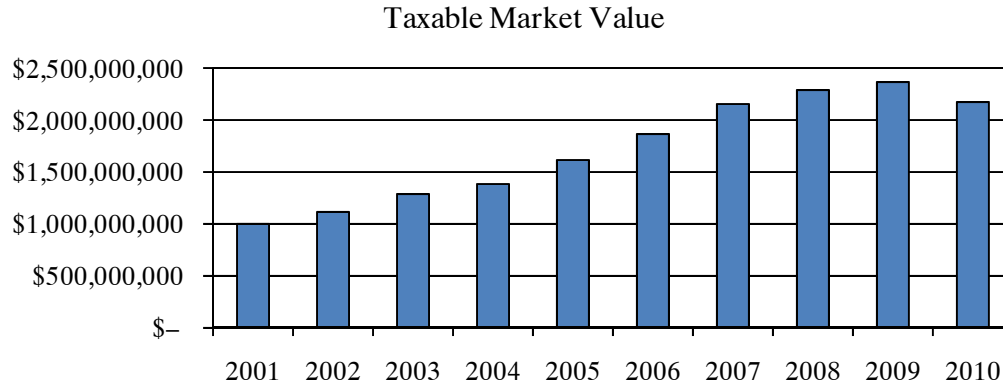
These circumstances have resulted in a sustained cycle of budget reductions for most Minnesota cities. Among our clients, we have seen numerous examples of staffing cuts and reassignments that have potentially weakened internal controls by reducing the segregation of accounting duties or delaying the performance of key control procedures. Unfortunately, the economic downturn has also placed additional financial strain on many individuals, elevating the risk of fraud and theft. Recent communications from the Minnesota Office of the State Auditor have reported a substantial increase in incidents of fraud and theft involving local governments reported to their office recently. A sound system of internal controls is critical to safeguarding city assets and assuring that accurate and timely financial information is available to manage the City. When faced with difficult budgetary decisions, we encourage our clients to remain mindful of these factors and to continue to make sound financial controls a top priority.

## PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. In recent years this dependence has been heightened, as revenue from state aids and fees related to new development have dwindled due to the struggling economy. This has placed added pressure on local taxpayers already beset by higher unemployment, lower property values, and tighter credit markets. As a result, municipalities in general are experiencing increases in tax delinquencies, abatements, and foreclosures. This instability has led to significant fiscal challenges for many local governments, and increased the investing public's concerns about the security of the municipal debt market.

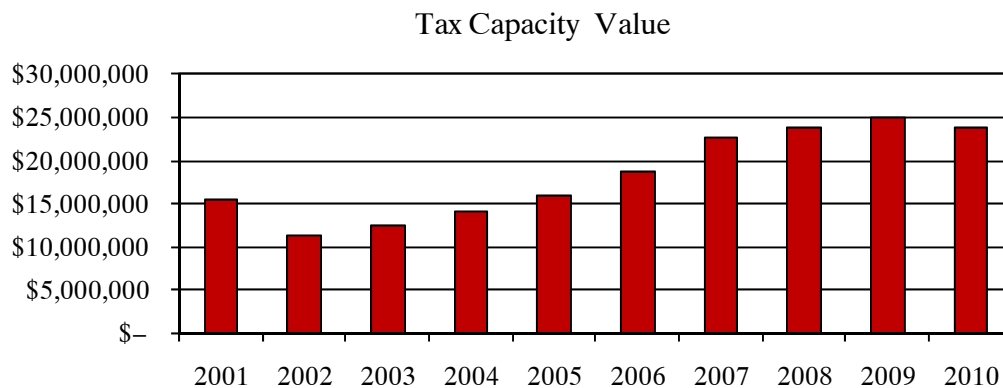
Property values within Minnesota cities experienced an average increase of 1.5 percent for taxes payable in 2009 and an average decrease of 3.0 percent for those payable in 2010, reflecting the weak housing market and economic recession experienced in recent years. In comparison, the City's market value increased 3.5 percent in 2009 and decreased 7.6 percent in 2010. It is important to remember that the 2010 market value is based on estimated values as of January 1, 2009, and the housing market is still experiencing difficult times.

The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the City's tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City's tax capacity increased 5.0 percent for 2009 and decreased 5.0 percent for 2010.

