

Management Report

for

City of New Hope
Hennepin County, Minnesota

December 31, 2009



PRINCIPALS

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

To the City Council
City of New Hope, Minnesota

We have prepared this management report in conjunction with our audit of the City of New Hope, Minnesota'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.

May 18, 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, business-type activities, 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*, 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 reported no matters involving the City's internal control over financial reporting that we consider to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

OTHER RECOMMENDATIONS

We offer the following observations and recommendations for the continued improvement of the City's internal controls over financial reporting:

- Management has provided us with descriptions of the internal control policies and procedures in place at the City. Through our audit testing, we were able to review and observe many of these controls to assure they are implemented and functioning as designed. We noted that in some cases, in particular the procedures for performing the year-end close of the City's general ledger, these policies and procedures are not documented in writing. Implied or verbal policies and procedures are subject to greater variation of meaning and the likelihood of misinterpretation increases when a policy is not written. A lack of documentation may also impair management's ability to communicate control procedures to those responsible for their performance or to monitor control performance effectively. Therefore, we recommend the City establish written internal control policies and procedures for all relevant areas, including the year-end closing process.
- During our audit, it was noted that the journal entries initiated and posted to the City's general ledger by its contracted financial consultant are not being reviewed and approved by City management. The use of a contracted professional accounting service does not change the fact that the City Council and management are ultimately responsible for the City's financial transactions and the accuracy of its financial records. Appropriate review and approval controls should be maintained over adjustments and transactions initiated by consultants, just as with those initiated by an employee. We recommend that a member of management, such as the City Manager, review and document approval of all journal entries initiated by the City's financial consultants.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the City's financial statements for the year ended December 31, 2009, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. The following is a summary of prior year findings and recommendations along with the results of our follow-up procedures:

- In the prior year, we noted that the City lacked sufficient segregation of duties in the processing of cash transactions for receipts, disbursements, payroll, and investments. This condition was primarily caused by the turnover of several key administrative and finance positions at the City. As a result, several key control procedures were not being completed on a regular basis, and the individuals performing key some control procedures lacked the training or experience necessary for the procedure to function as an effective control. The City's accounting records are now current and key day-to-day control procedures are being performed in a timely manner.
- In the prior year, we reported that the City's internal controls over cash and investments were deficient, due to monthly bank reconciliations not being completed in a timely manner and investment activity not being properly reconciled and recorded. The City's monthly bank reconciliations are now being completed in a timely manner and investment activity is being appropriately reconciled and recorded.
- In the prior year, we reported that an audit adjustment was necessary to correct a material misstatement that had not been identified by the City's internal accounting controls. There were no material audit adjustments as a result of this year's audit.
- In the prior year, the City had failed to obtain a signed broker certification form, as required by state statute, from one investment broker used during 2008. The City had signed broker certification forms on file for all investment brokers used in 2009.

SIGNIFICANT ACCOUNTING POLICIES

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

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

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

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

- **Value of Land Held for Resale** – These assets are stated at the lower of cost or net realizable value based on management's estimates.
- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.

- **Net Other Post-Employment Benefit (OPEB) Liabilities** – Actuarial estimates of the net OPEB obligation is based on eligible participants, estimated future health insurance premiums, and estimated retirement dates.

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

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.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated May 18, 2010.

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 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.

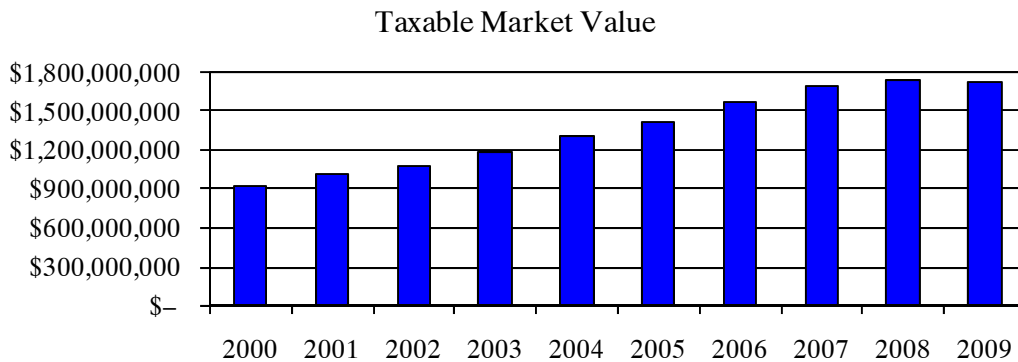
These additional controls also include considerations into whether control procedures are in place over the federal grant expenditures to prevent unallowable expenditures, consideration into whether additional controls and systems will be needed to ensure funds are able to be separately tracked and identified,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

