Management Report

for

City of Plymouth, Minnesota

December 31, 2010

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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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 ended December 31, 2010. 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 8, 2011

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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, *GOVERNMENT AUDITING STANDARDS*, AND THE U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133

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, 2010. 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 OMB 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.

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 financial statements.
- We noted 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 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.
- We have reported two findings based on our testing of the City's compliance with federal laws and regulations. These findings include:
  - The City did not have sufficient controls in place to ensure compliance with the reporting requirements for the ARRA Energy Efficiency and Conservation Block Grant. The City had expenditures for this grant, which were initially not properly reported on the Schedule of Expenditures of Federal Awards.
  - The City did not have sufficient internal controls in place to ensure compliance with equipment and real property management compliance requirements for the ARRA Energy Efficiency and Conservation Block Grant. The City did not uniquely identify or track equipment and real property acquired through federal funding.
- We noted no matters based on our testing of the City's compliance with Minnesota laws and regulations.

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 8, 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.

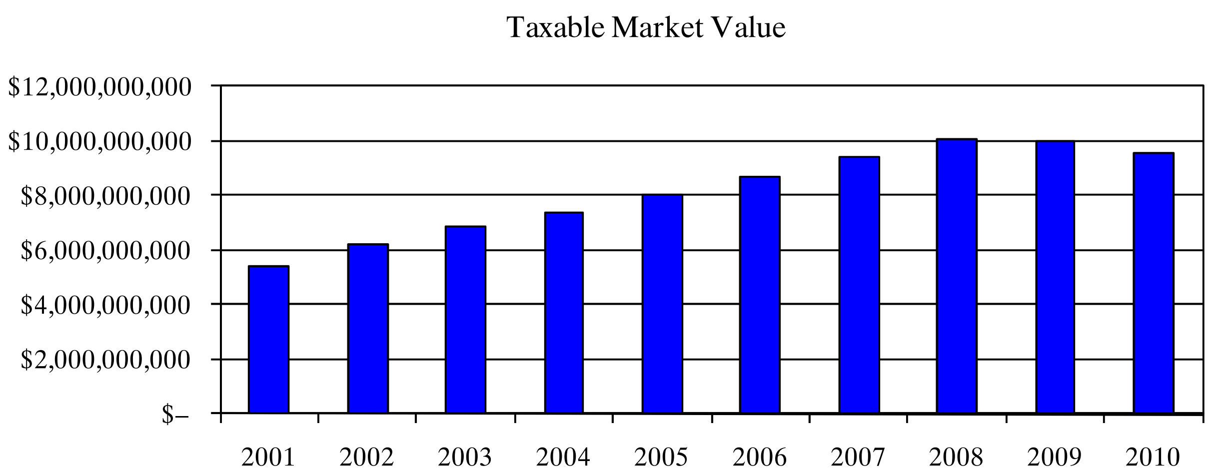
These circumstances have resulted in a sustained cycle of budget reductions for most Minnesota cities. Among our clients, we have seen numerous examples of staffing cuts and reassignments that have potentially weakened internal controls by reducing the segregation of accounting duties or delaying the 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.