The following graph shows the City's change in tax capacities over the past 10 years:



The following table presents the average tax rates applied to city residents for each of the last two levy years, along with comparative state-wide and metro area rates. The general increase in rates reflects both the increased reliance of local governments on property taxes and the recent decline in tax capacities previously discussed.

Rates expressed as a percentage of net tax capacity						
	All Cities State-Wide		Seven-County Metro Area		City of Ramsey	
	2009	2010	2009	2010	2009	2010
<b>Average tax rate</b>						
City	36.9	39.2	33.7	36.0	<b>39.5</b>	<b>38.0</b>
County	39.3	41.0	34.7	36.8	<b>32.4</b>	<b>35.6</b>
School	22.0	23.0	22.1	24.0	<b>20.5</b>	<b>22.5</b>
Special taxing	5.5	5.9	5.9	6.5	<b>4.9</b>	<b>6.2</b>
Total	<u>103.7</u>	<u>109.1</u>	<u>96.4</u>	<u>103.3</u>	<u><b>97.3</b></u>	<u><b>102.3</b></u>

As the table displays, the City portion decreased while the total average tax rate increased due to increases approved by other taxing authorities.

The school tax rate for the City represents an average of Independent School Districts No. 11, Anoka-Hennepin and No. 728, Elk River Area Schools.

## GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds. Governmental funds include the General Fund, special revenue, debt service, and capital project funds. We have also included the most recent comparative state-wide averages available from the Office of the State Auditor. The reader needs to consider the effect of inflation and other known changes or differences when comparing this data. Also, certain data on these tables may be classified differently than how they appear on the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement rather than duplicate information in the Management's Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

### GOVERNMENTAL FUNDS REVENUE

The amounts received from the typical major sources of revenue will naturally vary between cities based on their particular situation. This would include the City's stage of development, location, size and density of its population, property values, services it provides, and other attributes. The following table presents the City's revenue per capita of its governmental funds for the past three years, together with state-wide averages:

<b>Governmental Funds Revenue per Capita</b>								
With State-Wide Averages by Population Class								
Year	State-Wide				City of Ramsey			
	December 31, 2009				2008	2009	2010	
Population	2,000-2,500	2,500-10,000	10,000-20,000	20,000-100,000	24,100	24,300	23,668	
Property taxes	\$ 371	\$ 367	\$ 365	\$ 391	\$ 361	\$ 400	\$ 361	
Tax increments	37	46	62	59	141	145	153	
Franchise and other taxes	8	23	34	36	-	-	-	
Special assessments	74	86	47	62	21	18	21	
Licenses and permits	19	21	19	27	36	15	17	
Intergovernmental revenues	339	284	273	168	109	71	86	
Charges for services	88	82	80	77	25	39	56	
Other	108	81	76	61	244	109	93	
<b>Total revenue</b>	<b>\$ 1,044</b>	<b>\$ 990</b>	<b>\$ 956</b>	<b>\$ 881</b>	<b>\$ 937</b>	<b>\$ 797</b>	<b>\$ 787</b>	

Total revenue per capita remained similar to the prior year, decreasing by \$10. The decrease in property taxes per capital of \$39 was primarily due to a decrease in the approved levy. This decrease was offset by increases in tax increments of \$8 per capita and intergovernmental revenues of \$15 per capita, as well as increases in charges for services of \$17 per capita, which were due to additional building permits issued and rental of space in the municipal center. Other local services revenue per capita decreased \$16 per capita, which includes fines and forfeits, investment earnings, and other miscellaneous revenue sources.

## GOVERNMENTAL FUNDS EXPENDITURES

Similar to our discussion of revenues, the expenditures of governmental funds will vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for the debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