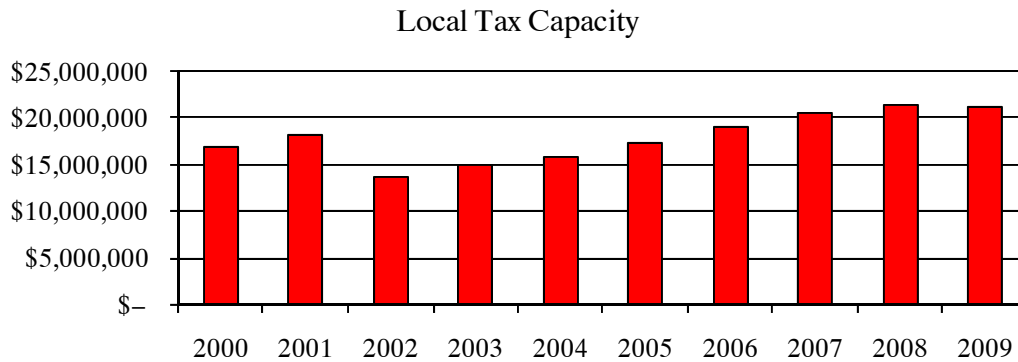
Property values within Minnesota cities experienced average increases of 7.0 percent for taxes payable in 2008 and 1.5 percent for those payable in 2009, reflecting the slowdown in growth of market values. In comparison, the City's market value increased by 3.4 percent in 2008 and decreased by 1.1 percent 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 local tax capacity increased by 4.1 percent for levy year 2008 and decreased by 0.7 percent for levy year 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 New Hope	
	2008	2009	2008	2009	2008	2009
Average tax rate						
City	36.3	36.9	33.6	33.7	41.9	41.3
County	38.0	39.3	34.9	34.7	38.6	40.4
School	21.1	22.0	21.3	22.1	27.2	27.2
Special taxing	<u>5.6</u>	<u>5.5</u>	<u>7.0</u>	<u>5.9</u>	<u>7.8</u>	<u>7.4</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>115.5</u></u>	<u><u>116.3</u></u>

The City's portion, as well as the total of the tax capacity rates for New Hope residents has been higher than the state-wide and metro area averages in recent years. The City's rate has been above average since it began using annual levies rather than special assessment bonds to finance street and park improvements.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds. Governmental funds include the General Fund, special revenue, debt service, and capital projects 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 New Hope		
	December 31, 2008			2007	2008	2009
Population	2,500-10,000	10,000-20,000	20,000-100,000	20,824	20,860	20,860
Property taxes	\$ 355	\$ 351	\$ 376	\$ 370	\$ 387	\$ 400
Tax increments	47	56	61	80	88	74
Franchise and other taxes	22	34	37	21	21	21
Special assessments	81	53	61	16	10	8
Licenses and permits	27	25	33	16	20	11
Intergovernmental revenues	247	242	147	47	50	67
Charges for services	82	78	79	55	54	56
Other	97	95	89	96	57	49
Total revenue	\$ 958	\$ 934	\$ 883	\$ 701	\$ 687	\$ 686

Total revenue in the City's governmental funds for 2009 was \$14,316,120, a slight decrease of \$9,126 or 0.1 percent from the previous year. The City's governmental funds revenue for fiscal 2009 was \$686 on a per capita basis, down \$1 per capita from last year. The City's general property tax levy revenue went up by \$13 per capita. Intergovernmental revenue also increased by \$17 per capita due to the City receiving more LGA and MVHC than the prior year. Revenue from building permits and investment income were down \$9 and \$15 per capita, respectively, due to the economic conditions. Tax increment revenue also declined \$14 per capita with the expiration of one of the City's tax increment districts.

GOVERNMENTAL FUNDS EXPENDITURES

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	State-Wide			City of New Hope			
	December 31, 2008			2007	2008	2009	
Population	2,500–10,000	10,000–20,000	20,000–100,000	<u>20,824</u>	<u>20,860</u>	<u>20,860</u>	
Current							
General government	\$ 130	\$ 115	\$ 86	\$ 94	\$ 93	\$ 83	
Public safety	217	234	237	254	282	284	
Public works	114	113	88	42	40	35	
Culture and recreation	65	86	86	79	81	81	
All other	81	94	100	–	–	–	
	<u>\$ 607</u>	<u>\$ 642</u>	<u>\$ 597</u>	<u>\$ 469</u>	<u>\$ 496</u>	<u>\$ 483</u>	
Capital outlay and construction	<u>\$ 379</u>	<u>\$ 338</u>	<u>\$ 327</u>	<u>\$ 85</u>	<u>\$ 117</u>	<u>\$ 55</u>	
Debt service							
Principal	\$ 171	\$ 135	\$ 112	\$ 73	\$ 39	\$ 42	
Interest and fiscal	71	48	41	17	17	13	
	<u>\$ 242</u>	<u>\$ 183</u>	<u>\$ 153</u>	<u>\$ 90</u>	<u>\$ 56</u>	<u>\$ 55</u>	

