# (Municipal GAAP)

MUNICIPALITY OF \_\_\_\_\_\_\_\_\_\_\_\_\_\_

# MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 20YY

This section of Municipality of \_\_\_\_\_\_\_\_\_\_ (Municipality) financial report presents our discussion and analysis of the Municipality’s financial performance during the fiscal year ended on December 31, 20YY. Please read it in conjunction with the Municipality’s financial statements, which follow this section.

# FINANCIAL HIGHLIGHTS

* During the year, the Municipality’s revenues generated from charges for services, taxes and other revenues of the governmental programs were $598,300 more than the $1,586,275 governmental expenditures. This is an improvement over the prior year when revenues exceeded expenditures by $290,000.
* In the Municipality’s business-type activities, revenue increased by 3.7% to $831,000 while expense increased only 1.5%.
* The total cost of the Municipality’s programs was virtually unchanged (increasing approximately $200,000 or approximately 1.3%), and no new programs were added this year.
* The general fund reported a $101,200 current year surplus primarily due to increase sales and use tax.

# OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

* The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality’s overall financial status.
* The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality’s operations in more detail than the government-wide statements.
* The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
* Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-2 summarizes the major features of the Municipality’s financial statements, including the portion of the Municipal government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.



Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality’s net position and how they have changed. Net position – the difference between the Municipality’s assets and liabilities – is one way to measure the Municipality’s financial health or position.

* Increases or decreases in the Municipality’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
* To assess the overall health of the Municipality you need to consider additional nonfinancial factors such as changes in the Municipality’s property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in three categories:

* Governmental Activities -- This category includes the most of the Municipality’s basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
* Business-type Activities -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality’s water and sewer systems are included here.
* Component Units -- The Municipality includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this “component unit” is important because the Municipality is financially accountable for it.

# Fund Financial Statements

The fund financial statements provide more detailed information about the Municipality’s most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

* State Law requires some of the funds.
* The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has two kinds of funds:

* Governmental Funds – Most of the Municipality’s basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
* Proprietary Funds – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality’s enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

# Net Position

The Municipality’s combined net position increased by 10.79% between fiscal year 20XX and 20YY – increasing by $598,300 (See Table A-1).

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | GovernmentalActivities |  | Business-TypeActivities |  | Total |  | Total% Change |
|  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  |  |
| Current and Other Assets | 1,196,200 |  | 1,411,500 |  | 616,500 |  | 570,000 |  | 1,812,700 |  | 1,981,500 |  | 9.3% |
| Capital Assets | 2,360,000 |  | 2,580,000 |  | 2,525,000 |  | 2,715,000 |  | 4,885,000 |  | 5,295,000 |  | 8.4% |
|  Total Assets | 3,556,200 |  | 3,991,500 |  | 3,141,500 |  | 3,285,000 |  | 6,697,700 |  | 7,276,500 |  | 8.6% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-Term Liabilities Outstanding  | 204,000 |  | 153,000 |  | 509,000 |  | 485,500 |  | 713,000 |  | 638,500 |  | (10.5)% |
| Other Liabilities | 400,000 |  | 457,000 |  | 41,000 |  | 39,000 |  | 441,000 |  | 496,000 |  | 12.5% |
|  Total Liabilities | 604,000 |  | 610,000 |  | 550,000 |  | 524,500 |  | 1,154,000 |  | 1,134,500 |  | (1.7)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Position: |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Net Investment in  Capital Assets | 2,160,000 |  | 2,430,000 |  | 2,025,000 |  | 2,240,000 |  | 4,185,000 |  | 4,670,000 |  | 11.6% |
|  Restricted | 300,000 |  | 319,000 |  | 100,000 |  | 100,000 |  | 400,000 |  | 419,000 |  | 4.8% |
|  Unrestricted | 492,200 |  | 632,500 |  | 466,500 |  | 420,500 |  | 958,700 |  | 1,053,000 |  | 9.8% |
| Total Net Position  | 2,952,200 |  | 3,381,500 |  | 2,591,500 |  | 2,760,500 |  | 5,543,700 |  | 6,142,000 |  | 10.8% |

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality’s assets and liabilities is its net position.

The Municipality’s net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in net position invested in capital assets, net of related debt relates to the Municipality’s purchase of \_\_\_\_\_\_\_\_\_\_\_\_ for use by the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The Municipality’s restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The remaining balance of net position are unrestricted and may be used to meet the Municipality’s ongoing obligations to citizens and creditors.

