

Management Report
for
City of Plymouth, Minnesota
December 31, 2009



PRINCIPALS

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To the City Council
City of Plymouth, Minnesota

We have prepared this management report in conjunction with our audit of the City of Plymouth's (the City) financial statements for the year ending December 31, 2009. The purpose of this report is to communicate information relevant to city finances in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Cities in Minnesota
- Governmental Funds Overview
- Financial Trends and Analysis
- 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 10, 2010

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.

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the U.S. Office of Management and Budget Circular A-133, 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.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2009:

- We have issued an unqualified opinion on the City's financial statements.
- We noted no matters involving the City's internal control over financial reporting that we consider to be a material weakness.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the City has complied, in all material respects, with the requirements applicable to each major federal program.
- We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses in our testing of major federal programs.
- We noted one matter based on our testing of the City's compliance with Minnesota laws and regulations.
 - During the audit procedures for the year ended December 31, 2009, it was noted that the City's deposits exceeded federal insurance coverage and were not covered by surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the City's deposit accounts at June 30, 2009.

OTHER COMMENTS AND RECOMMENDATIONS

Internal Controls – Cash Receipts

One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business. During the audit, we noted that the cashier has the ability to accept cash, record the transaction, prepare the deposit, and subsequently void the cash transaction prior to posting to the general ledger.

While this is not pervasive enough to be considered a significant deficiency due to the small number of cash transactions for minimal amounts, we recommend that the City strengthen their controls over cash receipts by ensuring that the ability to void a cash receipt transaction is performed by an individual independent of the cash receipt process. In further discussion with management and staff, an interim process has been implemented for this weakness until security controls are corrected in the software.

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.

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.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the 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 of the City include the following:

- **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.
- **Compensated Absences** – Management's estimate is based on current rates of pay and sick leave balances.
- **Self-Insurance Reserves** – Management's estimates of self-insurance reserves are based on the estimated liability for incurred but not reported claims.

Management expects any differences between estimates and actual amounts of these estimates to be insignificant. We evaluated the key factors and assumptions used by management in the areas discussed above 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 10, 2010.

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 2009 affecting the finances of Minnesota cities:

Unallotment – The 2009 legislative session ended without an agreement on how to erase the state budget deficit. The Legislature approved and sent a final package of budget-balancing tax items to the Governor, but the Governor vetoed the bill and balanced the budget on his own 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).

The unallotments included \$193 million in reductions in calendar 2009 and 2010 to LGA and MVHC to cities, calculated at 3.31 percent and 7.64 percent, respectively, of the total calendar 2009 aggregated levy and LGA of the city. Cuts are first taken from LGA and then from MVHC, as necessary. A city's total reduction could not exceed \$22 and \$55 per capita, respectively. Cities with populations below 1,000 and below the state-wide average tax base per capita were exempted from these cuts.

In May 2010, the Minnesota Supreme Court ruled on a lawsuit brought by a program that had its funding cut through unallotment. The court ruled that the Governor's "use of unallotment power to address the unresolved deficit exceeded the authority granted to the executive branch by statute." While the court ruled only on the cuts to this specific program, the decision called into question all of the Governor's reductions, which were subsequently revisited during the 2010 legislative session.

Levy Limitations – The 2008 Legislature passed a law that limits general operating property tax levy increases for cities with populations over 2,500 to 3.9 percent annually for the next three calendar years. The 2009 legislative session ended with levy limits intact. Levy limits will remain in place for at least the 2010 budget year, with a couple of minor modifications that were contained in laws passed in 2009. For the calendar 2010 tax year, cities will be able to declare "special levies" for the calendar 2008 and 2009 unallotment losses described earlier. The calendar 2010 unallotment losses can be declared for the 2011 tax year.

Emergency Certificates of Indebtedness – The law authorizes a city to issue emergency debt certificates if the city's current year revenues are reasonably expected to be reduced below the amount provided in the city's budget approved when the property tax levy of the city was certified. This law only allows for the issuance of this debt if the revenues of the city will be insufficient to meet the expenses incurred or to be incurred during the current fiscal year. For example, emergency debt certificates could be issued as a result of mid-year reductions in state aid payments for LGA or MVHC, or when a city is experiencing a high level of property tax delinquencies. This law also requires the city to levy property taxes for the payment of principal and interest on the certificates issued.

FEDERAL RECOVERY ACT

The American Recovery and Reinvestment Act of 2009 is expected to provide approximately \$300 billion in federal funds to state and local governments, and to institutions of higher education. These funds are intended to supplement existing federal programs, create new programs, or provide more broad fiscal relief. Many cities are hoping to receive some of these temporary funds for programs and projects. The American Recovery and Reinvestment Act of 2009 mandates that there be an unprecedented amount of oversight and transparency around the spending of these funds, including specific audit and internal control requirements.

