



COMMITTEE OF THE WHOLE AGENDA
June 20, 2011 - 5:30 PM
City Hall Council Chambers

Committee of the Whole Meeting

1. Financial Report Review - Eide Bailey _____
2. City Manager Reports _____

Upon request, accommodations for individuals with disabilities, language barriers, or other needs to allow participation in City Council meetings will be provided. To arrange assistance, call the City Clerk's office at 218.299.5166 (voice) or 711 (TDD/TTY).

Visit our website at www.cityofmoorhead.com



Mayor and Council Communication

June 20, 2011

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SUBJECT: Financial Report Review - Eide Bailey

RECOMMENDATION: The Mayor and City Council are asked to receive a review of the financial results of the City's operations for 2010.

BACKGROUND / KEY POINTS: Each year a representative of the Eide Bailly audit firm has come before the City Council to summarize the results of the City's annual audit. This year's review of the 2010 Comprehensive Annual Financial Report (CAFR) will be presented by Brian Stavenger, CPA, Partner.

FINANCIAL CONSIDERATIONS: There are no financial considerations to be addressed.

VOTING REQUIREMENTS: Not Applicable

Disclaimer: Voting requirements may be subject to changes in the law, parliamentary procedural matters, or other unforeseen issues. The City Attorney provides opinion on questions of voting requirements in accordance with the Moorhead City Code, Minnesota State Statutes, and parliamentary procedure.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Michael J. Redlinger".

Michael J. Redlinger
City Manager

Department: Finance
Prepared by: Harlyn Ault, Finance Director

Attachments: N/A



Executive Summary
December 31, 2010

City of Moorhead, Minnesota

Purpose of the Executive Summary

The City receives audited financial statements each year, however the document is long and readers may find it difficult to read and understand. In an effort to help facilitate understanding we have put together an executive summary containing summarized information from the audited financial statements, as well as graphs and ratios. We believe the City Council, management, and citizens of Moorhead will have a clearer picture of the financial condition of the City by reading this summary. This is not a required report and we offer no opinion on the executive summary.

We hope this executive summary encourages discussion of the City's financial condition and to:

- Alert the City Council and management to financial condition trends, both favorable and unfavorable.
- Put the City's financial condition in perspective by compiling data for several years.

We obtained the idea of an executive summary format based on a review of the Comprehensive Annual Financial Report (CAFR) of the City of Sioux Falls, South Dakota, done by the Internal Audit department of the City in May 2009.

About Eide Bailly

Founded in 1917, Eide Bailly is a top 25 CPA firm in the nation, with 19 service centers in nine states. Our clients benefit from local, personal service while enjoying access to nearly 1,200 professionals with diverse skill sets and experiences. We truly care about our clients' successes and work hard to help them reach their goals. The Firm has built strong industry and service teams in order to surround our clients with relevant and valuable services. Our focused industries include:

- Ag Producers
- Construction
- Dealerships
- Financial Institutions
- Government
- Health Care
- Insurance
- Manufacturing
- Non-Profit
- Oil & Gas
- Real Estate
- Renewable Energy
- Utilities

Eide Bailly's Government industry has more than 40 years experience serving cities, and more than 120 professionals dedicated to government clients.

Audit Opinion

The City received a “clean” audit opinion. What does that really mean? The audit opinion is a brief report that appears with the financial statements. A clean audit opinion is more precisely referred to as an unqualified opinion. An *unqualified opinion* means that the financial statements have been prepared using accounting principles generally accepted in the United States of America (GAAP), do not contain material misstatements, and are fairly presented.