At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

[INSERT AN ANALYSIS OF THE CHANGES IN NET POSITION – WHY DID THE NET POSITION CHANGE]

# Changes in Net Position

The Municipality’s revenues (excluding special items) totaled $2,181,275. (See Table A-2.) Well over half of the Municipality’s revenue comes from charges for services and taxes, with 40 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 38 cents of every dollar raised comes from some type of tax. (See Figure A-3). Another 14% come from state and federal grants for capital purposes and most of the rest comes from state-shared revenues and interest earnings.

The total cost of all programs and services was virtually unchanged. The Municipality’s expenses cover a range of services, with over half related to public work services (road maintenance, water system services and sewer system services). (See Figure A-4)

|  |
| --- |
| Table A-2 |
| MUNICIPALITY OF \_\_\_\_\_\_\_\_\_\_\_ |
|  Changes in Net Position  |
|  |  |  |  |  |  |  |  |   |  |  |  |  | Total |
|  |  | Governmental |  | Business-Type |  |  |  |  | % |
|  |  | Activities |  | Activities |  | Total | Change |
|  |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Program Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Charges for Services |  | 82,000 |  |  83,600  |  | 790,000 |  | 805,000  |  | 872,000 |  |  888,600  | 1.9% |
|  Operating Grants |  | 48,000 |  | 47,000  |  |  |  |  |  | 48,000 |  | 47,000  | (2.1)% |
|  Capital Grants and Contributions |  | 200,000 |  | 300,000  |  |  |  |  |  | 200,000 |  | 300,000  | 50.0% |
| General Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Taxes |  | 819,000 |  | 836,000  |  |  |  |  |  | 819,000 |  | 836,000  | 2.0% |
|  Revenue State Sources |  | 12,000 |  | 14,000  |  |  |  |  |  | 12,000 |  | 14,000  | 16.7% |
|  Unrestricted Investment Earnings |  | 60,000 |  | 58,075  |  | 10,000 |  | 21,000  |  | 70,000 |  | 79,075  | 13.0% |
|  Miscellaneous |  | 15,000 |  | 14,900  |  | 1,350 |  | 5,000  |  | 16,350 |  | 19,900  | 21.7% |
|  Total Revenues |  | 1,236,000 |  | 1,353,575  |  | 801,350 |  | 831,000  |  | 2,037,350 |  | 2,184,575  | 4.0% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  |  |  |  |  |  |  |  |  |  |  |  |  |
| General Government |  | 32,000 |  |  33,000  |  |  |  |  |  | 32,000 |  |  33,000  | 3.1% |
| Public Safety |  | 230,000 |  | 235,000  |  |  |  |  |  | 230,000 |  | 235,000  | 5.5% |
| Public Works |  | 500,000 |  | 531,675  |  |  |  |  |  | 500,000 |  | 531,675  | 6.5% |
| Culture and Recreation |  | 80,000 |  | 86,400  |  |  |  |  |  | 80,000 |  | 86,400  | 8.0% |
| Conservation and Development |  | 18,000 |  | 18,200  |  |  |  |  |  | 18,000 |  | 18,200  | 1.1% |
| Debt Service |  | 30,000 |  | 30,000  |  |  |  |  |  | 30,000 |  | 30,000  |  |
| Water Services |  |  |  |  |  | 560,000 |  | 563,500  |  | 560,000 |  | 563,500  | .6% |
| Sewer Services |  |  |  |   |  | 82,364 |  | 88,500  |  | 82,364 |  | 88,500  | 7.4% |
|  Total Expenses |  | 890,000 |  | 934,275  |  | 642,364 |  | 652,000  |  | 1,532,364 |  | 1,586,275  | 1.9% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Excess (Deficiency) Before Special Items and Transfers |  | 346,000 |  | 419,300  |  | 158,986 |  | 179,000  |  | 504,986 |  | 598,300  | 18.5% |
| Contributions |  | X |  | X |  | X |  | X |  | X |  | X |  |
| Special Items |  | X |  | X |  | X |  | X |  | X |  | X |  |
| Extraordinary Items |  | X |  | X |  | X |  | X |  | X |  | X |  |
| Transfers |  |  |  | 10,000  |  |  |  | (10,000) |  |  |  | 0  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Increase (Decrease) in Net Position |  | 346,000 |  | 429,300  |  | 158,986 |  | 169,000  |  | 504,986 |  | 598,300  | 18.5% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ending Net Position |  | 2,952,200 |  | 3,381,500  |  | 2,591,500 |  | 2,760,500  |  | 5,543,700 |  | 6,142,000  | 10.8% |

# Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities.