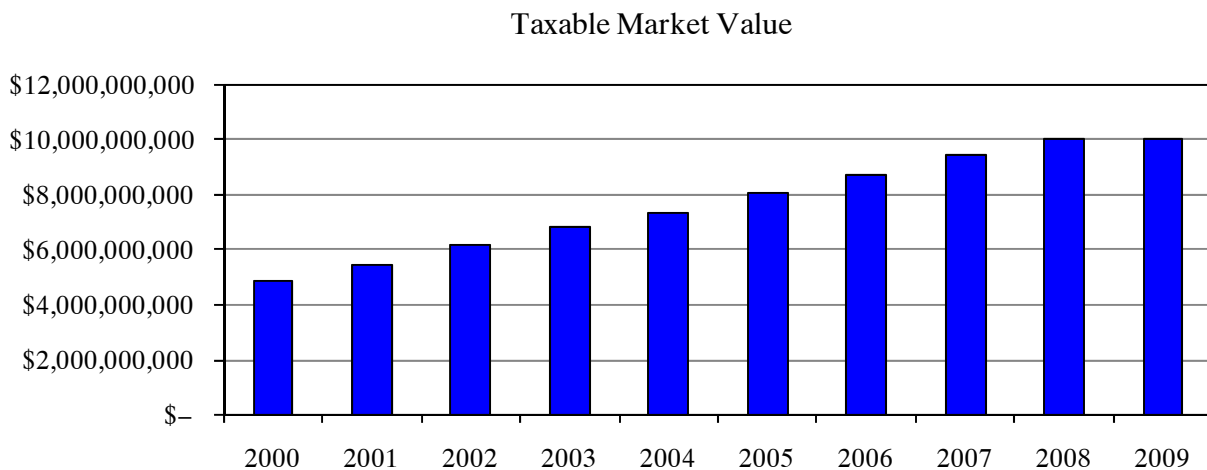
The additional internal control requirements include the need for controls over the acceptance of recovery funds, appropriate controls over the segregation of these funds from other sources of revenue, compliance with the additional laws and regulations specific to each grant award, and additional financial reporting requirements back to the appropriate federal agency.

These additional controls also include considerations into whether control procedures are in place over the federal grant expenditures to prevent unallowable expenditures, consideration into whether additional controls and systems will be needed to ensure funds are able to be separately tracked and identified, and consideration into if controls are sufficient for any funds that are passed along to subrecipients.

PROPERTY TAXES

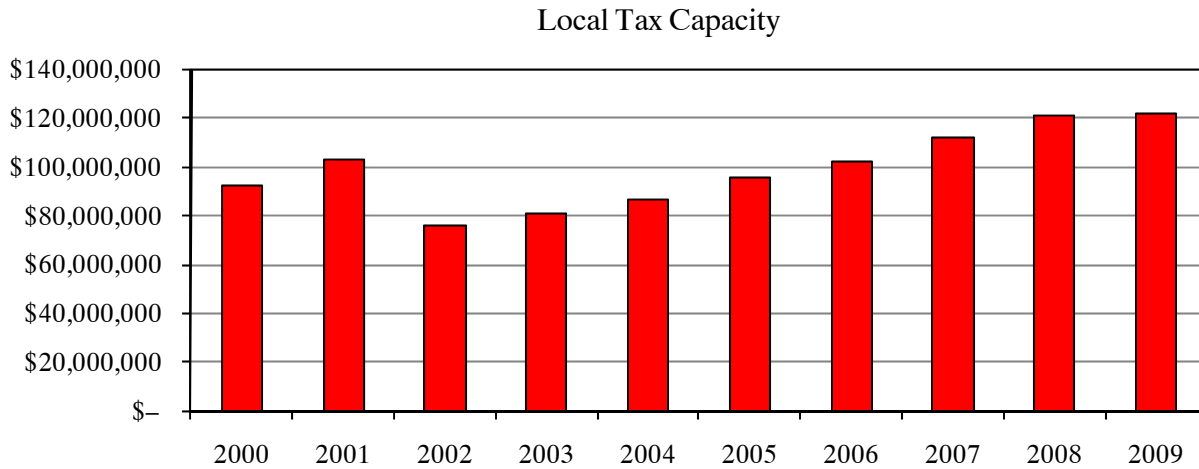
Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. In recent years this dependence has been heightened, as revenue from state aids and fees related to new development have dwindled due to the struggling economy. This has placed added pressure on 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 average increases of 7.0 percent for taxes payable in 2008 and 1.5 percent for those payable in 2009, reflecting the slowdown in growth of market values. In comparison, the City's market value increased by 6.4 percent in 2008 and decreased by 0.3 percent in 2009. It is important to remember that the 2009 market value is based on estimated values as of January 1, 2008, 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 8.3 percent for 2008 and increased 0.7 percent for 2009.

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



Although it is impossible to consider every aspect and variable of local government spending, average tax rates are often used as a benchmark.

| Rates expressed as a percentage of net tax capacity | | | | | | |
|---|--------------------------|---------------------|----------------------------|--------------------|---------------------------|---------------------------|
| | All Cities State-Wide | | Seven-County Metro Area | | City of Plymouth | |
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| Average tax rate | | | | | | |
| City | 36.3 | 36.9 | 33.6 | 33.7 | 22.9 | 24.4 |
| County | 38.0 | 39.3 | 34.9 | 34.7 | 38.6 | 40.4 |
| School | 21.1 | 22.0 | 21.3 | 22.1 | 21.2 | 21.9 |
| Special taxing | <u>5.6</u> | <u>5.5</u> | <u>7.0</u> | <u>5.9</u> | <u>8.5</u> | <u>8.2</u> |
| Total | <u><u>101.0</u></u> | <u><u>103.7</u></u> | <u><u>96.8</u></u> | <u><u>96.4</u></u> | <u><u>91.2</u></u> | <u><u>94.9</u></u> |

As the table displays, the City's average tax rate is significantly lower than state-wide averages. The City's lower than average tax rate has resulted in a total tax rate that is below both averages presented in the table above.