<b>Governmental Funds Expenditures per Capita</b> With State-Wide Averages by Population Class								
Year	State-Wide				City of Ramsey			
	December 31, 2009				2008	2009	2010	
Population	2,000–2,500	2,500–10,000	10,000–20,000	20,000–100,000	24,100	24,300	23,668	
<b>Current</b>								
General government	\$ 169	\$ 120	\$ 107	\$ 79	\$ 175	\$ 162	\$ 181	
Public safety	219	217	233	241	164	162	160	
Street maintenance and lighting	109	112	106	82	119	94	116	
Parks and recreation	59	61	81	86	37	35	35	
All other	104	81	81	96	–	–	–	
	<u>\$ 660</u>	<u>\$ 591</u>	<u>\$ 608</u>	<u>\$ 584</u>	<u>\$ 495</u>	<u>\$ 453</u>	<u>\$ 492</u>	
<b>Capital outlay and construction</b>								
	<u>\$ 251</u>	<u>\$ 336</u>	<u>\$ 325</u>	<u>\$ 267</u>	<u>\$ 186</u>	<u>\$ 182</u>	<u>\$ 268</u>	
<b>Debt service</b>								
Principal	\$ 245	\$ 196	\$ 135	\$ 126	\$ 83	\$ 141	\$ 94	
Interest and fiscal	76	73	51	39	56	55	56	
	<u>\$ 321</u>	<u>\$ 269</u>	<u>\$ 186</u>	<u>\$ 165</u>	<u>\$ 139</u>	<u>\$ 196</u>	<u>\$ 150</u>	

Total expenditures in the City's governmental funds for 2010 were \$21,543,011, an increase of \$1,329,608 (6.6 percent) from the prior year. On a per capita basis, the City expended a total of \$910 in 2010. Current expenditures increased \$39 per capita, or about 8.6 percent, from last year. Capital outlay expenditures for 2010 were \$86 more per capita than the prior year due to higher street construction and land purchase expenditures. Debt service expenditures for 2010 were \$46 per capita lower than the prior year as scheduled, with final payment on four bond issues in the prior year.

## FINANCIAL TRENDS AND CONDITIONS OF SELECTED FUNDS

### FINANCIAL CONDITION OF THE GOVERNMENTAL FUNDS AND ACTIVITIES AS A WHOLE

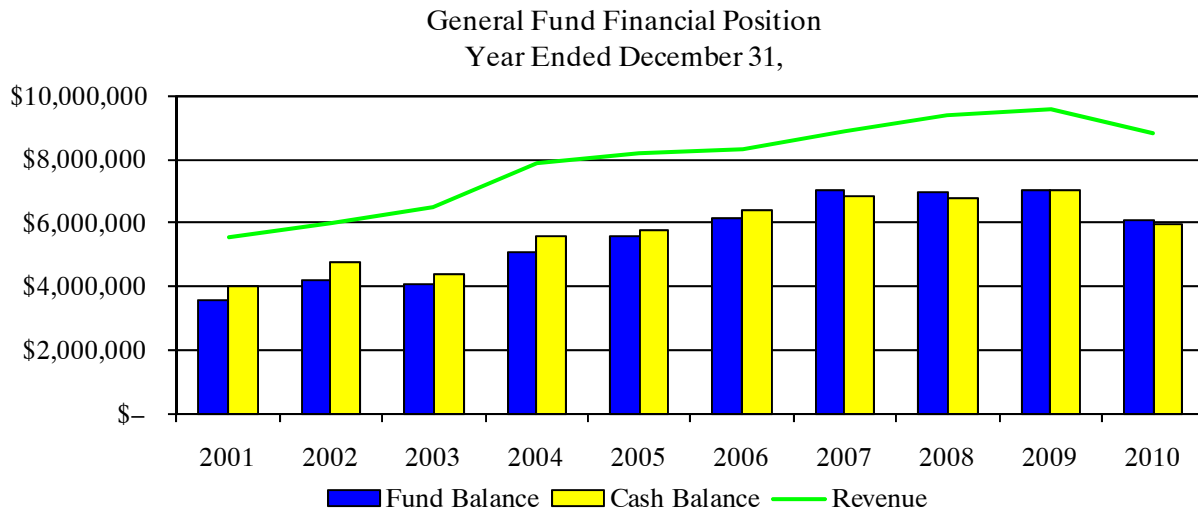
The governmental funds reported total fund balances of \$38,414,991 at December 31, 2010. This level of fund balance for all governmental funds represents a decrease of \$2,594,704 from the prior year fund balance for all governmental funds of \$41,009,965. The Park Improvement Capital Project Fund decreased almost \$2 million with a transfer of resources for capital expenditures incurred in the current year.

The Statement of Net Assets shows an increase in the net assets of the governmental activities of \$1,102,234, with ending net assets of \$74,522,018. Since this statement is based on accrual accounting rather than modified accounting, the money spent on capital project costs are capitalized as assets, while in the fund statements they are expended.

### GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and culture and recreation.

The following graph displays the City's General Fund trends of financial position and changes in the volume of financial activity. Fund balance and cash balance are typically used as indicators of financial health or equity, while annual revenue is often used to measure the size of the operation.

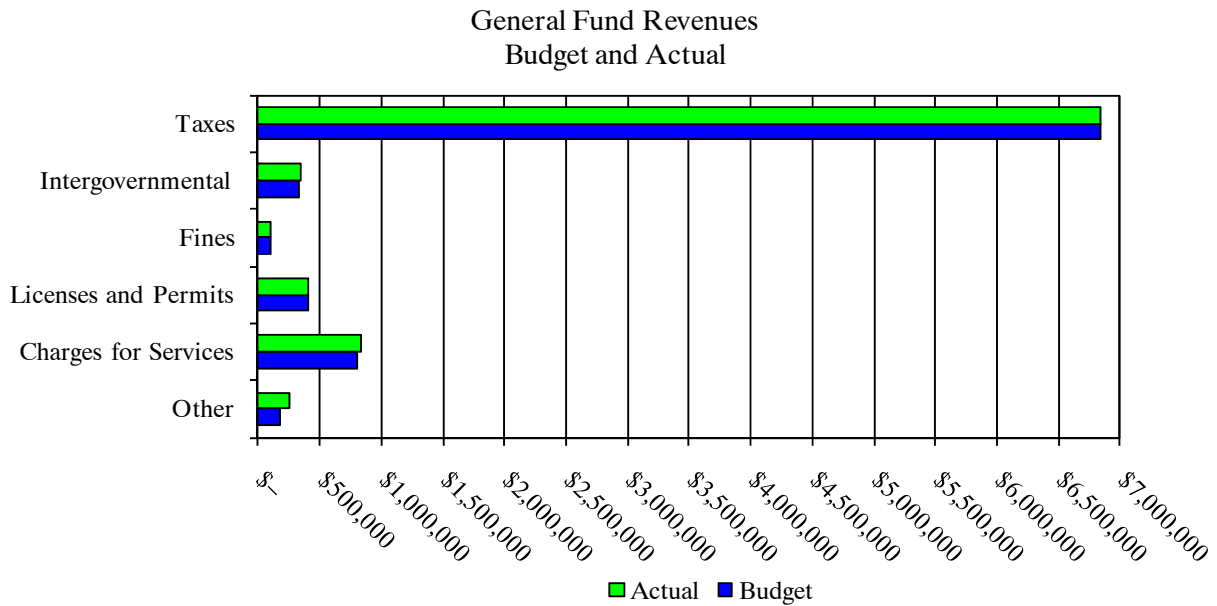


The City's General Fund cash and investments balance (net of interfund borrowing) at December 31, 2010 was \$5,971,246, a decrease of \$1,043,963 from the previous year. Total fund balance at year-end was \$6,059,759, a decrease of \$957,194 from the prior year. The City Council has reserved or designated this entire fund balance for specific purposes. The stability of the General Fund's financial position is greatly attributed to the City's "Fund Balance and Excess Revenue Policy" as well as the general budgeting policies. These policies have allowed the City to provide funding for equipment replacement and recurring capital maintenance programs without disrupting the General Fund's financial position. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. The amount of required equity increases as the size of the operation increases. Increase in the size of the operation is natural, caused by such things as inflation, population growth, desired increases in services, and—something which has impacted cities significantly in recent years—mandated increases in services and administrative requirements.

The graph on the previous page shows the rapid yet steady growth in fund equity, absent of significant year-to-year fluctuations through 2009. This indicates a stable operation with effective financial controls. The decrease in 2010 cash and fund balance is largely due to the City's change in its fund balance policy, which was amended to require 50 percent of the following years' adopted budgeted expenditures. Prior to the current year this requirement was at 60 percent.

Generally, a healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and can be a factor in determining the City's bond rating and resulting interest costs.