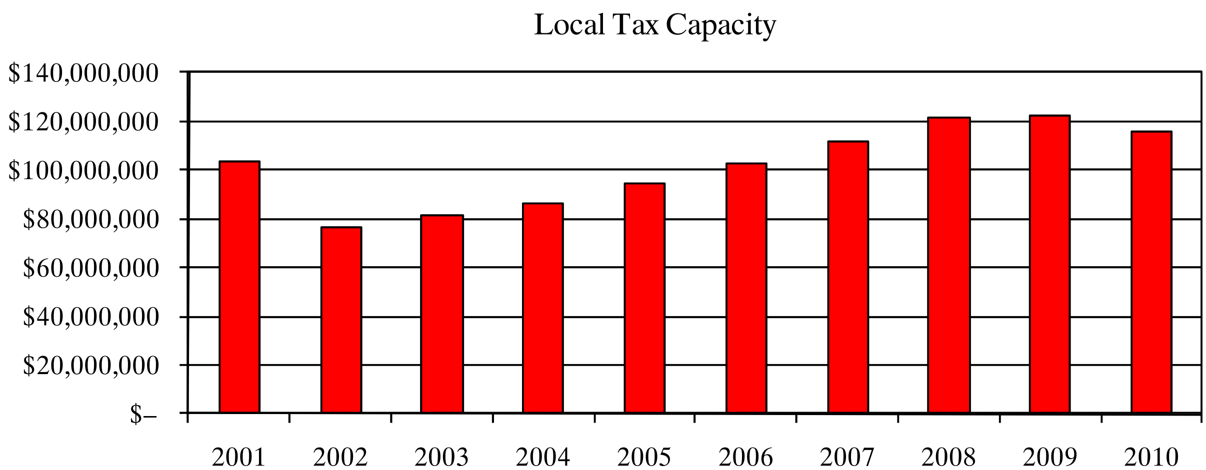
Property values within Minnesota cities experienced an average increase of 1.5 percent for taxes payable in 2009 and an average decrease of 3.0 percent for those payable in 2010, reflecting the weak housing market and economic recession experienced in recent years. In comparison, the City's market value decreased by 0.3 percent in 2009 and by 4.6 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 0.7 percent for 2009 and decreased 4.8 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 Plymouth**	
	2009	2010	2009	2010	**2009**	**2010**
Average tax rate						
City	36.9	39.2	33.7	36.0	**24.4**	**25.5**
County	39.3	41.0	34.7	36.8	**40.4**	**42.6**
School	22.0	23.0	22.1	24.0	**21.9**	**24.3**
Special taxing	5.5	5.9	5.9	6.5	**8.2**	**9.3**
Total	103.7	109.1	96.4	103.3	**94.9**	**101.7**

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 Fund, 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

	State-Wide			**City of Plymouth**		
Year	December 31, 2009			**2008**	**2009**	**2010**
Population	2,500–10,000	10,000–20,000	20,000–100,000	**71,536**	**72,268**	**70,576**
Property taxes	$ 367	$ 365	$ 391	**$ 369**	**$ 384**	**$ 391**
Tax increments	46	62	59	**15**	**18**	**15**
Franchise and other taxes	23	34	36	**–**	**–**	**–**
Special assessments	86	47	62	**2**	**2**	**1**
Licenses and permits	21	19	27	**54**	**31**	**35**
Intergovernmental revenues	284	273	168	**113**	**106**	**119**
Charges for services	82	80	77	**45**	**47**	**58**
Other	81	76	61	**56**	**23**	**36**
Total revenue	$ 990	$ 956	$ 881	**$ 654**	**$ 611**	**$ 655**

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.

In total, the City's governmental fund revenues for 2010 were $46,158,672, an increase of $1,922,138 (4.3 percent) from the prior year. On a per capita basis, governmental fund revenue for 2010 increased by $44, or 7.2 percent, from the prior year. Although the total property tax revenue decreased from 2009 to 2010, the decrease in estimated city population (from the U.S. Census) contributed to this increase on a per capita basis as established with the adoption of the budget and levy approved by the City Council.

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

	State-Wide			**City of Plymouth**		
Year	December 31, 2009			**2008**	**2009**	**2010**
Population	2,500–10,000	10,000–20,000	20,000–100,000	**71,536**	**72,268**	**70,576**
Current						
General government	$ 120	$ 107	$ 79	**$ 61**	**$ 57**	**$ 62**
Public safety	217	233	241	**185**	**187**	**196**
Street maintenance and lighting	112	106	82	**60**	**57**	**72**
Parks and recreation	61	81	86	**87**	**87**	**94**
All other	81	81	96	**63**	**62**	**61**
	$ 591	$ 608	$ 584	**$ 456**	**$ 450**	**$ 485**
Capital outlay and construction	$ 336	$ 325	$ 267	**$ 157**	**$ 106**	**$ 169**
Debt service						
Principal	$ 196	$ 135	$ 126	**$ 22**	**$ 23**	**$ 27**
Interest and fiscal	73	51	39	**11**	**11**	**10**
	$ 269	$ 186	$ 165	**$ 33**	**$ 34**	**$ 37**

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.