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, special revenue, debt service, capital project, and permanent 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:

| Governmental Funds Revenue per Capita | | | | | | | | |
|--|-------------------|---------------|----------------|------------------|---------------|---------------|--|--|
| With State-Wide Averages by Population Class | | | | | | | | |
| Year | State-Wide | | | City of Plymouth | | | | |
| | December 31, 2008 | | | 2007 | 2008 | 2009 | | |
| Population | 2,500-10,000 | 10,000-20,000 | 20,000-100,000 | 71,147 | 71,536 | 72,268 | | |
| Property taxes | \$ 355 | \$ 351 | \$ 376 | \$ 355 | \$ 369 | \$ 384 | | |
| Tax increments | 47 | 56 | 61 | 11 | 15 | 18 | | |
| Franchise and other taxes | 22 | 34 | 37 | - | - | - | | |
| Special assessments | 81 | 53 | 61 | 2 | 2 | 2 | | |
| Licenses and permits | 27 | 25 | 33 | 48 | 54 | 31 | | |
| Intergovernmental revenues | 247 | 242 | 147 | 152 | 113 | 106 | | |
| Charges for services | 82 | 78 | 79 | 50 | 45 | 47 | | |
| Other | 97 | 95 | 89 | 68 | 56 | 23 | | |
| Total revenue | \$ 958 | \$ 934 | \$ 883 | \$ 686 | \$ 654 | \$ 611 | | |

The City's governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class. A city's stage of development, along with the way a city finances various capital projects, will impact the mix of revenue sources. The City has been able to maintain an average tax rate that is below the state-wide and metro area averages, but collect a per capita tax revenue amount that is similar to the average as a result of the City's strong valuation base.

The City's per capita governmental fund revenue for 2009 decreased by \$43 or 6.6 percent from the prior year. Property taxes experienced an increase as established with the adoption of the budget and levy approved by the City Council. Licenses and permits and investment earnings, included in the other category above, experienced reductions similar to trends experienced by other cities we audit as a result of the slowing economy.

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, which 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:

| Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class | | | | | | |
|---|-------------------|---------------|----------------|------------------|---------------|---------------|
| Year Population | State-Wide | | | City of Plymouth | | |
| | December 31, 2008 | | | 2007 | 2008 | 2009 |
| | 2,500–10,000 | 10,000–20,000 | 20,000–100,000 | 71,147 | 71,536 | 72,268 |
| Current | | | | | | |
| General government | \$ 130 | \$ 115 | \$ 86 | \$ 75 | \$ 61 | \$ 57 |
| Public safety | 217 | 234 | 237 | 164 | 185 | 187 |
| Street maintenance and lighting | 114 | 113 | 88 | 58 | 60 | 57 |
| Parks and recreation | 65 | 86 | 86 | 85 | 87 | 87 |
| All other | 81 | 94 | 100 | 62 | 63 | 62 |
| | <u>\$ 607</u> | <u>\$ 642</u> | <u>\$ 597</u> | <u>\$ 444</u> | <u>\$ 456</u> | <u>\$ 450</u> |
| Capital outlay and construction | <u>\$ 379</u> | <u>\$ 338</u> | <u>\$ 327</u> | <u>\$ 241</u> | <u>\$ 157</u> | <u>\$ 106</u> |
| Debt service | | | | | | |
| Principal | \$ 171 | \$ 135 | \$ 112 | \$ 22 | \$ 22 | \$ 23 |
| Interest and fiscal | 71 | 48 | 41 | 11 | 11 | 11 |
| | <u>\$ 242</u> | <u>\$ 183</u> | <u>\$ 153</u> | <u>\$ 33</u> | <u>\$ 33</u> | <u>\$ 34</u> |

The City's governmental funds current per capita expenditures are lower than state-wide averages for cities in the same population class. The City's per capita expenditures for capital and debt service are also much lower than state-wide averages.

The City's current expenditures decreased \$6 per capita or 1.3 percent while debt service expenditures remained consistent to prior year as scheduled with approved debt financing plans. The decrease in capital outlay is natural due to the timing of various improvement projects ongoing in a given year.