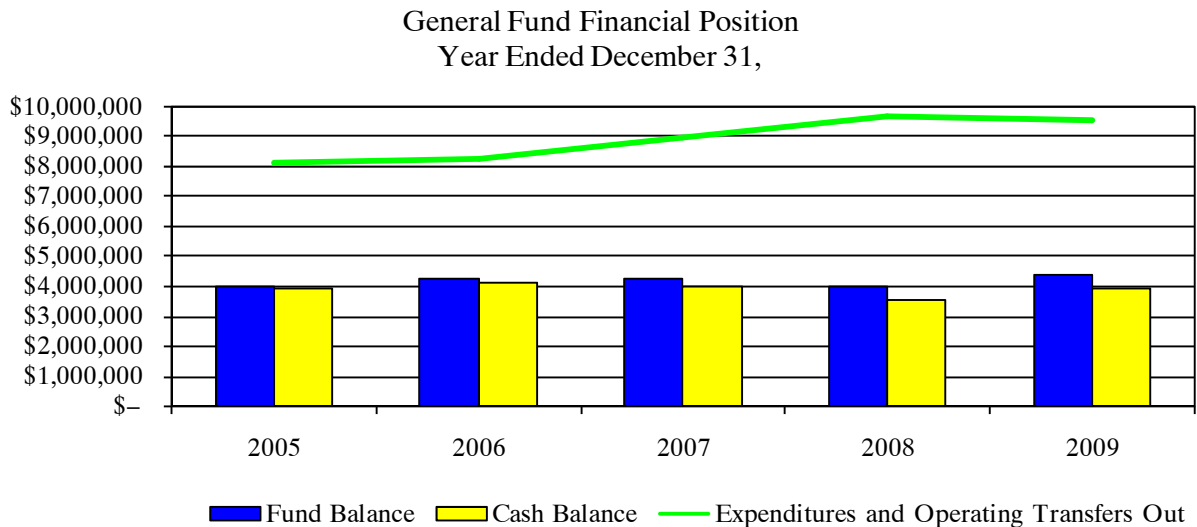
The City's total governmental funds expenditures were \$12,394,627 for 2009, a decrease of \$1,575,991 or 11.3 percent from the prior year. Current operating costs decreased by \$13 per capita in 2009. General government expenditures were down \$10 per capita due to reductions in city administrative costs, EDA consulting services, and election costs. Public works costs, mainly street maintenance salaries and supplies, were also \$5 per capita lower than last year. Capital outlay expenditures were \$62 lower per capita in 2009, as the City spent about \$1.2 million less on street infrastructure projects than the previous 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 culture and recreation.

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

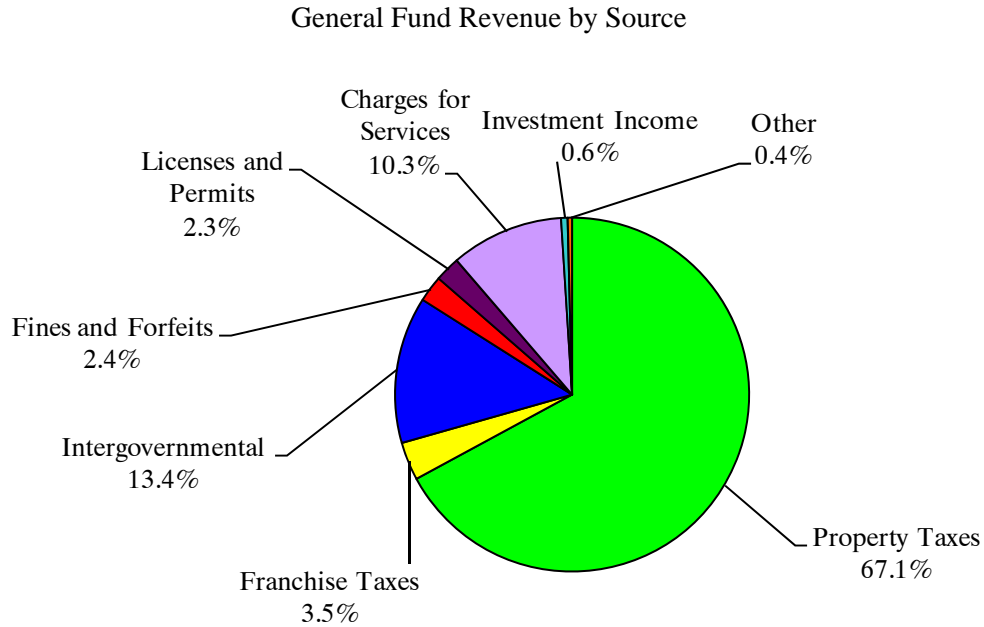


The City's General Fund cash and investment balance at December 31, 2009 was \$3,910,596, an increase of \$361,378 from last year. The General Fund unreserved fund balance at December 31, 2009 was \$4,354,351, an increase of \$401,874 from the previous year. Unreserved fund balance at year-end represents approximately 45.6 percent of annual expenditures and transfers out based on 2009 levels. By comparison, unreserved fund balance at the end of the previous year represented 40.8 percent of expenditures and transfers out. All but \$5,041 of the year-end fund balance is designated for working capital in accordance with city policy.

Over the last few years, the City has generally been able to maintain stable cash and fund balance levels, 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. Generally, the amount of equity required typically increases as the size of the operation increases.