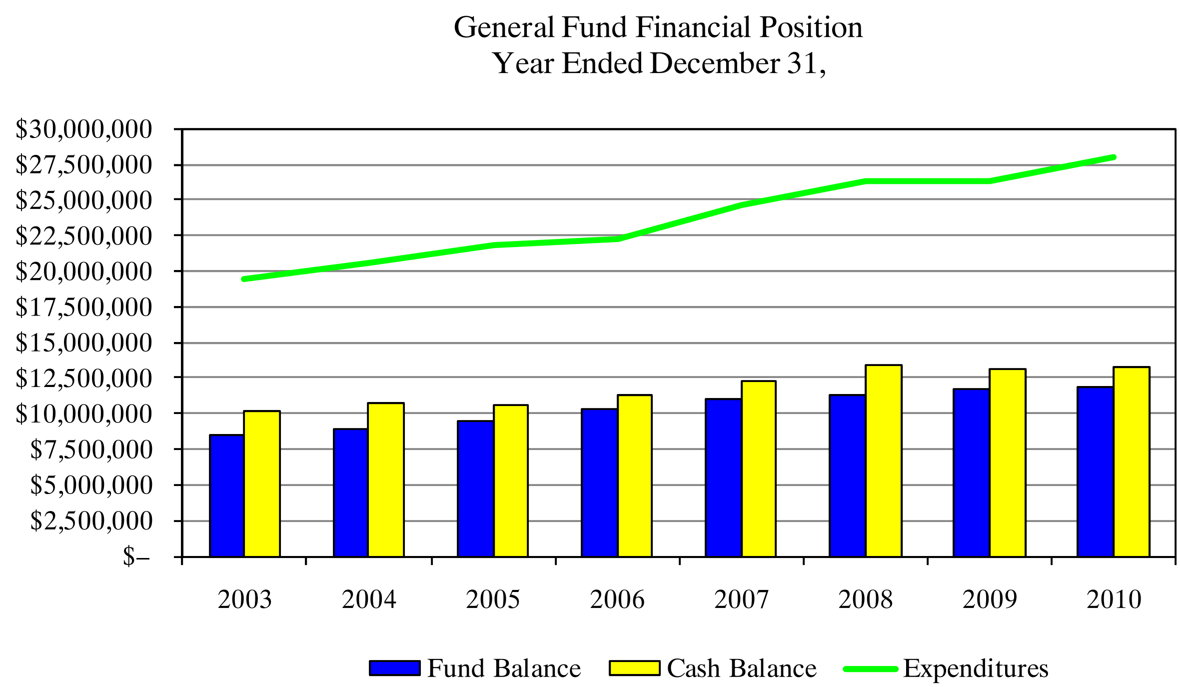
The City's current expenditures increased $35 per capita, or 7.8 percent, while debt service expenditures remained consistent to the prior year as scheduled with approved debt financing plans. The increase in capital outlay is natural due to the timing of various improvement projects ongoing in a given 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.