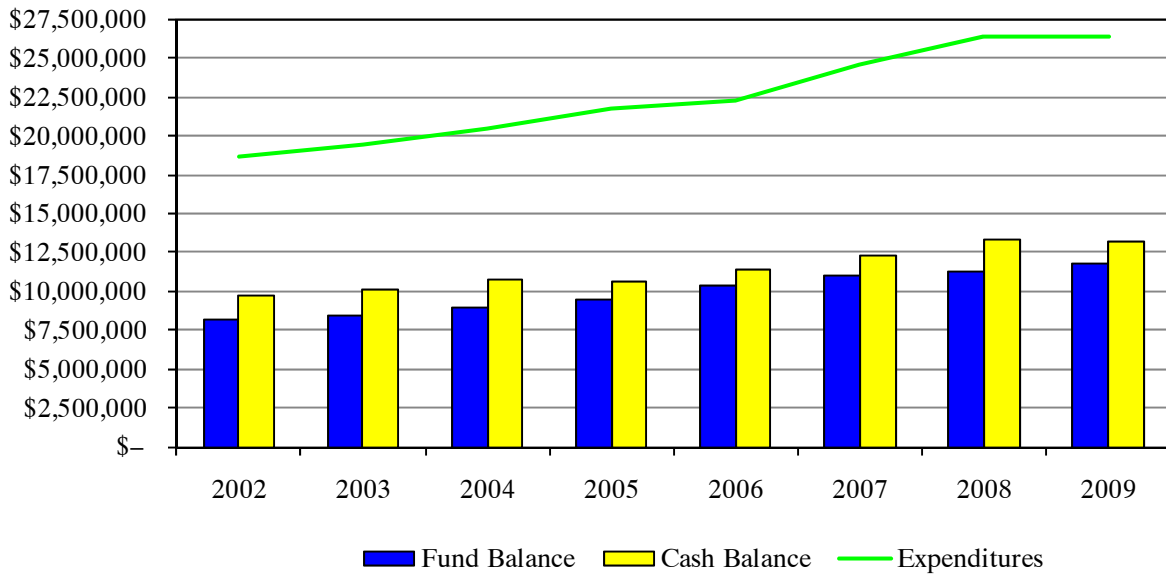
FINANCIAL TRENDS AND ANALYSIS

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 parks 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 expenditures are often used to measure the size of the operation:

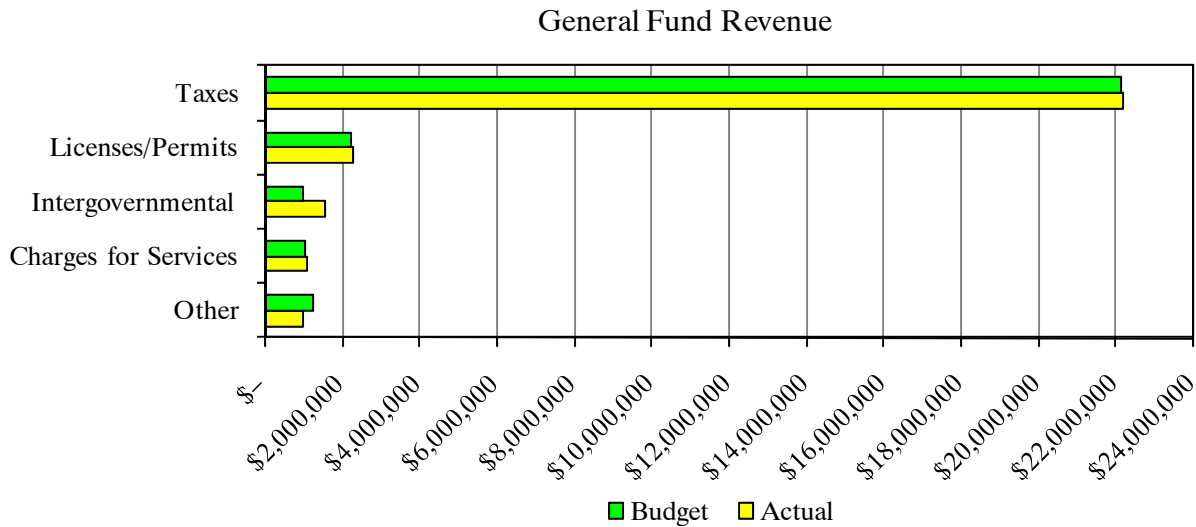
General Fund Financial Position
Year Ended December 31,



The City's General Fund ended the year with a cash balance of \$13,175,844 and a fund balance of \$11,731,191 at December 31, 2009. The City Council has reserved or designated the entire fund balance as of year-end. The City has again met the fund balance goal in 2009 to maintain a fund balance level within the General Fund approximating 40 percent of General Fund expenditures. As the graph illustrates, the City, in accordance with its fund balance policies, has been able to increase or maintain its cash and fund balance levels as the volume of financial activity has grown, despite significant legislative cuts to state aid. 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.

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 2009:

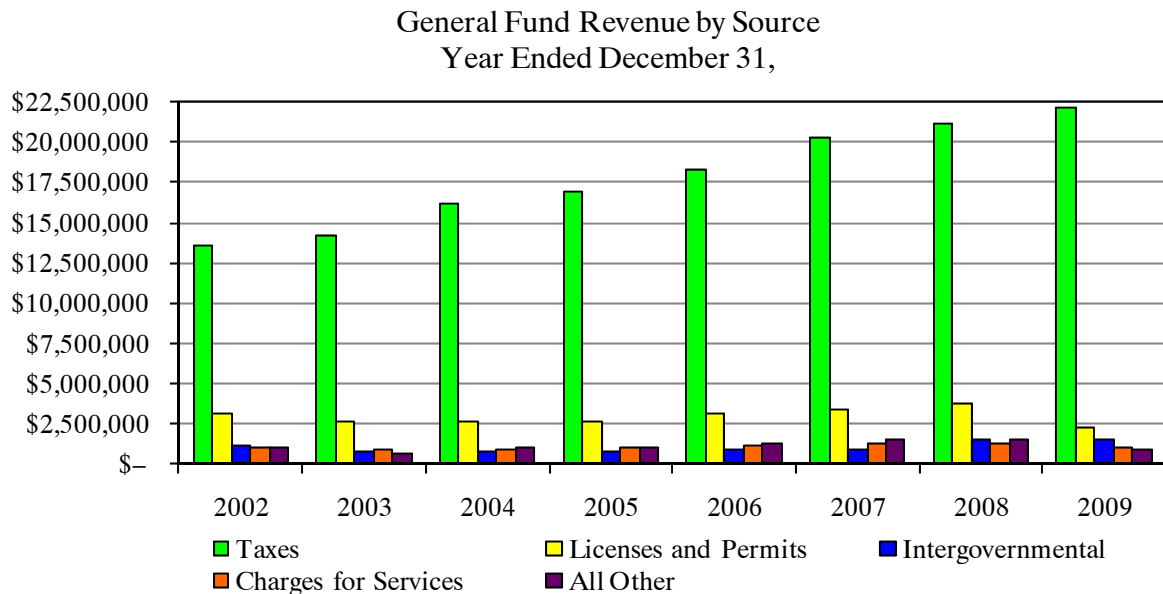


Total General Fund revenues for 2009 were \$28,111,223, a decrease of \$1,156,582 (4.0 percent) from the previous year, and \$428,886 (1.5 percent) over budget.