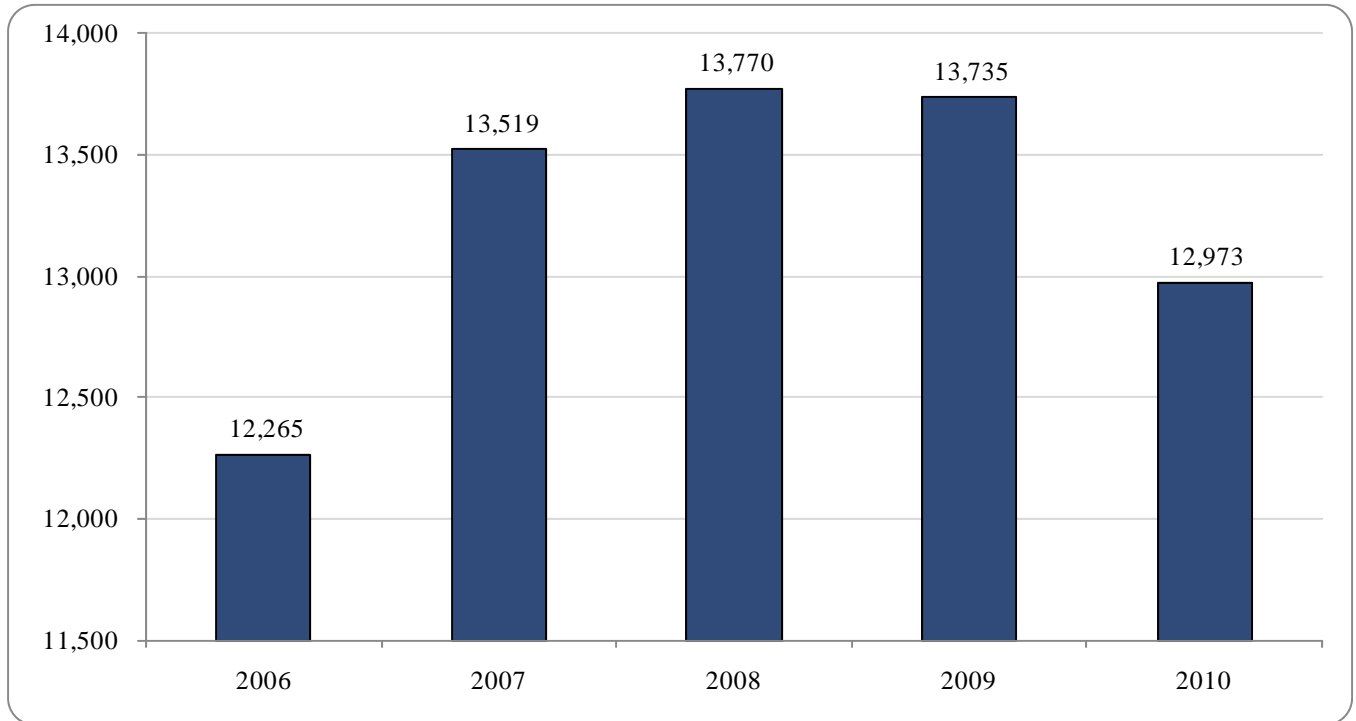
Some readers of financial statements with an unqualified (clean) audit opinion believe that the auditors are signifying that the organization has a financial clean bill of health. They may believe the auditors are indicating that there is no fraud, that the organization is using its resources effectively and efficiently, and that the organization is in compliance with all laws and regulations. The auditor’s report (audit opinion) on a financial statement audit is merely the auditor’s professional opinion, based on audit work, on whether the financial statements were prepared in accordance with GAAP and are free from material misstatement.

Audit of Federal Funds

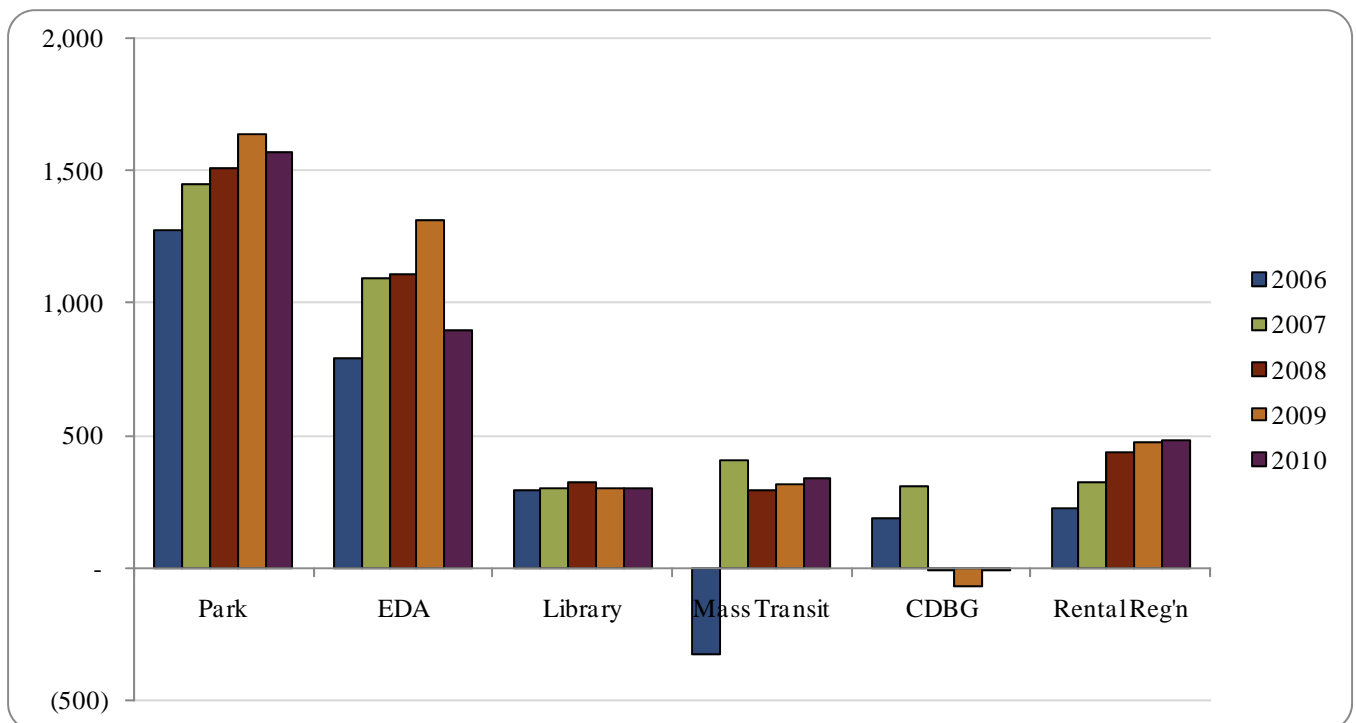
All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act. A single audit is intended to provide a cost-effective audit in that one audit is conducted in lieu of multiple audits of individual programs. During 2010 the City expended approximately \$9.9 million in Federal awards.