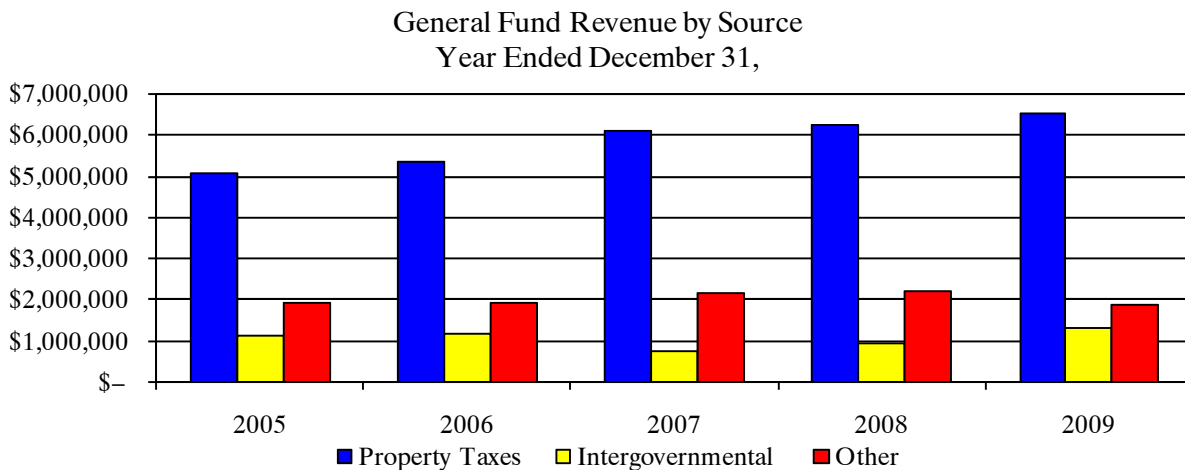
A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and can be a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

The following chart reflects the City's General Fund reliance on its revenue sources for 2009:



Total General Fund revenue for 2009 was \$9,725,468, which was \$114,883 (1.2 percent) higher than the final budget. Property tax revenue was under budget by \$224,585 and intergovernmental revenue was over budget by \$402,826, mainly because of about \$306,000 in tax credits which were received through state aid but budgeted in taxes. Charges for governmental services exceeded budget by \$69,185 due to a significant increase in rental housing inspection fees. Revenue from court fines were \$65,027 less than projected. Investment income was also under budget by \$135,522 due to declines in interest rates and investment market values.

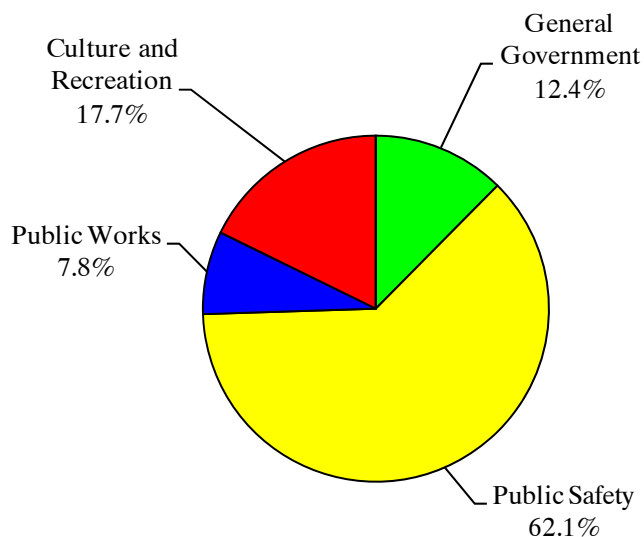
The following graph presents the City's General Fund revenue sources for the last five years:



Total General Fund revenue for 2009 was \$344,002 (3.7 percent) higher than the prior year. Property tax revenue increased \$296,033 from the prior year, as the City's tax levy for 2009 was increased. Intergovernmental revenues were \$338,011 higher than last year due to increases in LGA and MVHC received in 2009. Other local revenue decreased due to reduced investment income and court fines.

The following graph provides you with the components of the City's General Fund spending for 2009:

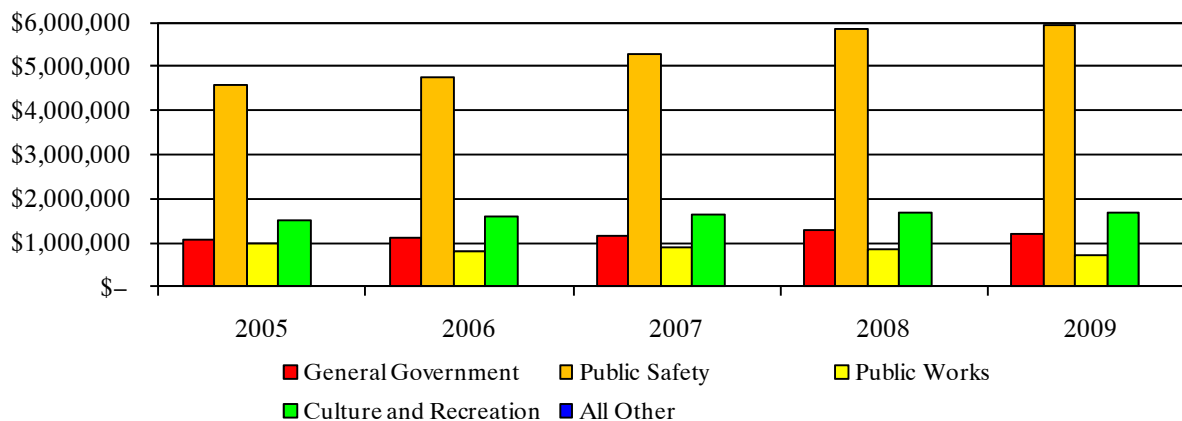
General Fund Expenditures by Function



Total General Fund expenditures for 2009 were \$9,539,104, which was \$309,714 (3.1 percent) under the final budget. General government expenditures exceeded budget by \$150,360 due to increases in financial consulting, audit, and city hall maintenance costs. Expenditures were under budget in the remaining functional areas, with the largest variances in personnel costs due to the City eliminating its labor pool charges but not amending the budget for this change.

The following graph illustrates the City's General Fund expenditures by function over the last five years:

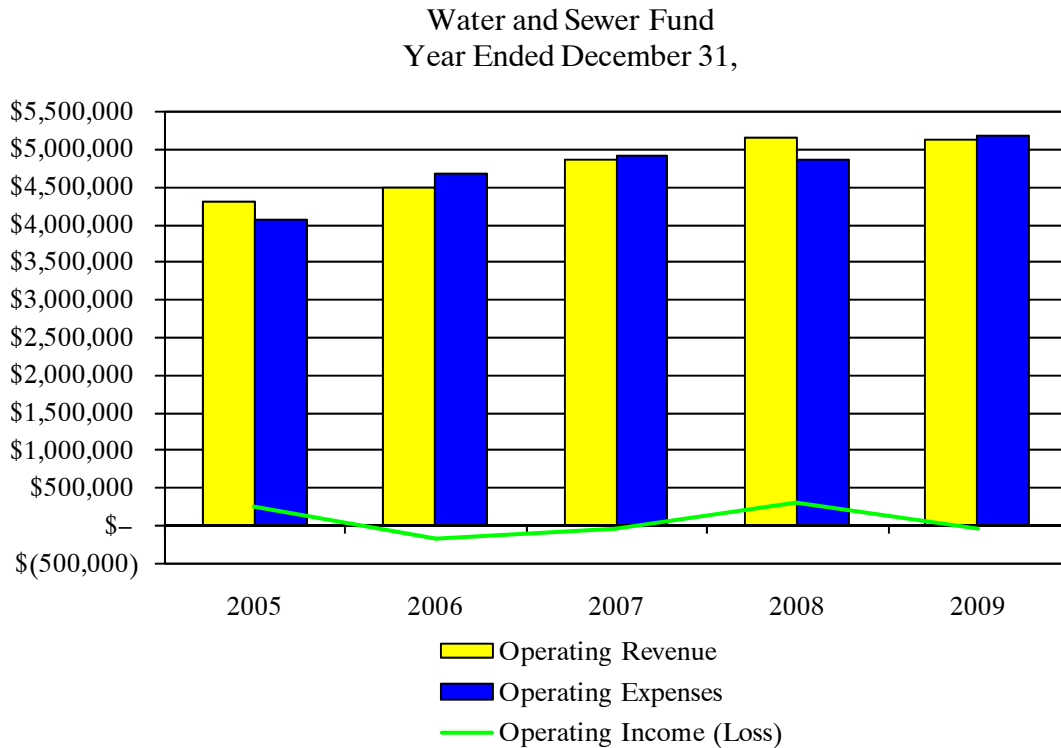
General Fund Revenue by Function
Year Ended December 31,



Total General Fund expenditures decreased by \$139,489 or about 1.4 percent. General government expenditures decreased by \$118,701 due to decreases in administrative and election costs. Public works costs were \$90,886 lower than the prior year, mainly in street maintenance salaries and supplies.

WATER AND SEWER FUND

The following graph presents five years of operating results for the Water and Sewer Fund:



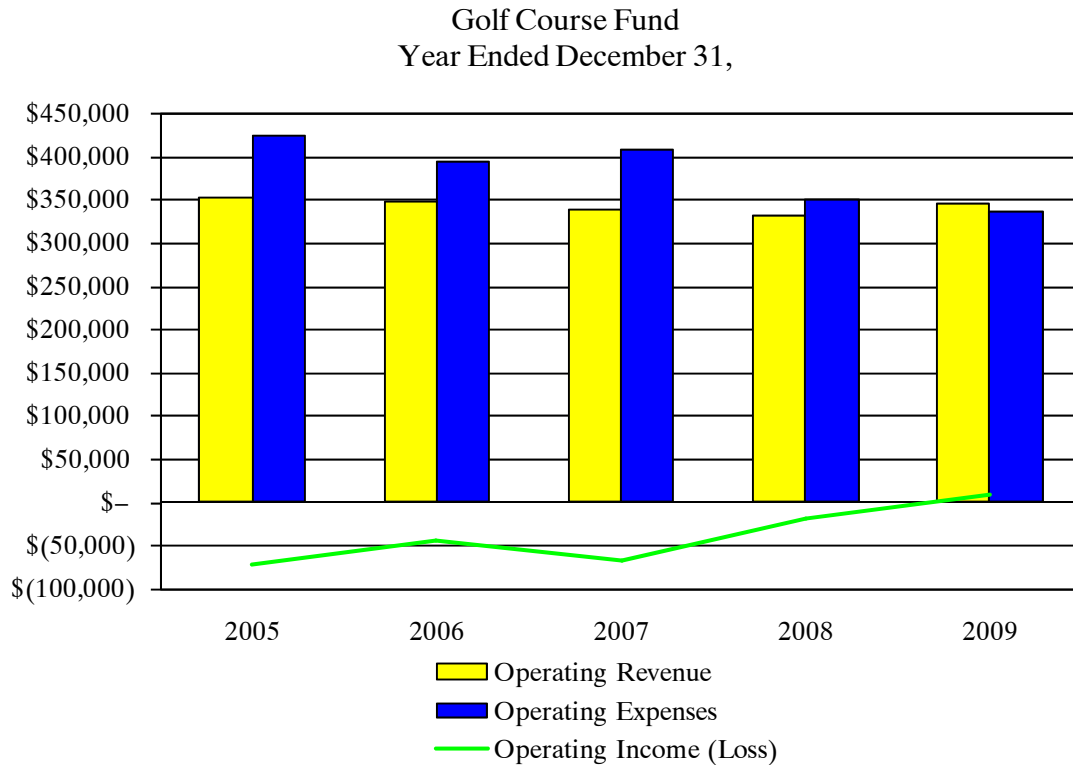
The Water and Sewer Fund ended 2009 with net assets of \$3,982,626, a decrease of \$44,275 from the prior year. Of this, \$3,876,588 represents the investment in water distribution and sewer collection system capital assets, leaving \$106,038 in unrestricted net assets.

Operating revenue in the Water and Sewer Fund for 2009 was \$5,110,945, a decrease of \$40,831 from the previous year. Water charges decreased \$52,177 (1.8 percent), mainly due to a similar percentage decrease in water usage. Sewer charges increased \$12,663 (0.6 percent).

Operating costs for 2009 were \$5,165,685, an increase of \$303,920 from the prior year. Water purchases increased by \$216,353 and sewer disposal charges paid to Metropolitan Council Environmental Services increased by \$255,692. These increases were partially offset by decreases in salaries expense of \$140,252 and depreciation expense of \$63,327.

GOLF COURSE FUND

The following graph presents five years of operating results for the City's Golf Course Fund:

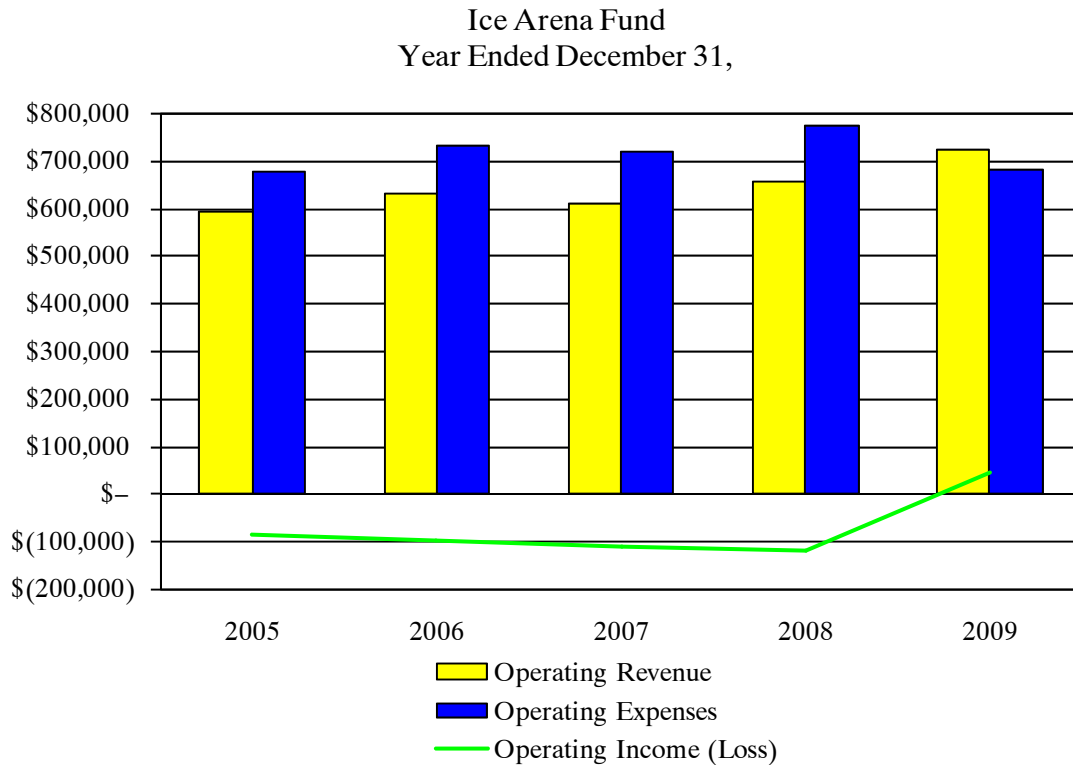


The Golf Course Fund ended 2009 with net assets of \$426,738, a decrease of \$14,888 from the prior year. Of this, \$367,770 represents the investment in capital assets, leaving \$58,968 in unrestricted net assets.