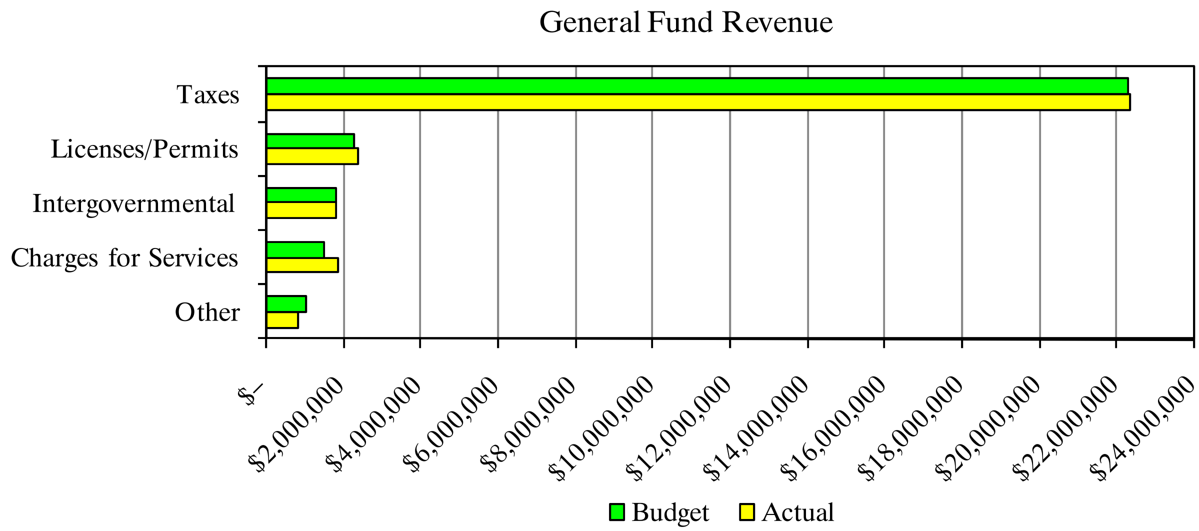
The following graph displays the City's General Fund trends of financial position and changes in the volume of financial activity. Fund balance and cash balance are typically used as indicators of financial health or equity, while annual expenditures are often used to measure the size of the operation:



The City's General Fund ended the year with a cash balance of $13,318,107 and a fund balance of $11,836,446 at December 31, 2010. 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 2010 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. Increases in the size of the operation are 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 2010:

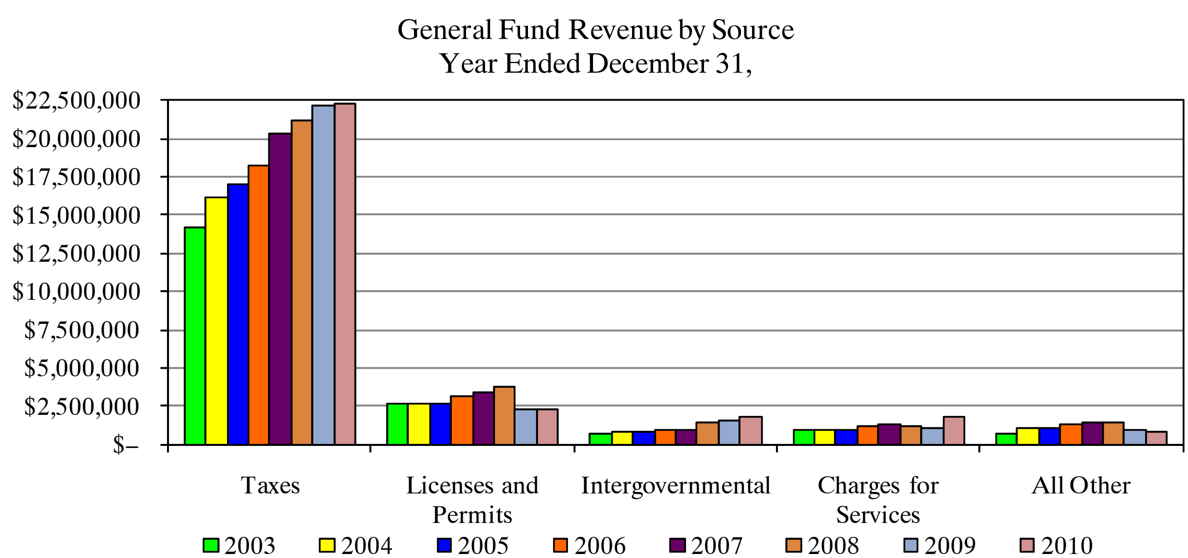


Total General Fund revenues for 2010 were $29,239,658, an increase of $1,128,435 (4.0 percent) from the previous year, and $335,154 (1.2 percent) over budget.