The City received an unqualified opinion on compliance for the major federal award programs report.

General Fund



Special Revenue Funds

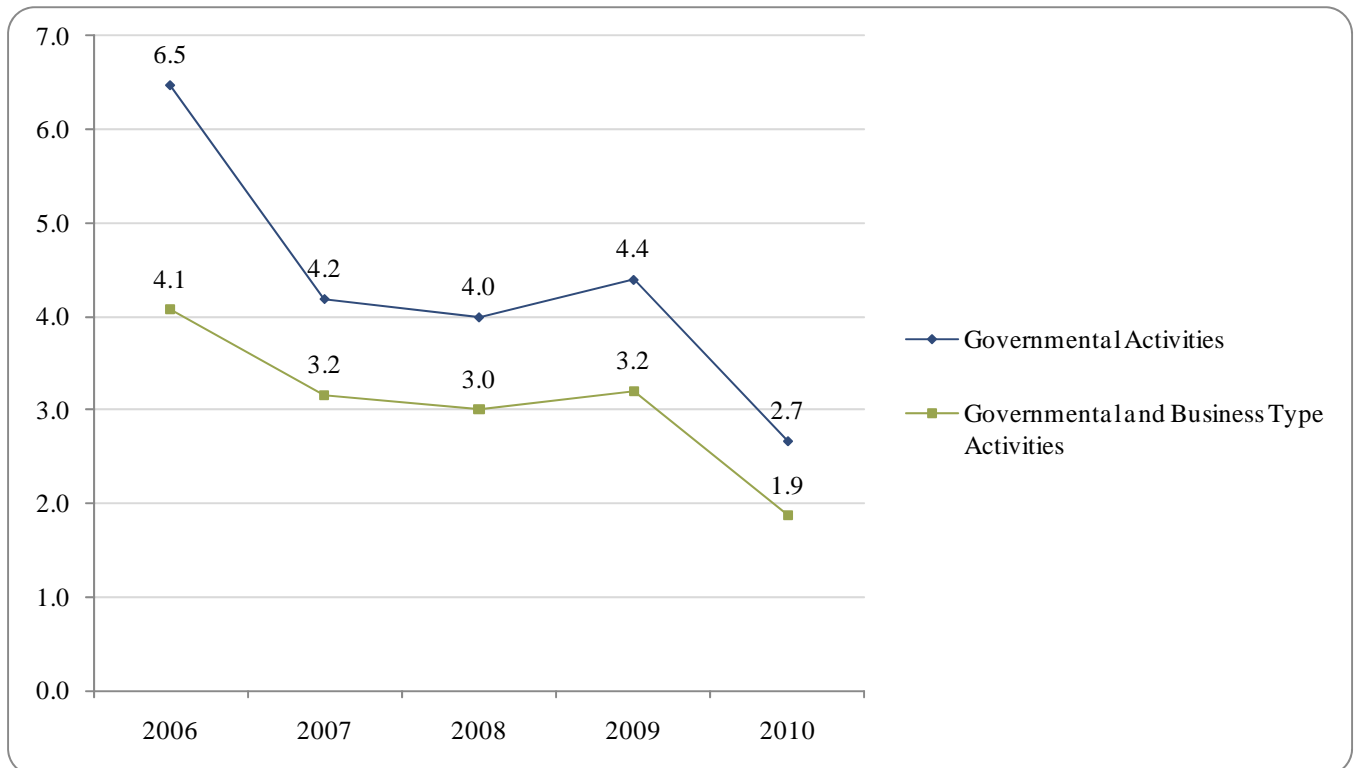


Liquidity

Liquidity refers to an organization's ability to pay short-term financial obligations. Liquidity involves determining the level of cash on hand and in the bank and other assets that can be easily converted to cash. This cash position is compared to accounts payable and other current liabilities as well as that portion of long-term liabilities that are due within one year.

The formula for calculating the liquidity ratio is:

$$\frac{\text{Cash and cash equivalents}}{\text{Accounts payable and other current liabilities} + \text{Long-term liabilities due within one year}}$$



Governmental activities include the General Fund, special revenue funds, capital project funds, and debt service funds.