The following graph reflects the City's General Fund revenues, budget and actual, for 2010:

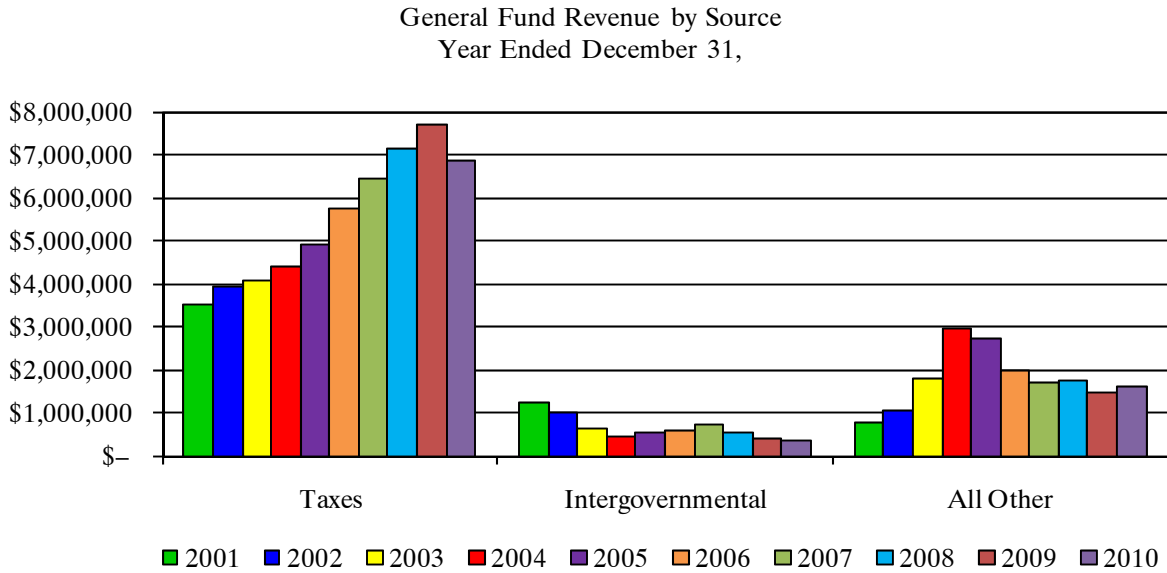


Total General Fund revenues for 2010 were \$8,789,279, a decrease of \$790,795 from the previous year and \$115,104 more than budget.

Property tax revenue decreased by \$859,026, due to a decrease in the approved levy adopted as discussed earlier in this report.

Charges for services and investment earnings surpassed budget expectations by \$30,963 and \$80,635, respectively, due to conservative budgeting in these areas due to the volatility in the nature of these sources.

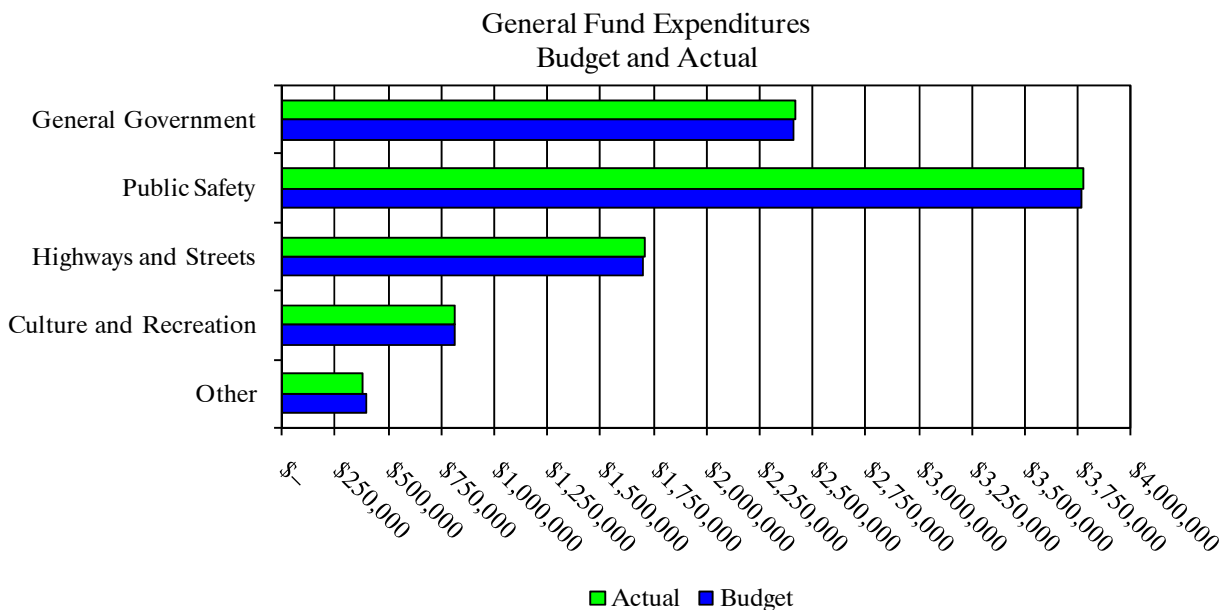
The following graph presents the City's General Fund revenues by source for the last 10 years:



The trend of increased reliance on tax revenue and decreasing intergovernmental (primarily state revenue) is typical to Minnesota cities. As presented in the graph above, property taxes account for 78 percent of General Fund revenues even after the current year reduction discussed on the previous page.