Total revenues for the Municipality increased by 4%, while total expenses increased by less than 2%. The Municipality’s management implemented a hiring freeze and controlled operation and maintenance expenditures which is the primary reason for the small increase in expenditures. The main reason for the increase in the revenues is due to an increase in the property tax base, which resulted in a 2% increase in property tax revenue, along with a 2% increase in sales tax revenue.

[INSERT AN ADDITIONAL ANALYSIS OF THE CHANGES IN REVENUES AND EXPENSES]

Business-type Activities

Revenues of the Municipality’s business-type activities increased by 3.7% to $831,000 and expenses increased by only 1.5%. Factors contributing to these results included:

* There was an extremely dry summer that resulted in an increase usage of water services. The costs of providing the service remained virtually the same, which resulted in an increase in the income from water operations.
* The primary reason for the increase in expenses was due to normal increase in salaries and wages.

The business-type - enterprise water fund did transfer $10,000 to the governmental activities – general fund to subsidize the operation of that fund.

[INSERT AN ADDITIONAL ANALYSIS OF THE CHANGES IN REVENUES AND EXPENSES]

# FINANCIAL ANALYSIS OF THE MUNICIPALITY’S FUNDS

The financial analyses of the Municipality’s funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains four governmental funds - General, Additional Sales Tax, CDBG Grant and Cemetery Care Funds and only two business type funds – Water and Sewer Funds. None of the Municipality’s funds had any significant deficit or gain during the year.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council revised the Municipal budget several times. These amendments fall into two categories:

* Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
* Increases in appropriation line items, primarily by contingency transfer, to prevent budget overruns.

There were no significant budget changes during the year.

CAPITAL ASSET ADMINISTRATION

By the end of 20YY, the Municipality had invested $2,580,000 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of $410,000, or 8.39 percent, over the last year.



This year’s major capital asset additions included:

* Addition and improvement of road and bridge infrastructure for 25th Avenue Project totaled $347,000.
* Business-type major addition was the installation of sewer plant separator system at a cost of $150,000 and also the purchase of a high lift boom truck at a cost of $75,000.

The Municipality’s fiscal year 20ZZ capital budget provides for spending $600,000 on upgrading and improving 26th and 27th Avenue. This project will be funded by a federal grant that will pay for 10% or $60,000 and Municipality will pay for 90% or $540,000. The Municipality has no plans to issue additional debt to finance this project. Rather, we will use resources on hand in the General and Additional Sales Tax Funds.

LONG-TERM DEBT

At the year-end the Municipality had $638,500 in Sales Tax Revenue Bonds, Water Revenue Bonds and other long-term obligations. This is a decrease of 10.45% as shown on Table A-4 below.



The Municipality is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

The Municipality has outstanding $150,000 in Sales Tax Revenue Bonds, Series 1990. The bonds are secured and paid for from the Additional Sales Tax Fund. These bonds were used to build an addition on the library and will be fully paid off on December 1, 20ZZ.

The Municipality has outstanding $475,000 in Water Revenue Bonds, Series 1990. The bonds are secured and paid for from the Water Fund. These bonds were used to build an addition to the Municipality’s Water Purification Plant and will be fully paid off on December 1, 20ZZ.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Municipality’s current economic position has shown little change. The Municipality did experience an increase in total property valuation of $11,850,000 or 4% from the prior year. The increase in property valuation allows the Municipality the ability to increase the amount of revenue generated from property taxes by approximately $100,000, however the Municipal Council has chosen not to increase the base amount it levies for taxes. Under the state mandated property tax limitation, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. This year property tax levy requests did increase 2.22% representing additional taxation on new construction within the municipality.

One of the primary sources of revenue to the Municipality is based on taxable retail sales in the community (sales tax). The Municipality has experienced an increase in taxable sales of 5% over the prior year. The Municipality has budgeted for a like increase in sales tax revenue for the next year.

The Municipality’s adopted General Fund budget for the next fiscal year will rise nearly 4% to $727,700. The largest portion of this increase is due to increase in wages and cost-of-living adjustments for the Municipal’s employees.

CONTACTING THE MUNICIPALITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Municipality’s finances and to demonstrate the Municipality’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Sample Municipality’s Finance Office, 1st Municipal Avenue, Sample, SD 57000.