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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 20YY**

Our discussion and analysis of the Municipality of Example’s financial performance provides an overview of the Municipality’s financial activities for the fiscal year ended December 31, 20\_\_, within the limitations of the Municipality’s modified cash basis of accounting. Please read it in conjunction with the Municipality’s financial statements.

**FINANCIAL HIGHLIGHTS**

* The Municipality’s total revenues exceeded total expenses, on the modified cash basis of accounting, by $179,436 for the year, resulting in an increase in total net position of 6 percent over the previous year. Most of the increase is attributed to the Municipality’s operation of its governmental activities.
* The Municipality was awarded a $75,000 Water Resources Board Emergency grant to help fund a raw water supply project.
* The Municipality’s General Fund ended the year with a fund balance of $211,047, which represents 22 percent of recurring revenue of the fund.

**USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Municipality’s modified cash basis of accounting.

**Report Components**

This annual report consists of four parts as follows:

**Government-Wide Financial Statements:** The Statement of Net Position and the Statement of Activities provide information about the activities of the Municipality using a government-wide focus (or “as a whole”).

**Fund Financial Statements:** Fund financial statements focus on the individual parts of Municipal government. Fund financial statements also report the Municipality’s operations in more detail than the government-wide statements by providing information about the Municipality’s most significant (“major”) funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer financial information about the activities the Municipality operates like businesses, such as water and sewer services.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Supplementary Information:** This Management’s Discussion and Analysis and the Budgetary Comparison Schedules represent financial information that may be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as “the basic financial statement”).

**Basis of Accounting**

The Municipality has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Municipality’s modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the Municipality as a Whole**

***The Municipality’s Reporting Entity Presentation***

This annual report includes all activities for which the Municipality of Example Municipal Council is fiscally responsible. These activities, defined as the Municipality’s reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit.

The primary government includes the following legal entities:

* The Municipality of Example

The component unit presentation includes the following legal entity:

* The Municipality of Example Housing and Redevelopment Commission

***The Government-Wide Statement of Net Position and the Statement of Activities***

One of the most important questions asked about the Municipality’s finances is, “Is the Municipality as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all of the Municipality’s assets resulting from the use of the modified cash basis of accounting.

These two statements report the Municipality’s net position and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Municipality’s net position as one way to measure the Municipality’s financial health or financial position. Over time, increases or decreases in the Municipality’s net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Municipality’s sales tax base and the condition of the Municipality’s roads, to assess the overall health of the Municipality.

In the Statement of Net Position and the Statement of Activities, we divide the Municipality into three kinds of activities:

*Governmental activities.* Most of the Municipality’s basic services are reported here, including the police, fire, general government, streets and parks. Sales taxes, property taxes and state and federal grants finance most of these activities.

*Business-type activities.* The Municipality charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Municipality’s water and sewer systems are reported here.

*Component unit activities.* Although the Housing and Redevelopment Commission is a separate legal entity, the Municipality includes its activities since the Municipality is financially accountable for the Commission.

**Reporting the Municipality’s Most Significant Funds**

***The Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds-not the Municipality as a whole. Some funds are required to be established by State law and by bond covenants. However, the Municipal Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Municipality has two kinds of funds - *governmental and proprietary.*

***Governmental funds -*** Most of the Municipality’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Municipality’s general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality’s programs. The Municipality considers the General Fund and the Capital Improvement Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

***Proprietary funds -*** When the Municipality charges customers for the services it provides, these services are generally reported in proprietary funds. The Municipality’s proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements but the fund statements provide more detail and additional information.

The Municipality currently has no fiduciary funds. *Fiduciary funds* are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

**A FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Position - Modified Cash Basis**

The Municipality’s combined net position, resulting from modified cash basis transactions, increased from approximately $4.0 million to $4.3 million between fiscal years 20XX and 20YY. Looking at the net position and net expenses of governmental and business-type activities separately, governmental activities had a larger increase than business-type activities.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *Governmental Activities* |  | *Business-Type**Activities* |  | *Total* |  | *Total**Percentage**Change* |
|  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  |  |
| Cash and Cash Equivalents | $ 524,267 |  | $ 608,256 |  | $ 429,343 |  | $ 568,951 |  | $ 953,610 |  | $1,177,207 |  | 23.4% |
| Investments | 762,134 |  | 1,005,084 |  | 2,247,741 |  | 2,161,133 |  | 3,009,875 |  | 3,166,217 |  | 5.2% |
|  **Total Assets** | **$1,286,401** |  | **$1,613,340** |  | **$2,677,084** |  | **$2,730,084** |  | **$3,963,485** |  | **$4,343,424** |  | **9.6%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Position: |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Restricted | 854,484 |  | 1,058,086 |  | 2,372,191 |  | 2,282,110 |  | 3,226,675 |  | 3,340,196 |  | 3.5% |
|  Unrestricted | 431,917 |  | 555,254 |  | 304,893 |  | 447,974 |  | 736,810 |  | 1,003,228 |  | 36.2% |
|  **Total Net Position**  | **$1,286,401** |  | **$1,613,340** |  | **$2,677,084** |  | **$2,730,084** |  | **$3,963,485** |  | **$4,343,424** |  | **9.6%** |