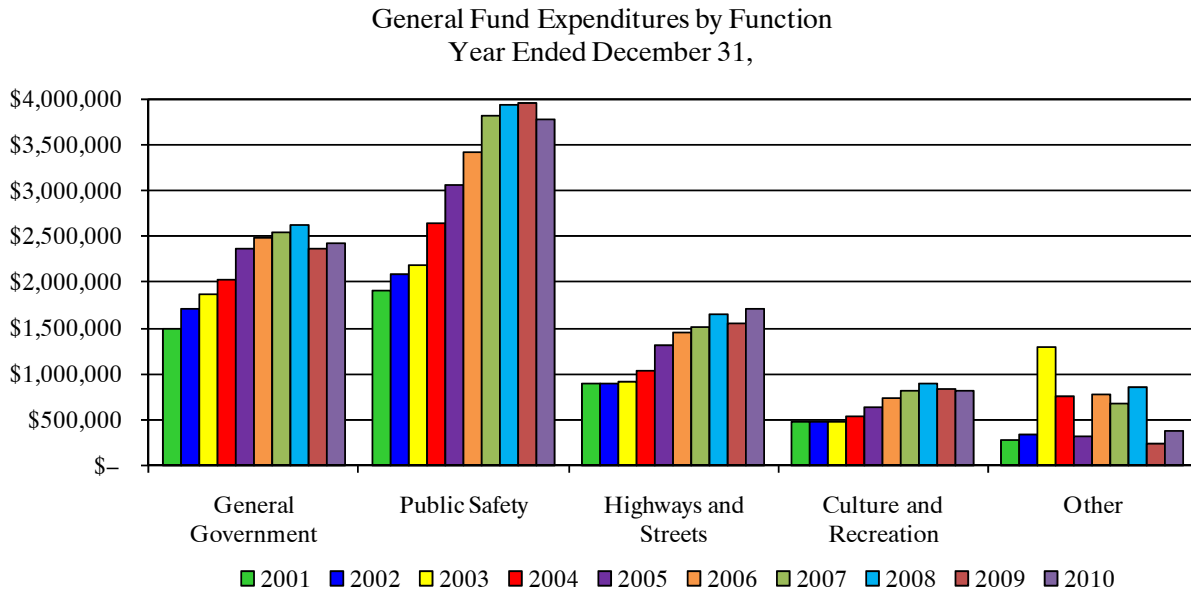
The City has received a significant amount of other revenue in the form of licenses, permits, and charges for services relating to new development in past years, but as displayed in the graph above, these sources have been declining with the slowing economy.

The following graph reflects the City's General Fund expenditures, budget and actual, for 2010:



General Fund expenditures totaled \$9,103,519 in 2010, an increase of \$163,230 (or 1.8 percent) from the prior year, and were \$17,032 (or 0.2 percent) over the final budget.

The following graph shows General Fund expenditures for the last 10 years:



The graph shows that the largest share of General Fund expenditures is for public safety, while general government expenditures make up the second largest expenditure category. As the graph displays, expenditures increased in all categories presented above, with the exception of public safety, which decreased \$165,836, and culture and recreation, which decreased \$19,738.

## Utility Enterprise Funds

The City's enterprise funds report positive components of net assets in all utility operations. Total cash balances equaled \$14,289,448, while net assets totaled \$75,345,808 at December 31, 2010. Net assets increased \$1,889,436 over the prior year.