Revenues decreased in several areas with the largest reduction occurring in licenses and permits declining by \$1,556,066. This reduction was anticipated as presented above with actual amounts surpassing the budget by \$22,790. As discussed earlier, the slowing economy contributed to the decreases in revenues experienced by the City in the current year.

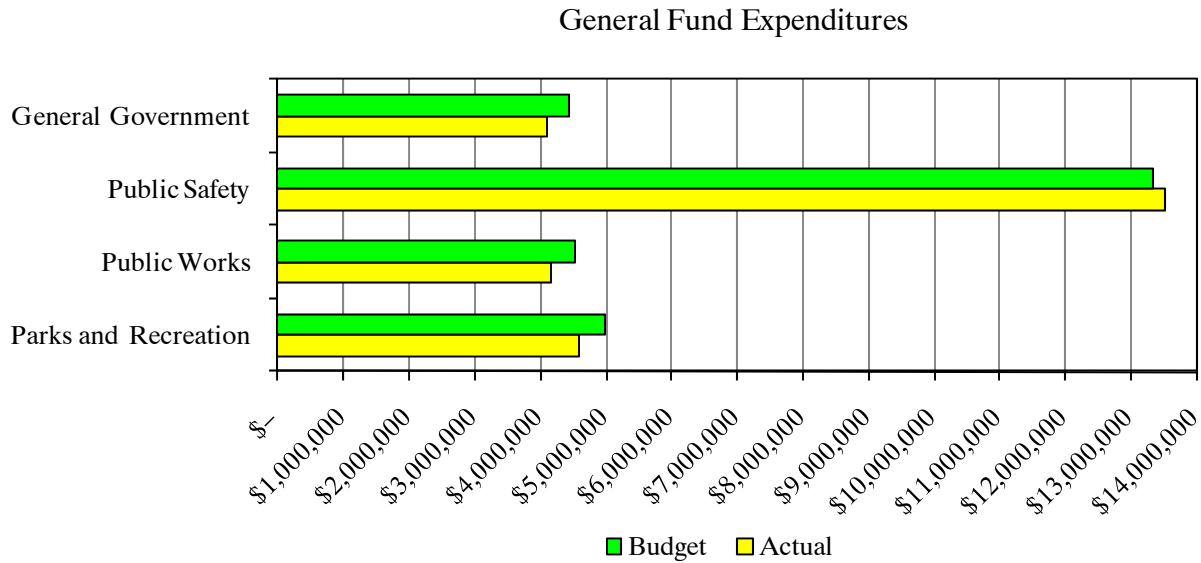
The positive variance compared to budget experienced in the current year was primarily in intergovernmental sources, which surpassed budget expectations by \$597,605. As presented in the graph above, all sources exceeded anticipated levels with the exception of the other category, which includes fines and forfeitures and interest income. Both of these sources were below amounts anticipated in the budget and down from the prior year.

The following graph illustrates the trends of the General Fund's major revenue sources over the past eight years:



As depicted by the graph, the City has increased its reliance on taxes in order to provide its general government services. Taxes accounted for 79 percent of the City's General Fund revenues in 2009 compared to 68 percent in 2002.

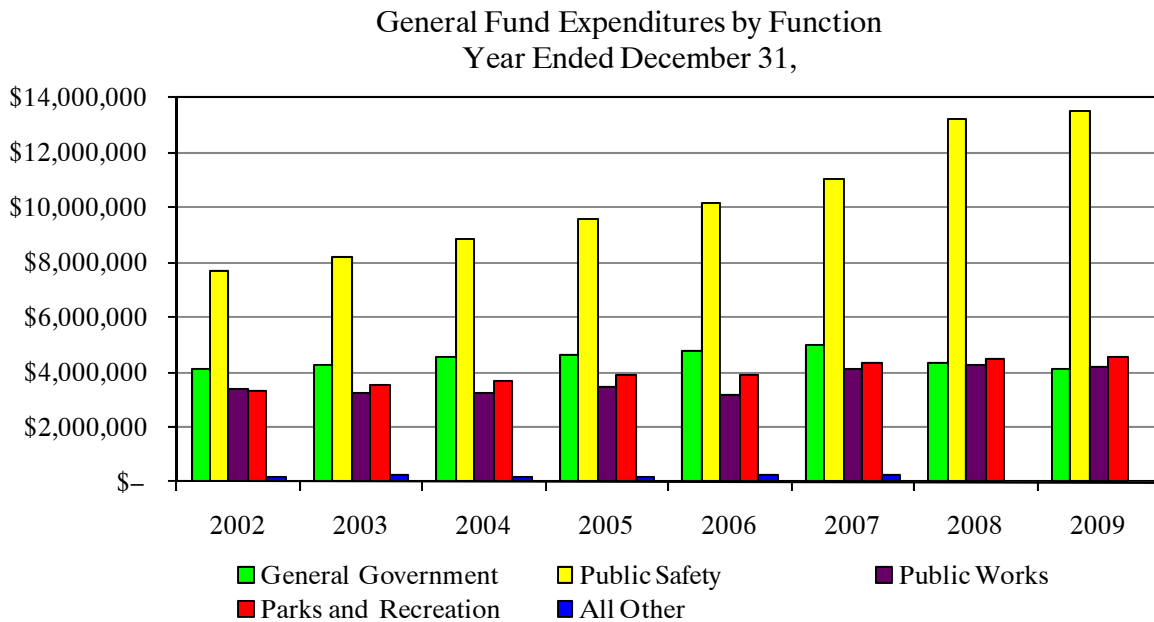
The following illustration provides the components of the City's General Fund spending for 2009:



Total General Fund expenditures for 2009 were \$26,349,049, an increase of \$8,097 from the prior year. General Fund expenditures were \$907,807 (3.3 percent) lower than budget in 2009.