Business-type activities include the proprietary funds such as Moorhead Public Service, Wastewater Treatment, Storm Water, Sanitation, Golf Course, Sports Center, Pest Control, Forestry, and Municipal Airport.

A liquidity ratio of less than one to one (for example 0.8) is considered by financial analysts to be a negative factor in an organization's financial condition.

Liquidity is a controversial financial indicator according to many analysts. Because the ratio can change daily according to receipt of cash, any analysis of the liquidity ratio must be done at the same time of the year for a meaningful comparison.¹ This comparison was done with the year-end cash and liability position.

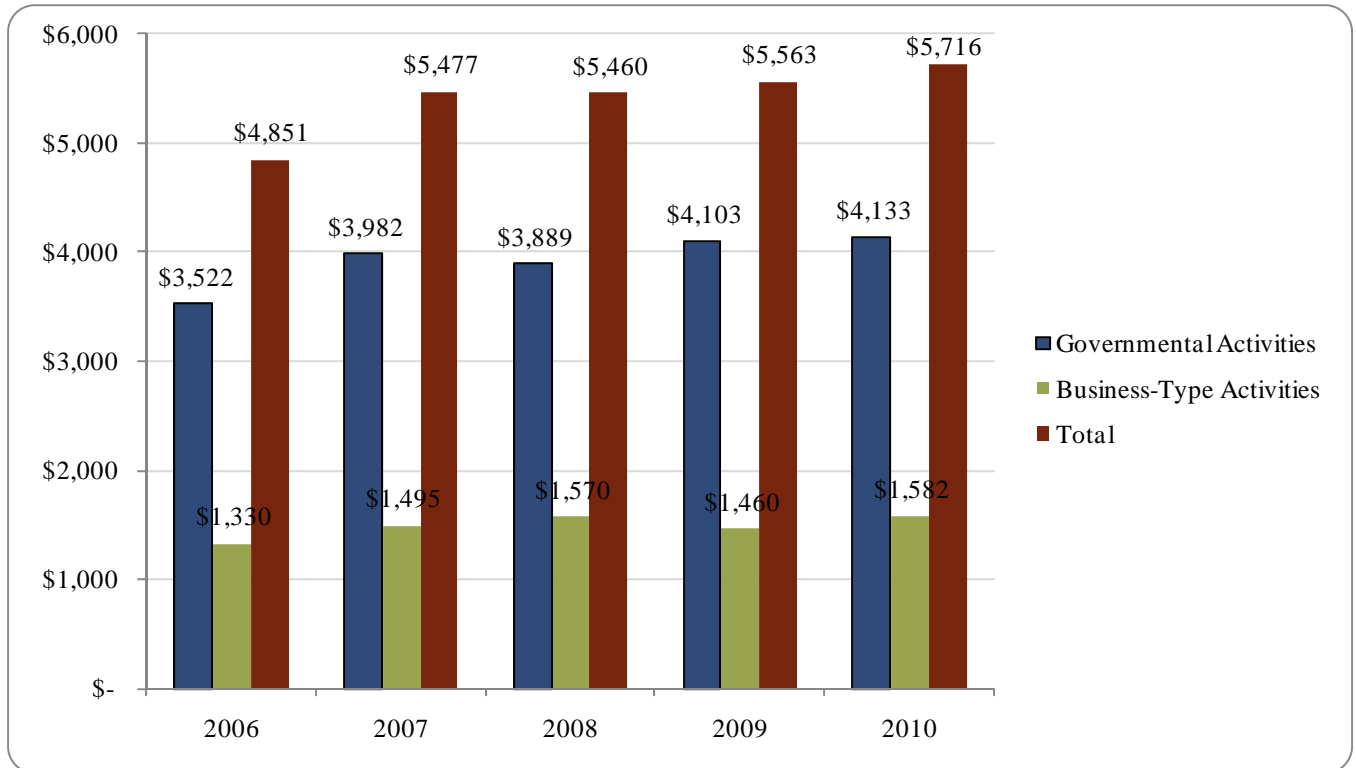
¹ *Evaluating Financial Condition: a Handbook for Local Governments*, page 71