The following table presents five years of comparative operating results for each of the City's utility enterprise funds:

	2006	2007	2008	2009	2010
<b>Utility enterprise funds</b>					
<b>Water</b>					
Operating revenue	\$ 1,317,203	\$ 1,440,658	\$ 1,539,665	\$ 1,693,581	\$ 1,633,461
Operating expenses	<u>906,795</u>	<u>912,094</u>	<u>1,247,248</u>	<u>1,291,952</u>	<u>1,295,721</u>
Operating income	<u>\$ 410,408</u>	<u>\$ 528,564</u>	<u>\$ 292,417</u>	<u>\$ 401,629</u>	<u>\$ 337,740</u>
Operating income as a % of operating revenue	<u>31.2 %</u>	<u>36.7 %</u>	<u>19.0 %</u>	<u>23.7 %</u>	<u>20.7 %</u>
<b>Sewer</b>					
Operating revenue	\$ 1,044,271	\$ 1,100,948	\$ 1,208,843	\$ 1,214,953	\$ 1,261,609
Operating expenses	<u>771,870</u>	<u>838,452</u>	<u>883,214</u>	<u>1,076,451</u>	<u>1,101,554</u>
Operating income	<u>\$ 272,401</u>	<u>\$ 262,496</u>	<u>\$ 325,629</u>	<u>\$ 138,502</u>	<u>\$ 160,055</u>
Operating income as a % of operating revenue	<u>26.1 %</u>	<u>23.8 %</u>	<u>26.9 %</u>	<u>11.4 %</u>	<u>12.7 %</u>
<b>Street Light</b>					
Operating revenue	\$ 167,548	\$ 173,541	\$ 183,560	\$ 172,897	\$ 179,272
Operating expenses	<u>108,639</u>	<u>110,837</u>	<u>123,839</u>	<u>148,140</u>	<u>158,369</u>
Operating income	<u>\$ 58,909</u>	<u>\$ 62,704</u>	<u>\$ 59,721</u>	<u>\$ 24,757</u>	<u>\$ 20,903</u>
Operating income as a % of operating revenue	<u>35.2 %</u>	<u>36.1 %</u>	<u>32.5 %</u>	<u>14.3 %</u>	<u>11.7 %</u>
<b>Recycling</b>					
Operating revenue	\$ 251,224	\$ 291,152	\$ 332,682	\$ 284,515	\$ 294,617
Operating expenses	<u>232,052</u>	<u>283,746</u>	<u>300,755</u>	<u>298,631</u>	<u>307,662</u>
Operating income (loss)	<u>\$ 19,172</u>	<u>\$ 7,406</u>	<u>\$ 31,927</u>	<u>\$ (14,116)</u>	<u>\$ (13,045)</u>
Operating income as a % of operating revenue	<u>7.6 %</u>	<u>2.5 %</u>	<u>9.6 %</u>	<u>(5.0) %</u>	<u>(4.4) %</u>
<b>Storm Water</b>					
Operating revenue	\$ 475,548	\$ 503,553	\$ 566,506	\$ 578,666	\$ 617,598
Operating expenses	<u>258,731</u>	<u>440,697</u>	<u>300,444</u>	<u>358,522</u>	<u>350,521</u>
Operating income	<u>\$ 216,817</u>	<u>\$ 62,856</u>	<u>\$ 266,062</u>	<u>\$ 220,144</u>	<u>\$ 267,077</u>
Operating income as a % of operating revenue	<u>45.6 %</u>	<u>12.5 %</u>	<u>47.0 %</u>	<u>38.0 %</u>	<u>43.2 %</u>

As displayed in the table above, each of the individual enterprise funds was able to report positive operating results for the year ended December 31, 2010, with the exception of the recycling fund. This loss was covered by the county recycling grant which typically subsidizes these operations.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the City's current assets to finance its current liabilities. The Governmental Accounting Standards Board (GASB) Statement No. 34 reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide statements provide information on the total cost of delivering services, including capital assets and long-term liabilities of the City's governmental activities, and combines them with business-type activities.