Golf Course Fund operating revenue for 2009 was \$345,550, an increase of \$14,768 from the prior year. Greens fees increased by \$12,609 due to an increase in the number of rounds played. Operating expenses were \$335,816, a decrease of \$13,680 from the prior year, with the decrease coming mainly in supplies and maintenance costs. As the graph above illustrates, this was the first year in the last five years that the City's golf course operating revenues have exceeded operating expenses including depreciation.

ICE ARENA FUND

The following graph presents five years of operating results for the City's Ice Arena Fund:

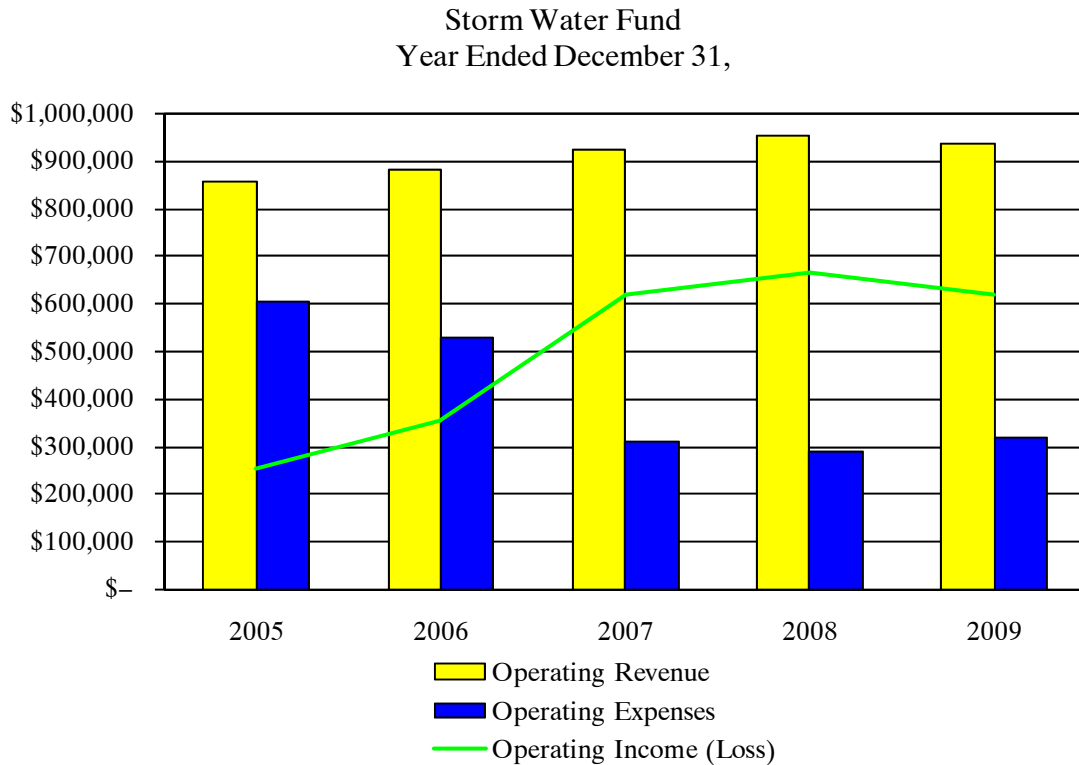


The Ice Arena Fund ended 2009 with net assets of \$3,439,715, an increase of \$46,343 from the prior year. Of this, \$3,169,009 represents the investment in capital assets, leaving \$270,706 in unrestricted net assets.

Ice Arena Fund operating revenues for 2009 were \$723,476, an increase of \$67,644 from the prior year. Revenue from ice time rental increased \$59,593, as both the amount of time rented and the rate charged by the City were higher this year. Operating expenses were \$680,276, a decrease of \$93,876 from the prior year. The largest decreases were in personnel costs (\$30,939), utility costs (\$25,630), and repairs (\$22,117).

STORM WATER FUND

The following graph presents five years of operating results for the City's Storm Water Fund:

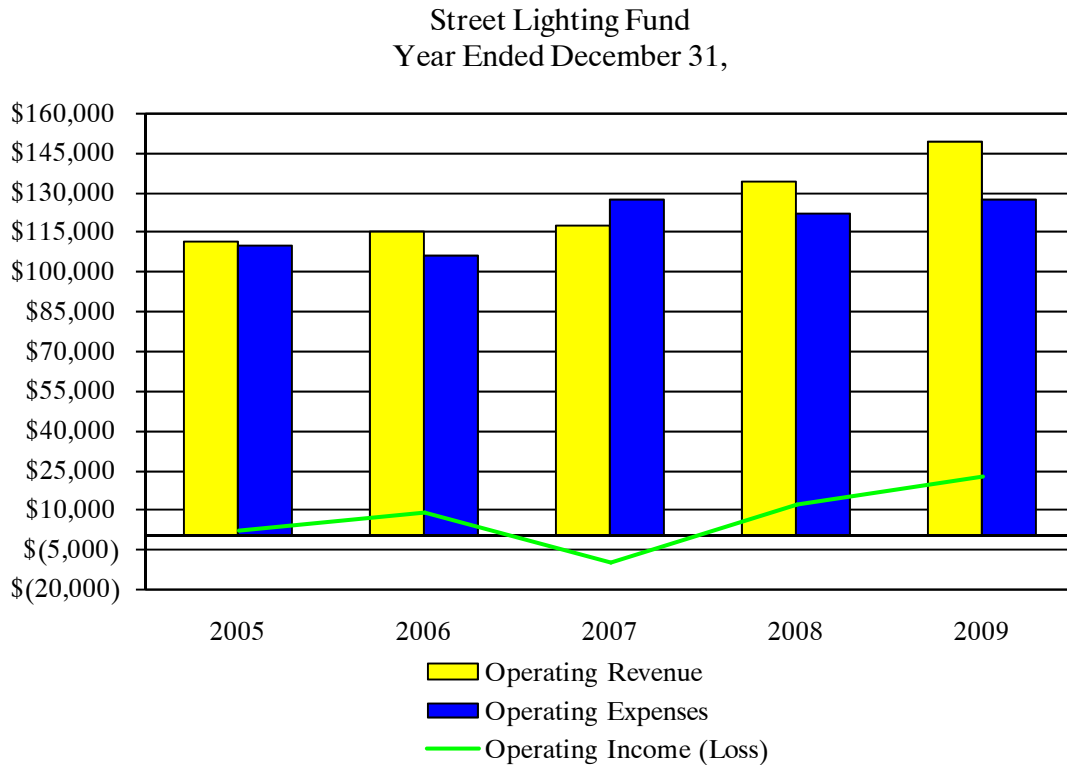


The Storm Water Fund ended 2009 with net assets of \$3,263,196, an increase of \$704,433 from the prior year. Of this, \$1,981,701 represents the investment in storm water collection system capital assets, leaving \$1,281,495 in unrestricted net assets.

Storm Water Fund operating revenues for 2009 were \$933,828, a decrease of \$17,871 from the previous year. Operating expenses were \$316,216, an increase of \$27,771, mainly due to an increase in engineering and maintenance costs.

STREET LIGHTING FUND

The following graph presents five years of operating results for the City's Street Lighting Fund:



The Street Lighting Fund ended 2009 with unrestricted net assets of \$144,299, an increase of \$24,167 from the prior year.

Street Lighting Fund operating revenues for 2009 were \$149,339, an increase of \$15,705 from the previous year due to an increase in fees. Operating expenses were \$127,031, an increase of \$5,370 from the previous year, mainly due to an increase in electric utility costs of \$5,570.

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 of the City's governmental activities.

Statement of Net Assets

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Calculation of net assets			
Current assets	\$ 34,909,537	\$ 2,000,315	\$ 36,909,852
Net book value of capital assets	17,476,454	11,666,444	29,142,898
Current liabilities	(905,229)	(344,430)	(1,249,659)
Long-term liabilities	<u>(6,462,700)</u>	<u>(2,276,671)</u>	<u>(8,739,371)</u>
Total net assets	<u>\$ 45,018,062</u>	<u>\$ 11,045,658</u>	<u>\$ 56,063,720</u>
Categories of net assets			
Invested in capital assets, net of related debt	\$ 16,411,454	\$ 9,395,068	\$ 25,806,522
Restricted	19,454,696	-	19,454,696
Unrestricted	<u>9,151,912</u>	<u>1,650,590</u>	<u>10,802,502</u>
Total net assets	<u>\$ 45,018,062</u>	<u>\$ 11,045,658</u>	<u>\$ 56,063,720</u>

The City's total net assets at December 31, 2009 were \$3,030,924 higher than the beginning of the year. The majority of the increase was in governmental activities, which increased by \$2,416,915 due to a combination of positive operating results in the governmental funds, and the retirement of \$885,000 of outstanding bonds. Business-type net assets increased by \$614,009, mainly due to storm water activity operating results.

Statement of Activities

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

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

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net Change</u>
Net (expense) revenue			
Governmental activities			
General government	\$ 2,244,977	\$ 1,266,433	\$ (978,544)
Public safety	6,218,996	370,625	(5,848,371)
Public works	1,291,983	241,361	(1,050,622)
Culture and recreation	2,053,788	535,941	(1,517,847)
Interest and fiscal charges	275,532	-	(275,532)
Business-type activities			
Water and sewer	5,265,147	5,156,121	(109,026)
Golf course	369,579	346,250	(23,329)
Ice arena	694,039	723,975	29,936
Storm water	393,118	1,059,956	666,838
Street lighting	126,983	149,339	22,356
Total	<u>\$ 18,934,142</u>	<u>\$ 9,850,001</u>	(9,084,141)
General revenues			
Property taxes			10,023,080
Franchise taxes			438,744
Unrestricted grants and contributions			755,762
Other general revenues			146,680
Investment earnings			750,799
Total general revenues			<u>12,115,065</u>
Change in net assets			<u>\$ 3,030,924</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 and unrestricted grants.

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.