Long-Term Debt to Population

A financial indicator related to debt is the long-term debt to population ratio or debt per capita. When long-term debt compared to population is accelerating, the local government can be overburdened.² While increasing debt can be a warning sign; the credit industry recognizes that a low debt burden may not necessarily be a positive credit indicator. Local governments that lag behind in funding vital infrastructure projects such as utilities and streets may have a low long-term debt to population ratio.

The formula for calculating long-term debt to population is:

$$\frac{\text{Long-Term Debt}}{\text{Population}}$$



Governmental activities include the General Fund, special revenue funds, capital project funds, and debt service funds.

Business-type activities include the proprietary funds such as Moorhead Public Service, Wastewater Treatment, Storm Water, Sanitation, Golf Course, Sports Center, Pest Control, Forestry, and Municipal Airport.

² *Evaluating Financial Condition: a Handbook for Local Governments*, page 79

City of Moorhead, Minnesota
Budget to Actual – General Fund
Year Ended December 31, 2010

General Fund - Budget to Actual

	2010 Original Budget	2010 Final Budget	2010 Actual	Variance With Final Budget
Revenues				
Taxes	\$ 4,794,669	\$ 4,794,669	\$ 4,755,293	\$ (39,376)
Intergovernmental	4,079,851	4,412,351	4,222,962	(189,389)
Charges for services	2,571,356	2,571,356	2,383,542	(187,814)
Licenses and permits	548,100	741,600	997,412	255,812
Other	802,039	802,039	834,777	32,738
Total revenues	<u>12,796,015</u>	<u>13,322,015</u>	<u>13,193,986</u>	<u>(128,029)</u>
				-1.0%
				Negative
Expenditures				
Administration	2,158,104	2,213,647	2,183,631	30,016
Police	6,906,502	6,963,595	7,028,752	(65,157)
Fire	3,242,214	3,322,450	3,136,043	186,407
Community services	1,473,105	1,600,605	1,269,095	331,510
Engineering	1,310,599	2,110,299	1,968,354	141,945
Operations	4,344,104	4,404,104	4,235,944	168,160
Total expenditures	<u>19,434,628</u>	<u>20,614,700</u>	<u>19,821,819</u>	<u>792,881</u>
				3.8%
				Positive
Revenues Under Expenditures	(6,638,613)	(7,292,685)	(6,627,833)	664,852
Other Financing Sources (Uses)				
Transfers in	6,306,250	6,352,990	6,342,995	(9,995)
Transfer out	(54,270)	(716,135)	(697,385)	18,750
Total other financing sources (uses)	<u>6,251,980</u>	<u>5,636,855</u>	<u>5,645,610</u>	<u>8,755</u>
Net Change in Fund Balance	(386,633)	(1,655,830)	(982,223)	673,607
Fund Balance - Beginning	<u>14,677,678</u>	<u>14,677,678</u>	<u>14,677,678</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 14,291,045</u>	<u>\$ 13,021,848</u>	<u>\$ 13,695,455</u>	<u>\$ 673,607</u>

City of Moorhead, Minnesota

General Fund Revenues

Years Ended December 31, 2008 through December 31, 2010

2008



2009



2010



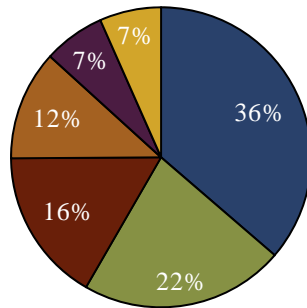
	2008	2009	2010
Taxes	4,423,008	4,733,489	4,755,293
Intergovernmental	4,769,807	4,722,762	4,222,962
Charges for services	2,621,536	2,311,834	2,383,542
Licenses and permits	844,394	892,918	997,412
Other	1,015,723	613,176	834,777
Total	13,674,468	13,274,179	13,193,986