### Statement of Net Assets

The Statement of Net Assets essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net assets represent the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, the Statement of Net Assets divides the net assets into three components: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The following table presents the components of City's net assets as of December 31, 2010 and 2009, for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2010	2009	
Net assets			
Governmental activities			
Invested in capital assets, net of related debt	\$ 38,466,812	\$ 34,736,969	\$ 3,729,843
Restricted	22,658,700	21,780,289	878,411
Unrestricted	<u>13,396,506</u>	<u>16,902,526</u>	<u>(3,506,020)</u>
Total governmental activities	<u>74,522,018</u>	<u>73,419,784</u>	1,102,234
Business-type activities			
Invested in capital assets, net of related debt	52,500,049	51,823,362	676,687
Unrestricted	<u>22,845,759</u>	<u>21,633,010</u>	<u>1,212,749</u>
Total business-type activities	<u>75,345,808</u>	<u>73,456,372</u>	<u>1,889,436</u>
Total net assets	<u>\$ 149,867,826</u>	<u>\$ 146,876,156</u>	<u>\$ 2,991,670</u>

The increase in governmental and business-type activities represents the results of operations as presented on the next page. The shift between components of net assets in governmental activities reflects the City's use of unrestricted resources in the current year for capital asset infrastructure additions.

## Statement of Activities

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net assets. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in net assets of the City for the years ended December 31, 2010 and 2009:

	2010		2009	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 4,998,807	\$ 1,132,229	\$ (3,866,578)	\$ (2,151,170)
Public safety	4,153,361	1,216,280	(2,937,081)	(3,362,954)
Highways and streets	5,791,896	2,594,366	(3,197,530)	(3,746,093)
Culture and recreation	1,048,690	51,624	(997,066)	(1,007,122)
Interest and fiscal charges	1,316,893	-	(1,316,893)	(1,330,224)
Business-type activities				
Water utility	1,295,721	1,878,578	582,857	501,897
Sewer utility	1,101,554	1,310,815	209,261	152,564
Street light utility	158,369	179,272	20,903	24,757
Recycling utility	307,662	344,490	36,828	34,029
Storm water utility	350,521	633,315	282,794	220,144
Total net (expense) revenue	<u>\$ 20,523,474</u>	<u>\$ 9,340,969</u>	(11,182,505)	(10,664,172)
General revenues				
Property taxes			12,144,908	13,019,854
General grants and contributions			114,692	204,752
Investment earnings			1,914,575	1,850,941
Sale of capital assets			-	5,816
Total general revenues			<u>14,174,175</u>	<u>15,081,363</u>
Change in net assets			<u>\$ 2,991,670</u>	<u>\$ 4,417,191</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows that, for the most part, the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

## **ACCOUNTING AND AUDITING UPDATES**

### **GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS**

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the general, special revenue, capital projects, debt service, and permanent fund types are clarified by the provisions in this statement; which could necessitate changes in fund structure, particularly for existing special revenue funds. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

### **GASB STATEMENT NO. 60 – ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS**

This statement provides accounting and financial reporting guidance for governments that participate as either a transferor or an operator in a service concession arrangement (SCA). SCAs are arrangements whereby a government transfers the rights to operate one of its capital assets to a third party operator (either a private party or another government) for consideration, with the operator then being compensated from the fees or charges collected in connection with the operation of the asset. To qualify as an SCA, an arrangement must meet all of the following criteria: 1) the transferor must convey to the operator both the right and the obligation to use one of its capital assets to provide services to the public; 2) the operator must provide significant consideration to the transferor; 3) the operator must be compensated from the fees or charges it collects from third parties; 4) the transferor must have the ability to either determine, modify, or approve what services are to be provided to whom at what price; and 5) the transferor must retain a significant residual interest in the service utility of the asset. This statement provides guidance to governments that are party to an SCA for reporting the assets, obligations, and flow of revenues that result from the arrangement; along with the required financial statement disclosures. The requirements of this statement must be implemented for fiscal year ending December 31, 2012, with earlier implementation encouraged.

### **GASB STATEMENT NO. 61 – THE FINANCIAL REPORTING ENTITY: OMNIBUS**

This statement amends the current guidance in GASB Statement No. 14, “The Financial Reporting Entity,” for identifying and presenting component units. This statement changes the fiscal dependency criterion for determining component units. Potential component units that meet the fiscal dependency criterion for inclusion in the financial reporting entity under existing guidance will only be included if there is also “financial interdependency” (an ongoing relationship of potential financial benefit or burden) with the primary government. This statement also clarifies the types of relationships that are considered to meet the “misleading to exclude” criterion for inclusion as a component unit; changes the criteria for blending component units; gives direction for the determination and disclosure of major component units; and adds a requirement to report an explicit, measurable equity interest in a discretely presented component unit in a statement of position prepared using the economic resources measurement focus. The requirements of this statement must be implemented for fiscal year ending June 30, 2013, with earlier implementation encouraged.