Revenues increased in several areas with the largest increase occurring in charges for services, increasing by $788,071. Taxes increased by $134,270 as approved with the adopted General Fund levy, while intergovernmental revenue increased by $258,954, primarily due to increased MSA maintenance funding sources recognized.

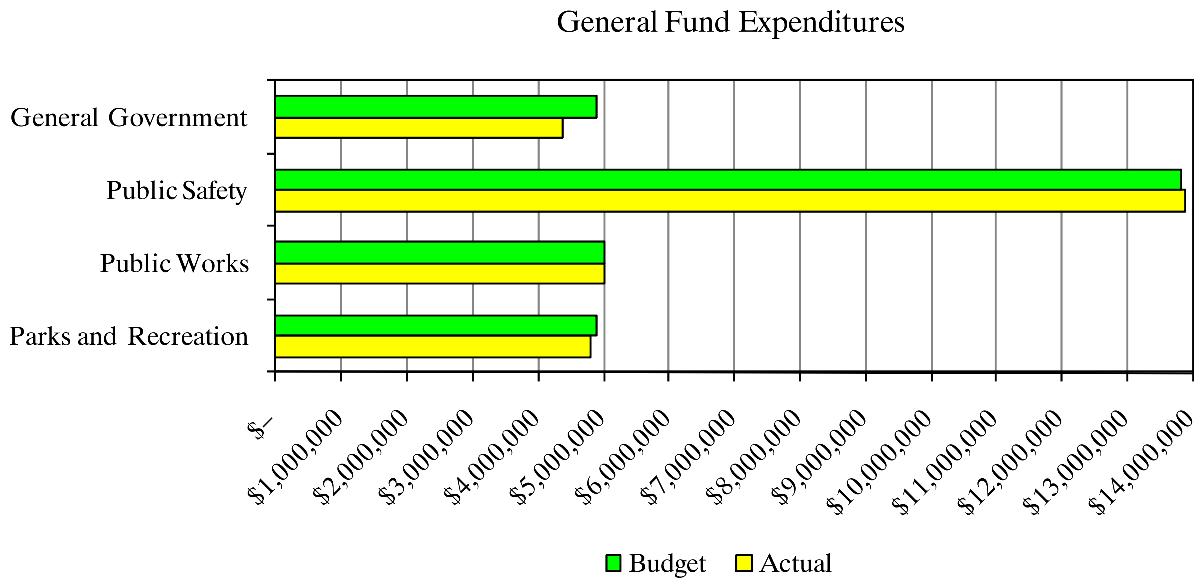
The positive variance compared to budget experienced in the current year was primarily in charges for services, which surpassed budget expectations by $354,311. As presented in the graph above, all sources exceeded anticipated levels with the exception of the other category, which includes fines and 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 76 percent of the City's General Fund revenues in 2010 compared to 74 percent in 2003.