As mentioned in the Management's Discussion and Analysis within the City's financial statements, the City anticipated expenditures to increase by 2.2 percent. Shared restraint spread across several departments contributed to this favorable variance. The positive variances in revenues and expenditures allowed the City to make a \$730,000 unplanned transfer to the Infrastructure Replacement Fund, while maintaining the 40 percent minimum fund balance policy.

The following graph illustrates trends in the General Fund's major expenditures by function over the past eight years:



UTILITY FUNDS

The utility funds comprise a considerable portion of the City's activities. These funds help to defray overhead and administrative costs and provide additional support to general government operations by way of annual transfers. We understand the City is proactive in reviewing these activities on an ongoing basis and we want to reiterate the importance of continually monitoring these operations. Over the years we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general government funds. This would include the accumulation of net assets for future capital improvements and to provide a cushion in the event of a negative trend in operations.

Water Sewer Utility Fund

The following table presents selected data for the City's Water Sewer Utility Fund for the last four years:

| | 2006 | | 2007 | | 2008 | | 2009 | |
|-----------------------------------|---------------------|-------------|-------------------|------------|---------------------|--------------|---------------------|--------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Operating revenue | \$ 10,404,047 | 100 % | \$ 11,830,544 | 100 % | \$ 12,276,188 | 100 % | \$ 13,089,443 | 100 % |
| Operating expenses | 10,085,463 | 97 | 10,792,757 | 91 | 10,681,531 | 87 | 11,136,477 | 85 |
| Depreciation | 2,707,654 | 26 | 3,249,092 | 27 | 3,375,349 | 27 | 3,333,342 | 25 |
| Operating income (loss) | (2,389,070) | (23) | (2,211,305) | (19) | (1,780,692) | (15) | (1,380,376) | (11) |
| Other revenues and contributions | 10,000,197 | 96 | 7,281,520 | 62 | 4,883,121 | 40 | 2,279,824 | 17 |
| Other expenses | 419,200 | 4 | 427,419 | 4 | 375,175 | 3 | 352,412 | 3 |
| Income before transfers | 7,191,927 | 69 | 4,642,796 | 39 | 2,727,254 | 22 | 547,036 | 4 |
| Transfers in | 119,364 | 1 | 47,188 | - | 6,562 | - | 28,953 | - |
| Transfers (out) | (1,739,112) | (17) | (4,413,380) | (37) | (3,729,733) | (30) | (716,741) | (5) |
| Increase (decrease) in net assets | <u>\$ 5,572,179</u> | <u>53 %</u> | <u>\$ 276,604</u> | <u>2 %</u> | <u>\$ (995,917)</u> | <u>(8) %</u> | <u>\$ (140,752)</u> | <u>(1) %</u> |

The Water Sewer Utility Fund ended 2009 with net assets of \$106,442,032, a decrease of \$140,752 from the prior year. Of this, \$76,641,483 represents the investment in capital assets, net of related debt; and \$16,883,000 is restricted, leaving \$12,917,549 of unrestricted net assets.

As seen in the above table, this fund has experienced losses from operations in each of the past four years. It is important to note that a portion of the operating expenses in this fund is depreciation on assets paid for and contributed to the City by developers. In general, the City's utility rates have not been designed to fully recover depreciation costs on such assets. Utility rates are normally designed to cover current operating expenses and to provide for future repairs and replacement of these assets. In 2009, the City increased rates for water and sewer services in an effort to offset increased operating costs.

These operating losses, however, have generally been more than offset by amounts in other revenues and contributions over the same time period. Other revenues and contributions include a number of revenue sources that are normally one-time or inconsistent from year-to-year. It includes such things as interest income, grants, contributions from developers and residents, special assessments, and income from sales of assets.

Solid Waste Fund

The following table presents selected data for the City's Solid Waste Fund for the last four years:

| | 2006 | | 2007 | | 2008 | | 2009 | |
|-----------------------------------|-------------------|-------------|-------------------|-------------|-------------------|-------------|---------------------|---------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Operating revenue | \$ 917,412 | 100 % | \$ 1,071,804 | 100 % | \$ 1,109,235 | 100 % | \$ 410,956 | 100 % |
| Operating expenses | 814,759 | 89 | 970,125 | 91 | 1,027,331 | 93 | 943,308 | 230 |
| Operating income (loss) | 102,653 | 11 | 101,679 | 9 | 81,904 | 7 | (532,352) | (130) |
| Intergovernmental revenue | 169,748 | 19 | 163,852 | 15 | 187,207 | 17 | 186,825 | 45 |
| Other revenue | 89,456 | 10 | 143,409 | 13 | 106,117 | 10 | 32,229 | 8 |
| Income before transfers | 361,857 | 40 | 408,940 | 38 | 375,228 | 34 | (313,298) | (76) |
| Transfers in | 4,635 | 1 | 591 | - | 1,913 | - | - | - |
| Transfers (out) | (38,243) | (4) | (39,390) | (4) | (6,628) | (1) | (23,320) | (6) |
| Increase (decrease) in net assets | <u>\$ 328,249</u> | <u>36 %</u> | <u>\$ 370,141</u> | <u>34 %</u> | <u>\$ 370,513</u> | <u>33 %</u> | <u>\$ (336,618)</u> | <u>(82) %</u> |

The Solid Waste Fund ended 2009 with net assets of \$2,774,880, a decrease of \$336,618 from the prior year. The entire net asset balance in this fund is considered unrestricted.