Net position of the Municipality’s governmental activities increased 25 percent to $1.6 million. However, $1,058,086 of the net position is restricted as to the purposes they can be used for. Consequently, unrestricted net position showed only $555,254 at the end of this year.

**Changes in Net Position-Modified Cash Basis**

For the year ended December 31, 20YY, net position of the primary government (resulting from modified cash basis transactions) changed as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *Governmental Activities* |  | *Business-Type**Activities* |  | *Total* |  | *Total**Percentage**Change* |
|  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | XX-YY |
| **Revenues** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Program Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Charges for Services | $ 61,624 |  | $ 62,647 |  | $ 723,299 |  | $ 782,090 |  | $ 784,923 |  | $ 844,737 |  | 7.6% |
|  Operating Grants and Contributions | 138,777 |  | 127,622 |  | 6,951 |  |  |  | 145,728 |  | 127,622 |  | (12.4)% |
|  Capital Grants and Contributions | 58,615 |  | 23,434 |  | 100,000 |  | 34,234 |  | 158,615 |  | 57,668 |  | (63.6)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| General Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  Property Tax | 657,822 |  | 773,308 |  |  |  |  |  | 657,822 |  | 773,308 |  | 17.6% |
|  Sales Tax | 55,515 |  | 66,619 |  |  |  |  |  | 55,515 |  | 66,619 |  | 20.1% |
|  State Shared Revenues | 26,281 |  | 27,194 |  |  |  |  |  | 26,281 |  | 27,194 |  | 3.5% |
|  Grants and Contributions not Restricted to Specific Programs | 44,774 |  | 42,500 |  |  |  |  |  | 44,774 |  | 42,500 |  | (0.2)% |
|  Investment Income | 15,985 |  | 17,725 |  | 14,681 |  | 8,392 |  | 30,666 |  | 26,117 |  | (14.8)% |
|  Miscellaneous | 40,938 |  | 29,569 |  | 478 |  | 1,514 |  | 41,416 |  | 31,083 |  | (24.9)% |
|  **Total Revenues** | **1,100,331** |  | **1,170,618** |  | **845,409** |  | **826,230** |  | **1,945,740** |  | **1,996,848** |  | **2.6%** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *Governmental Activities* |  | *Business-Type**Activities* |  | *Total* |  | *Total**Percentage**Change* |
|  | 20XX |  | 20YY |  | 20XX |  | 20YY |  | 20XX |  | 20YY |  |  |
| **Expenses** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| General Government |  199,410 |  |  202,449 |   |  |  |  |  |  199,410 |  |  202,449 |  | 1.5% |
| Public Safety | 383,943 |  | 417,781 |  |  |  |  |  | 383,943 |  | 417,781 |  | 8.8% |
| Public Works | 173,595 |  | 175,551 |  |  |  |  |  | 173,595 |  | 175,551 |  | 1.1% |
| Health and Welfare | 74,716 |  | 85,659 |  |  |  |  |  | 74,716 |  | 85,659 |  | 14.6% |
| Culture and Recreation | 57,987 |  | 59,896 |  |  |  |  |  | 57,987 |  | 59,896 |  | 3.3% |
| Conservation and Development | 9,950 |  | 8,500 |  |  |  |  |  | 9,950 |  | 8,500 |  | (14.6)% |
| Water |  |  |  |  | 481,118 |  | 477,092 |  | 481,118 |  | 477,092 |  | (0.8)% |
| Sewer |  |  |  |  | 362,047 |  | 384,484 |  | 362,047 |  | 384,484 |  | 6.2% |
|  **Total Expenses** | **899,601** |  | **949,836** |  | **843,165** |  | **861,576** |  | **1,742,766** |  | **1,811,412** |  | **3.9%** |
|  Excess (deficiency) Before Transfers | 200,730 |  | 220,782 |  | 2,244 |  | (35,346) |  | 202,974 |  | 185,436 |  | (8.6)% |
| Contributions |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Special Items |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Extraordinary Items |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Transfers | (5,670) |  | (101,982) |  | (330) |  | 95,982 |  | (6,000) |  | (6,000) |  |  |
| **Change in Net Position**  | **$ 195,060** |  | **$ 118,800** |  | **$ 1,914** |  | **$ 60,636** |  | **$ 196,974** |  | **$ 179,436** |  | **(8.9)%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Ending Net Position**  | **1,286,401** |  | **1,613,340** |  | **2,677,084** |  | **2,730,084** |  | **3,963,485** |  | **4,343,424** |  |  |