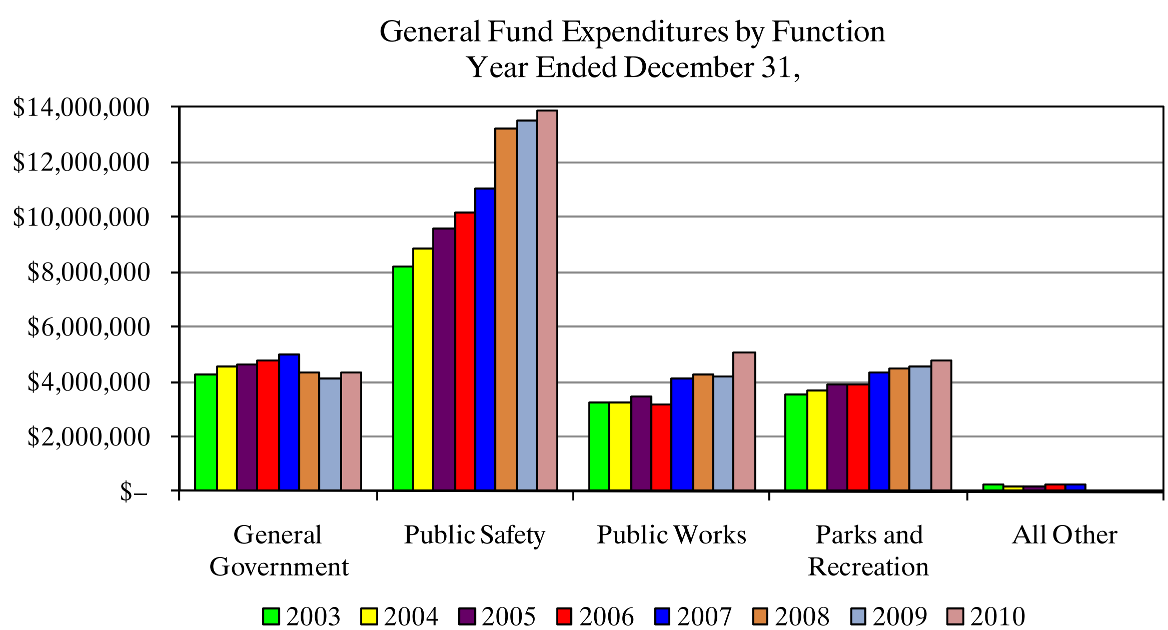
The following illustration provides the components of the City's General Fund spending for 2010:



Total General Fund expenditures for 2010 were $28,043,957, an increase of $1,694,908 from the prior year. General Fund expenditures were $569,044 (2.0 percent) lower than budget in 2010.

As mentioned in the Management's Discussion and Analysis within the City's financial statements, the City anticipated expenditures to increase by 5.0 percent. Shared restraint spread across several departments contributed to this favorable variance. The positive variances in revenues and expenditures allowed the City to make unplanned transfers to the Infrastructure Replacement Fund ($418,306), the Park Replacement Fund ($418,306), and the Public Facilities Fund ($140,000), 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:

	2007		2008		2009		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenue	$ 11,830,544	100 %	$ 12,276,188	100 %	$ 13,089,443	100 %	$ 12,950,063	100 %
Operating expenses	10,792,757	91	10,681,531	87	11,136,477	85	10,523,094	81
Depreciation	3,249,092	27	3,375,349	27	3,333,342	25	3,403,257	26
Operating income (loss)	(2,211,305)	(19)	(1,780,692)	(15)	(1,380,376)	(11)	(976,288)	(8)
Other revenues and contributions	7,281,520	62	4,883,121	40	2,279,824	17	1,836,601	14
Other expenses	427,419	4	375,175	3	352,412	3	327,125	3
Income before transfers	4,642,796	39	2,727,254	22	547,036	4	533,188	4
Transfers in	47,188	–	6,562	–	28,953	–	72,354	–
Transfers (out)	(4,413,380)	(37)	(3,729,733)	(30)	(716,741)	(5)	(2,634,995)	(20)
Increase (decrease) in net assets	$ 276,604	2 %	$ (995,917)	(8) %	$ (140,752)	(1) %	$ (2,029,453)	(16) %

The Water Sewer Utility Fund ended 2010 with net assets of $104,412,579, a decrease of $2,029,453 from the prior year. Of this, $76,095,778 represents the investment in capital assets, net of related debt; and $17,849,898 is restricted, leaving $10,466,903 of unrestricted net assets.

Increased transfers to fund construction projects in governmental activities contributed to the overall decrease in net assets in the current year.