The significant change in operating revenues and resulting operations was the result of changes in the market for recyclable materials, which significantly reduced the shared revenue received from waste management. The reduction in this source, which provided nearly \$700,000 of revenues in 2008, was anticipated in the City's budget process. The City will need to continue to monitor this operation in order to determine the best approach to make up for this lost revenue.

Water Resources Management Fund

The following table presents selected data for the City's Water Resources Management Fund for the last four years:

| | 2006 | | 2007 | | 2008 | | 2009 | |
|-------------------------|-------------------|-------------|-------------------|-------------|---------------------|-------------|-------------------|-------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Operating revenue | \$2,031,966 | 100 % | \$2,190,339 | 100 % | \$2,365,671 | 100 % | \$2,546,827 | 100 % |
| Operating expenses | 1,931,320 | 95 | 1,705,800 | 78 | 1,876,130 | 79 | 2,103,338 | 83 |
| Operating income | 100,646 | 5 | 484,539 | 22 | 489,541 | 21 | 443,489 | 17 |
| Other revenue | 227,342 | 11 | 199,741 | 9 | 817,585 | 35 | 84,776 | 3 |
| Income before transfers | 327,988 | 16 | 684,280 | 31 | 1,307,126 | 55 | 528,265 | 21 |
| Contributions | 191,563 | 9 | - | - | 1,457 | - | 200,570 | 8 |
| Transfers (out) | (203,933) | (10) | (156,950) | (7) | (97,956) | (4) | (127,188) | (5) |
| Increase in net assets | <u>\$ 315,618</u> | <u>15 %</u> | <u>\$ 527,330</u> | <u>24 %</u> | <u>\$ 1,210,627</u> | <u>51 %</u> | <u>\$ 601,647</u> | <u>24 %</u> |

The Water Resources Management Fund ended 2009 with net assets of \$6,291,429, an increase of \$601,647 from the prior year. Of this, \$4,315,234 represents the investment in capital assets, while the remaining balance of \$1,976,195 is considered restricted.

Several factors contributed to the increase in net assets in the current year; as presented in the table above, operating income was similar to the prior year decreasing by \$46,052. The change in income before transfers compared to the prior year was due to an increase in intergovernmental revenue received in 2008, reported in the "other revenue" category in the table above.

Ice Center Fund

The following table presents selected data for the City's Ice Center Fund for the last four years:

| | 2006 | | 2007 | | 2008 | | 2009 | |
|--|---------------------|---------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Operating revenue | \$ 1,229,973 | 100 % | \$ 1,260,927 | 100 % | \$ 1,371,994 | 100 % | \$ 1,405,726 | 100 % |
| Operating expenses | 1,048,079 | 85 | 1,140,338 | 90 | 1,200,933 | 88 | 1,072,577 | 76 |
| Depreciation | 475,654 | 39 | 473,276 | 38 | 470,251 | 34 | 470,440 | 33 |
| Operating income (loss) | (293,760) | (24) | (352,687) | (28) | (299,190) | (22) | (137,291) | (10) |
| Other revenue (expense) | (52,549) | (4) | (32,459) | (3) | (44,447) | (3) | (45,141) | (3) |
| Income (loss) before contributions and transfers | (346,309) | (28) | (385,146) | (31) | (343,637) | (25) | (182,432) | (13) |
| Transfers in | - | - | - | - | 1,022 | - | 17,495 | 1 |
| Transfers (out) | (28,067) | (2) | (27,675) | (2) | (9,223) | (1) | (21,439) | (2) |
| Increase (decrease) in net assets | <u>\$ (374,376)</u> | <u>(30) %</u> | <u>\$ (412,821)</u> | <u>(33) %</u> | <u>\$ (351,838)</u> | <u>(26) %</u> | <u>\$ (186,376)</u> | <u>(13) %</u> |

The Ice Center Fund ended 2009 with net assets of \$10,509,934, a decrease of \$186,376 from the prior year. Of this, \$11,021,986 represents the investment in capital assets, net of related debt, leaving an unrestricted net asset deficit of \$512,052. This unrestricted deficit is due to the application of interfund loans against the unrestricted component of net assets as required in Governmental Accounting Standards Board (GASB) Statement No. 34.

It is important to note that a significant portion of the operating expenses in this fund is depreciation on capital assets already funded. The fees charged in this fund are developed to cover operating expenses, repairs, and betterment of the ice center facilities.