The Municipality implemented a utility rate increase in the past year and passed a ½ cent additional sales tax resulting in the 7.6% increase in charges for services and the 20.1% increase in sales tax revenue, respectively.

**Governmental Activities**

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenue, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the Municipality’s taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended December 31, 20YY, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to $949,836. Of these total expenses, taxpayers and other general revenues funded $916,915, while those directly benefiting from the program funded $151,056 from grants and other contributions and $62,647 from charges for services.

|  |
| --- |
| **Net Cost of Municipality of \_\_\_\_\_\_\_\_’s Governmental Activities - Modified Cash Basis** |
|  | *(Exhibit II, Column 1)**Total Cost of Services* |  | *Percentage**Change* |  | *(Exhibit II, Column 5)**Net Cost of Services* |  | *Percentage**Change* |
|  | 20XX |  | 20YY |  |  |  | 20XX |  | 20YY |  |  |
| General Government | $199,410 |  | $202,449 |  | 1.5% |  | $197,250 |  | $197,049 |  | (0.1)% |
| Public Safety | 383,943 |  | 417,781 |  | 8.8% |  | 276,440 |  | 347,463 |  | 25.7% |
| Public Works | 173,595 |  | 175,551 |  | 1.1% |  | 114,211 |  | 129,915 |  | 13.7% |
| Health and Welfare | 74,716 |  | 85,659 |  | 14.4% |  |  |  | 10,849 |  |  |
| Culture and Recreation | 57,987 |  | 59,896 |  | 3.3% |  | 45,624 |  | 46,252 |  | 1.4% |
| Conservation and Development | 9,950 |  | 8,500 |  | (14.6)% |  | 7,060 |  | 4,605 |  | (34.8)% |
|  **Total** | **$899,601** |  | **$949,836** |  | **5.6%** |  | **$640,585** |  | **$736,133** |  | **14.9%** |

**Business-Type Activities**

In reviewing the business-type activities’ net (expense)/revenue resulting from modified cash basis transactions, there are certain activities that need to be examined more closely. The water and sewer service activities reported net revenues of $(20,000) and $(15,346), respectively. Included in water revenue was a $34,234 capital grant from OWRB.

**A FINANCIAL ANALYSIS OF THE MUNICIPALITY’S FUNDS.**

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

* On the modified cash basis of accounting, the General Fund reported revenues of $972,141 and expenditures and net transfers of $917,757, resulting in an increase in fund balance of $54,384.
* An increase in sales tax revenue in the General Fund of $11,104 from the prior year deserved some attention. In analyzing this increase, a majority of the increase can be attributed to an additional ½ cent sales tax approved by the citizens in October 20YY.

**General Fund Budgetary Highlights**

Over the course of the year, the Municipal Council revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget. The only significant difference between the current and prior year budgets was an increase in the sales tax estimate from the prior year.

For the year ended December 31, 20YY, General Fund expenditures were $34,554 below final appropriations, while actual resources available for appropriation were $90,581 above the final budgeted amount.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

For the upcoming fiscal year ending December 31, 20X4, the Municipality’s budget is fairly consistent with this year.

The Municipality was awarded a Department of Transportation grant of $295,000 to replace sidewalks in the upcoming year.

(Other economic factors that could be included are charts/graphs depicting assessed valuation, mill levies and/or levy in dollars. An opt out that was attempted/passed would also be relevant.)

**CONTACTING THE MUNICIPALITY’S FINANCIAL MANAGEMENT**

This report is designated to provide our citizens, taxpayers, customers, 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 financial information, contact the Municipal Clerk’s office at 300 W Main St., Municipality of \_\_\_\_\_\_\_\_, Any State or telephone at (555) 555-5555.