City of Moorhead, Minnesota

General Fund Expenditures

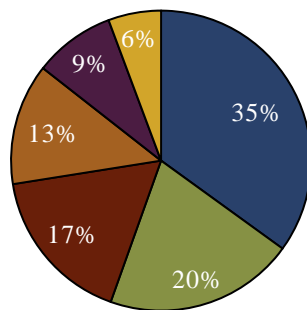
Years Ended December 31, 2008 through December 31, 2010

2008



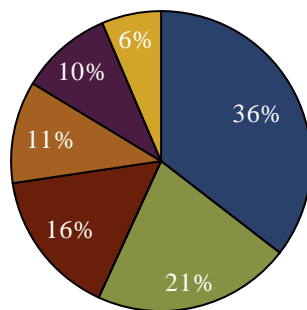
- Police
- Operations
- Fire
- Administration
- Engineering
- Community services

2009



- Police
- Operations
- Fire
- Administration
- Engineering
- Community services

2010



- Police
- Operations
- Fire
- Administration
- Engineering
- Community services

	2008	2009	2010
Police	6,802,006	6,660,687	7,028,752
Operations	4,125,511	3,899,608	4,235,944
Fire	3,101,499	3,247,116	3,136,043
Administration	2,219,656	2,490,654	2,183,631
Engineering	1,240,321	1,663,898	1,968,354
Community services	1,242,438	1,083,742	1,269,095
Total	18,731,431	19,045,705	19,821,819

General Fund Unreserved Fund Balance

The general fund is the largest fund of the City and includes general governmental activities such as administrative, police, fire, community services, engineering, and operations. Fund balance is the cumulative difference between fund assets and fund liabilities. Fund balance is further divided into reserved, unreserved, and designated categories. Reserved fund balance is legally restricted and cannot be appropriated for other spending. Designated fund balance is intended for a specific activity but is not legally restricted. Unreserved, undesignated fund balance can be thought of as reserves or a “rainy day” fund.

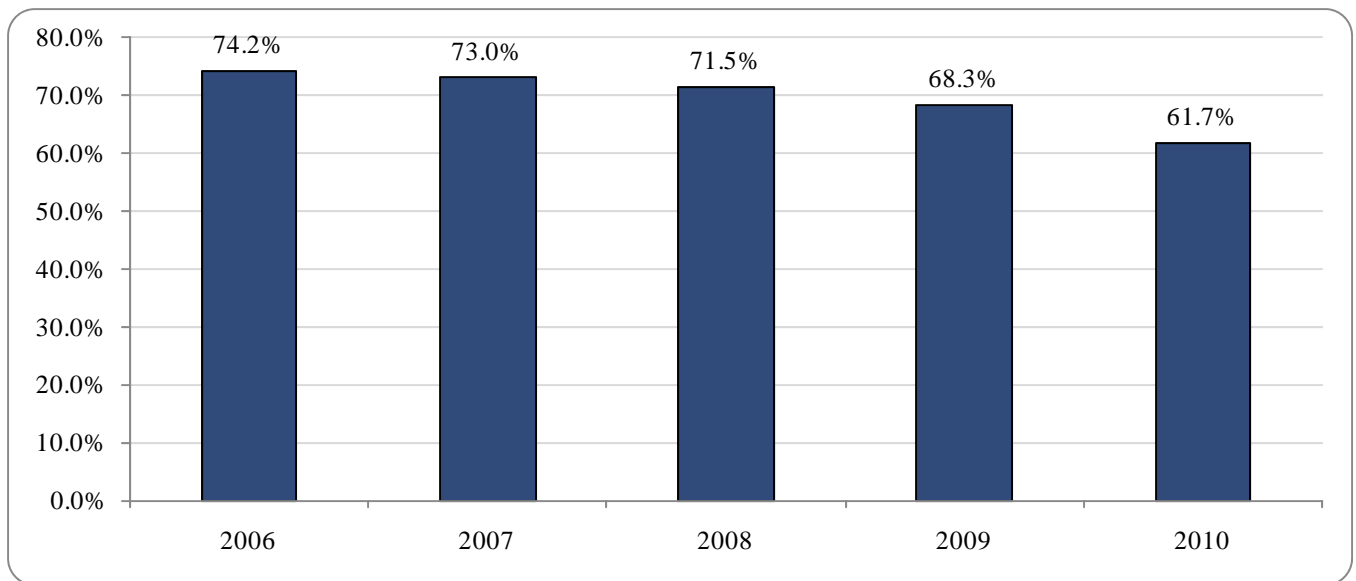
A positive fund balance:

- Contributes to a favorable bond rating
- Produces investment income
- Provides a source of working capital to meet cash flow needs
- Offers a cushion for unexpected expenditures or revenue shortfalls

The Government Finance Officers Association (GFOA) encourages local governments to adopt a policy on the fund balance in the general fund such that the unreserved portion of fund balance is maintained at no less than 5 to 15 percent.³

The State of Minnesota Office of the State Auditor (OSA) recommends that at year-end local governments maintain an unreserved fund balance in their general fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures.⁴

The City’s unreserved fund balance as a percentage of expenditures in the General Fund for the last five years is as follows:



The actual amount of fund balance in the General Fund at the conclusion of the last five years was:

2006	2007	2008	2009	2010
\$ 12,155,461	\$ 12,905,175	\$ 13,399,448	\$ 13,003,740	\$ 12,231,585

³ *Appropriate Level of Unreserved Fund Balance in the General Fund*, GFOA Best Practice, 2009

⁴ *Statement of Position, Fund Balance for Local Governments*, OSA recommended practice, 2010

General Fund Operating Expenditures Per Capita

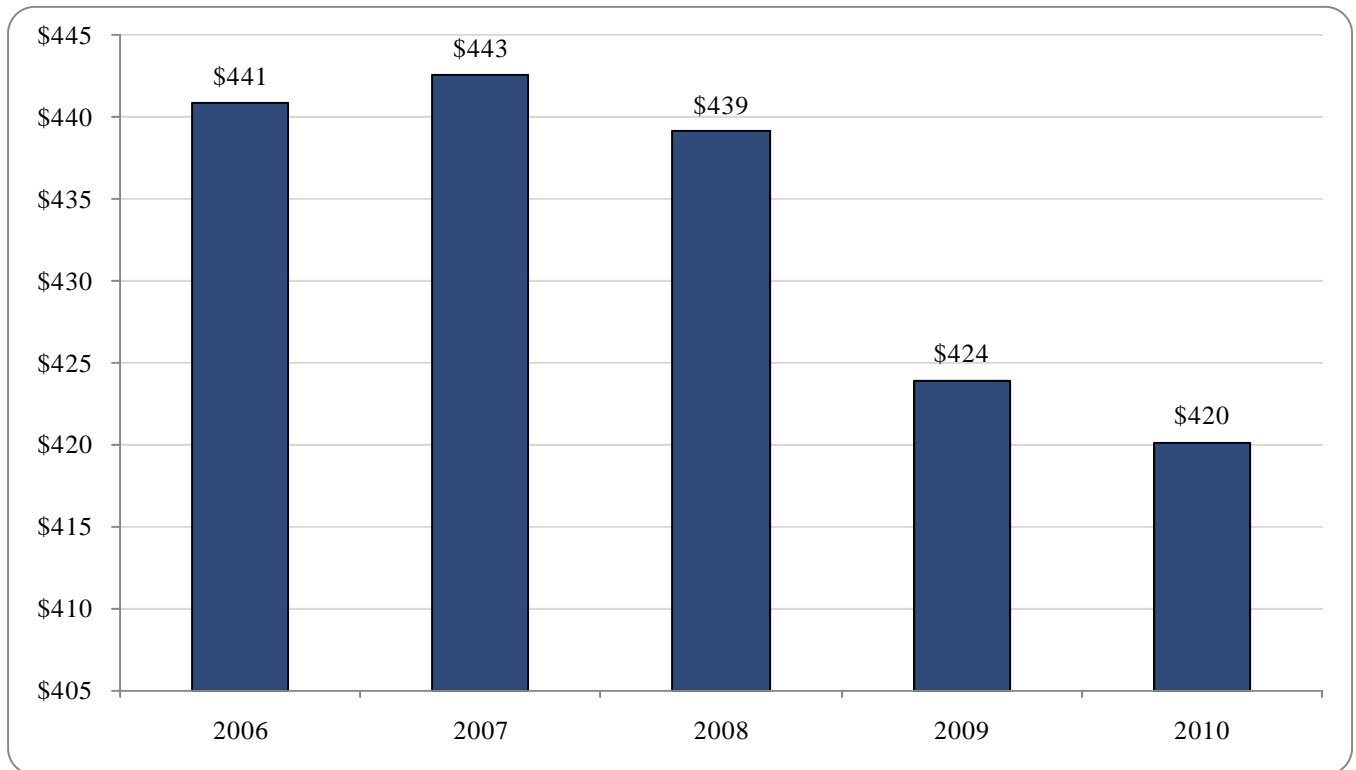
Calculating the operating expenditures of the City's general fund relative to changes in population is a commonly used financial indicator. If the cost of providing services is rising faster than the population, this may be an indicator of inefficiency or decreased productivity. Any calculation should take into account the effects of inflation. Additionally, increased services provided by the local government can affect this ratio.