Field House Fund

The following table presents selected data for the City's Field House Fund for the last four years:

| | 2006 | | 2007 | | 2008 | | 2009 | |
|-----------------------------------|---------------|------------|------------------|------------|------------------|-------------|------------------|-------------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| Operating revenue | \$ 294,704 | 100 % | \$ 300,572 | 100 % | \$ 358,399 | 100 % | \$ 364,353 | 100 % |
| Operating expenses | 194,962 | 66 | 200,020 | 67 | 190,606 | 53 | 194,503 | 53 |
| Depreciation | 109,876 | 37 | 105,370 | 35 | 105,532 | 29 | 98,028 | 27 |
| Operating income (loss) | (10,134) | (3) | (4,818) | (2) | 62,261 | 17 | 71,822 | 20 |
| Other revenue | 17,134 | 6 | 29,080 | 10 | 26,509 | 7 | 8,787 | 2 |
| Income (loss) before transfers | 7,000 | 3 | 24,262 | 8 | 88,770 | 25 | 80,609 | 22 |
| Transfers in | 59 | - | - | - | - | - | - | - |
| Transfers (out) | (6,487) | (2) | (7,537) | (2) | (2,222) | (2) | (5,724) | (2) |
| Increase (decrease) in net assets | <u>\$ 572</u> | <u>1 %</u> | <u>\$ 16,725</u> | <u>6 %</u> | <u>\$ 86,548</u> | <u>23 %</u> | <u>\$ 74,885</u> | <u>21 %</u> |

The Field House Fund ended 2009 with net assets of \$1,556,366, an increase of \$74,885 from the prior year. Of this, \$654,172 represents the investment in capital assets, leaving \$905,194 of unrestricted net assets.

As presented in the table above, the Field House Fund experienced an improvement in operations in the current year and positive operating income for the second consecutive year. The fees charged in this fund are developed to cover operating expenses, repairs, and betterment of field house facilities.

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 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.

Statement of Net Assets

The Statement of Net Assets tells what your city owns and owes at a given point in time on the last day of the fiscal year. Theoretically, net assets represent the resources the City has leftover for 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 City's net assets as of December 31, 2009 for governmental activities, business-type activities, and the Housing and Redevelopment Authority component unit:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Housing and Redevelopment Authority</u> |
|---|------------------------------------|-------------------------------------|--|
| Net assets | | | |
| Current assets | \$ 92,528,402 | \$ 35,777,272 | \$ 5,638,891 |
| Net book value of capital assets | 171,401,771 | 101,756,712 | 13,671,563 |
| Current liabilities | (3,900,539) | (1,144,917) | (634,136) |
| Long-term liabilities | <u>(23,937,165)</u> | <u>(9,126,837)</u> | <u>(14,149,259)</u> |
| Total net assets | <u>\$ 236,092,469</u> | <u>\$ 127,262,230</u> | <u>\$ 4,527,059</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | \$ 154,182,769 | \$ 92,629,875 | \$ (477,696) |
| Restricted | 5,614,893 | 18,876,261 | 709,452 |
| Unrestricted | <u>76,294,807</u> | <u>15,756,094</u> | <u>4,295,303</u> |
| Total net assets | <u>\$ 236,092,469</u> | <u>\$ 127,262,230</u> | <u>\$ 4,527,059</u> |

The City (including the Housing and Redevelopment Authority) ended 2009 with combined total net assets of \$367,881,758, an increase of \$1,524,063 from the prior year. The portion of net assets invested in capital assets decreased by \$128,357. Restricted net assets decreased by \$612,979, while unrestricted net assets increased by \$2,265,399.

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 and the Housing and Redevelopment Authority for the year ended December 31, 2009:

| | <u>Expenses</u> | <u>Program Revenues</u> | <u>Net Change</u> |
|---|----------------------|-------------------------|---------------------|
| Net (expense) revenue | | | |
| Governmental activities | | | |
| General government | \$ 4,979,007 | \$ 514,164 | \$ (4,464,843) |
| Parks and recreation | 7,498,114 | 1,405,874 | (6,092,240) |
| Public safety | 14,213,532 | 4,383,151 | (9,830,381) |
| Public works | 10,875,966 | 3,657,975 | (7,217,991) |
| Public service | 4,322,963 | 4,701,064 | 378,101 |
| Interest on long-term debt | 757,348 | - | (757,348) |
| Business-type activities | | | |
| Water sewer utility | 14,789,046 | 13,678,861 | (1,110,185) |
| Ice center | 1,623,345 | 1,415,726 | (207,619) |
| Solid waste management | 943,556 | 597,781 | (345,775) |
| Water resources management | 2,086,272 | 2,585,650 | 499,378 |
| Field house | 293,311 | 364,353 | 71,042 |
| Housing and Redevelopment Authority | <u>6,155,691</u> | <u>5,410,008</u> | <u>(745,683)</u> |
| Subtotal | <u>\$ 68,538,151</u> | <u>\$ 38,714,607</u> | <u>(29,823,544)</u> |
| General revenues | | | |
| General property tax | | | 29,587,493 |
| Investment earnings | | | 1,362,070 |
| Gain (loss) on disposal of capital assets | | | 102,415 |
| Other | | | 295,629 |
| Total general revenues | | | <u>31,347,607</u> |
| Increase in net assets | | | <u>\$ 1,524,063</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 City's governmental operations tend to rely more heavily on general revenues, such as property taxes. In contrast, the City's business-type activities tend to rely more heavily on program revenues (service charges and program specific grants) to cover expenses. This is critical given the current external downward pressures on general revenue sources such as taxes and state aids.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 51 – ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements in this statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

GASB STATEMENT NO. 53 – ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS

The guidance in this statement improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

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 Fund, special revenue, capital projects, debt service, and permanent fund types are clarified by the provisions in this statement. 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.