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 2010, 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:

	2007		2008		2009		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenue	$1,071,804	100 %	$1,109,235	100 %	$ 410,956	100 %	$ 710,079	100 %
Operating expenses	970,125	91	1,027,331	93	943,308	230	1,051,623	148
Operating income (loss)	101,679	9	81,904	7	(532,352)	(130)	(341,544)	(48)
Intergovernmental revenue	163,852	15	187,207	17	186,825	45	194,038	27
Other revenue	143,409	13	106,117	10	32,229	8	8,938	1
Income before transfers	408,940	38	375,228	34	(313,298)	(76)	(138,568)	(20)
Transfers in	591	–	1,913	–		–	–	–
Transfers (out)	(39,390)	(4)	(6,628)	(1)	(23,320)	(6)	(23,428)	(3)
Increase (decrease) in net assets	$ 370,141	34 %	$ 370,513	33 %	$ (336,618)	(82) %	$ (161,996)	(23) %

The Solid Waste Fund ended 2010 with net assets of $2,612,884, a decrease of $161,996 from the prior year. The entire net asset balance in this fund is considered unrestricted.

The significant change in operating revenues and resulting operations in 2009 and 2010 was the result of changes in the market for recyclable materials, which significantly impacted 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 fluctuating revenue source.

Water Resources Management Fund

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

	2007		2008		2009		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenue	$2,190,339	100 %	$2,365,671	100 %	$2,546,827	100 %	$2,591,565	100 %
Operating expenses	1,705,800	78	1,876,130	79	2,103,338	83	1,841,561	71
Operating income	484,539	22	489,541	21	443,489	17	750,004	29
Other revenue	199,741	9	817,585	35	84,776	3	900,907	35
Income before transfers	684,280	31	1,307,126	55	528,265	21	1,650,911	64
Contributions	–	–	1,457	–	200,570	8	–	–
Transfers in	–	–	–	–	–	–	41,683	2
Transfers (out)	(156,950)	(7)	(97,956)	(4)	(127,188)	(5)	(83,020)	(3)
Increase in net assets	$ 527,330	24 %	$1,210,627	51 %	$ 601,647	24 %	$1,609,574	62 %

The Water Resources Management Fund ended 2010 with net assets of $7,901,003, an increase of $1,609,574 from the prior year. Of this, $4,929,670 represents the investment in capital assets, while the remaining balance of $2,971,333 is considered restricted.

Several factors contributed to the increase in net assets in the current year, as presented in the table above, operating income increased with decreases in materials and supplies and contractual services compared to the prior year. The change in income before transfers compared to the prior year was due to an increase in intergovernmental revenue received in 2010, reported in the "other revenue" category.

Ice Center Fund

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

	2007		2008		2009		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenue	$1,260,927	100 %	$1,371,994	100 %	$1,405,726	100 %	$1,400,703	100 %
Operating expenses	1,140,338	90	1,200,933	88	1,072,577	76	1,108,263	79
Depreciation	473,276	38	470,251	34	470,440	33	470,006	34
Operating income (loss)	(352,687)	(28)	(299,190)	(22)	(137,291)	(10)	(177,566)	(13)
Other revenue (expense)	(32,459)	(3)	(44,447)	(3)	(45,141)	(3)	(60,925)	(4)
Income (loss) before contributions and transfers	(385,146)	(31)	(343,637)	(25)	(182,432)	(13)	(238,491)	(17)
Transfers in	–	–	1,022	–	17,495	1	–	–
Transfers (out)	(27,675)	(2)	(9,223)	(1)	(21,439)	(2)	(21,439)	(2)
Increase (decrease) in net assets	$ (412,821)	(33) %	$ (351,838)	(26) %	$ (186,376)	(13) %	$ (259,930)	(19) %

The Ice Center Fund ended 2010 with net assets of $10,250,004, a decrease of $259,930 from the prior year. Of this, $10,551,980 represents the investment in capital assets, net of related debt, leaving an unrestricted net asset deficit of $301,976. 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:

	2007		2008		2009		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Operating revenue	$ 300,572	100 %	$ 358,399	100 %	$ 364,353	100 %	$ 368,795	100 %
Operating expenses	200,020	67	190,606	53	194,503	53	196,289	53
Depreciation	105,370	35	105,532	29	98,028	27	57,354	16
Operating income (loss)	(4,818)	(2)	62,261	17	71,822	20	115,152	31
Other revenue	29,080	10	26,509	7	8,787	2	3,831	1
Income (loss) before transfers	24,262	8	88,770	25	80,609	22	118,983	32
Transfers (out)	(7,537)	(2)	(2,222)	(2)	(5,724)	(2)	(5,724)	(2)
Increase (decrease) in net assets	$ 16,725	6 %	$ 86,548	23 %	$ 74,885	21 %	$ 113,259	31 %

The Field House Fund ended 2010 with net assets of $1,669,625, an increase of $113,259 from the prior year. Of this, $593,818 represents the investment in capital assets, leaving $1,075,807 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 third 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 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 components of the City's net assets as of December 31, 2010 and 2009 for governmental activities, business-type activities, and the Housing and Redevelopment Authority (HRA) component unit:

	As of December 31,		Increase
	2010	2009	(Decrease)
Net assets			
Governmental activities			
Invested in capital assets, net of related debt	$ 155,551,228	$ 154,182,769	$ 1,368,459
Restricted	5,743,606	5,614,893	128,713
Unrestricted	79,792,136	76,294,807	3,497,329
Total governmental activities	241,086,970	236,092,469	4,994,501
Business-type activities			
Invested in capital assets, net of related debt	92,171,246	92,629,875	(458,629)
Restricted	20,833,400	18,876,261	1,957,139
Unrestricted	13,540,924	15,756,094	(2,215,170)
Total business-type activities	126,545,570	127,262,230	(716,660)
Housing and Redevelopment Authority			
Invested in capital assets, net of related debt	(531,626)	(477,696)	(53,930)
Restricted	624,029	709,452	(85,423)
Unrestricted	4,564,165	4,295,303	268,862
Total Housing and Redevelopment Authority	4,656,568	4,527,059	129,509
Total net assets	$ 372,289,108	$ 367,881,758	$ 4,407,350

The City (including the HRA) ended 2010 with combined total net assets of $372,289,108, an increase of $4,407,350 from the prior year. The portion of net assets invested in capital assets increased by $855,900. Restricted net assets increased by $2,000,429, while unrestricted net assets increased by $1,551,021.

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 HRA 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	$ 4,732,590	$ 573,785	$ (4,158,805)	$ (4,464,843)
Economic development	226,507	18,011	(208,496)	–
Parks and recreation	7,976,826	2,585,728	(5,391,098)	(6,092,240)
Public safety	14,296,327	4,595,660	(9,700,667)	(9,830,381)
Public service	5,102,183	4,014,268	(1,087,915)	378,101
Public works	10,614,534	5,478,596	(5,135,938)	(7,217,991)
Interest on long-term debt	647,858	–	(647,858)	(757,348)
Business-type activities				
Water sewer utility	14,234,241	13,727,958	(506,283)	(1,110,185)
Ice Center	1,669,145	1,400,703	(268,442)	(207,619)
Solid waste management	1,048,827	904,117	(144,710)	(345,775)
Water resource	1,829,392	3,484,253	1,654,861	499,378
Field house	254,664	368,795	114,131	71,042
Housing and Redevelopment Authority	6,029,136	5,565,576	(463,560)	(745,683)
Total net (expense) revenue	$ 68,662,230	$ 42,717,450	(25,944,780)	(29,823,544)
General revenues				
Property taxes			29,106,018	29,587,493
Unrestricted investment earnings			754,117	1,362,070
Gain on sale of capital assets			81,337	102,415
Other			410,658	295,629
Total general revenues			30,352,130	31,347,607
Change in net assets			$ 4,407,350	$ 1,524,063

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. 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.