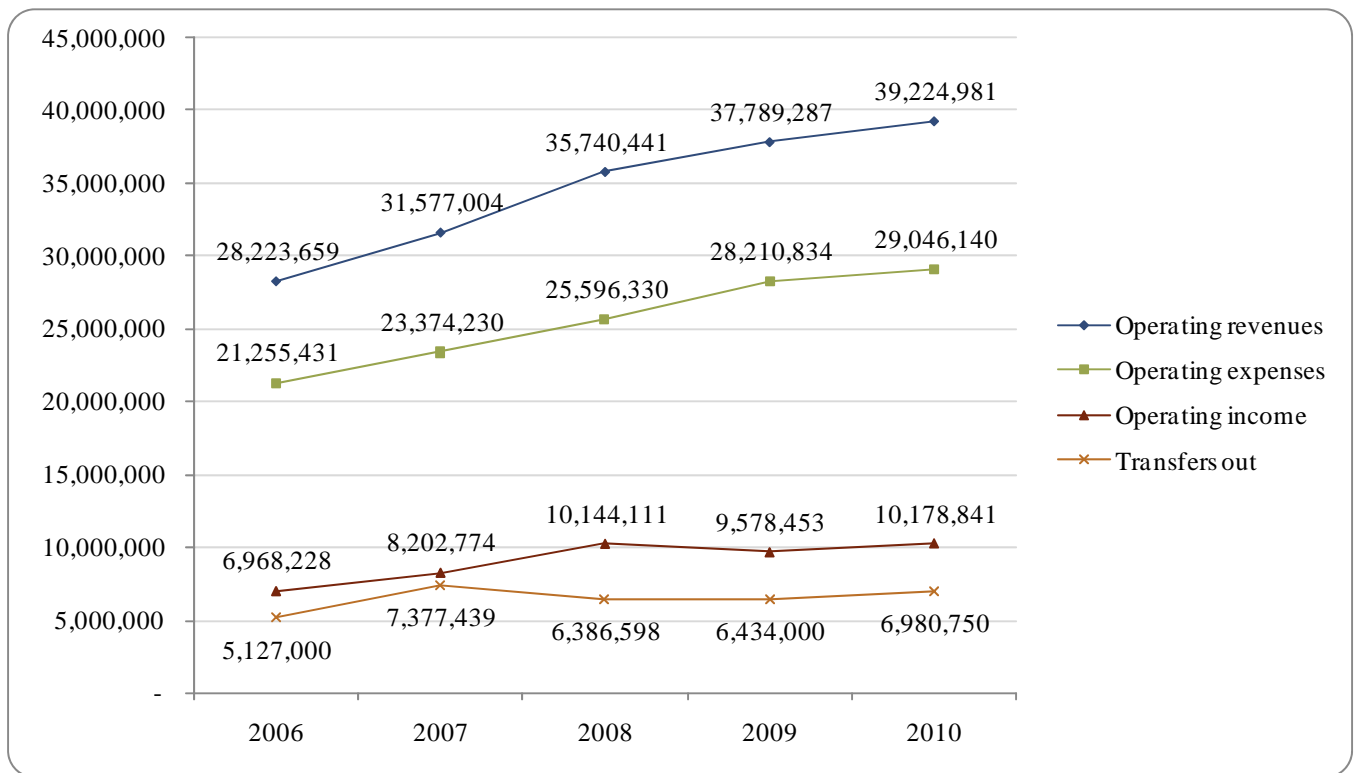
Operating expenditures are used to calculate this ratio because capital expenditures, such as buildings and heavy equipment, can fluctuate tremendously and make trend analysis difficult.

The formula for calculating operating expenditures per capita is:

$$\frac{\text{Operating expenditures (constant dollars)}}{\text{Population}}$$

A warning trend would be increasing operating expenditures per capita that are not explainable by inflation or increased services. The operating expenditures per capita in the general fund, adjusted for inflation, are as follows:





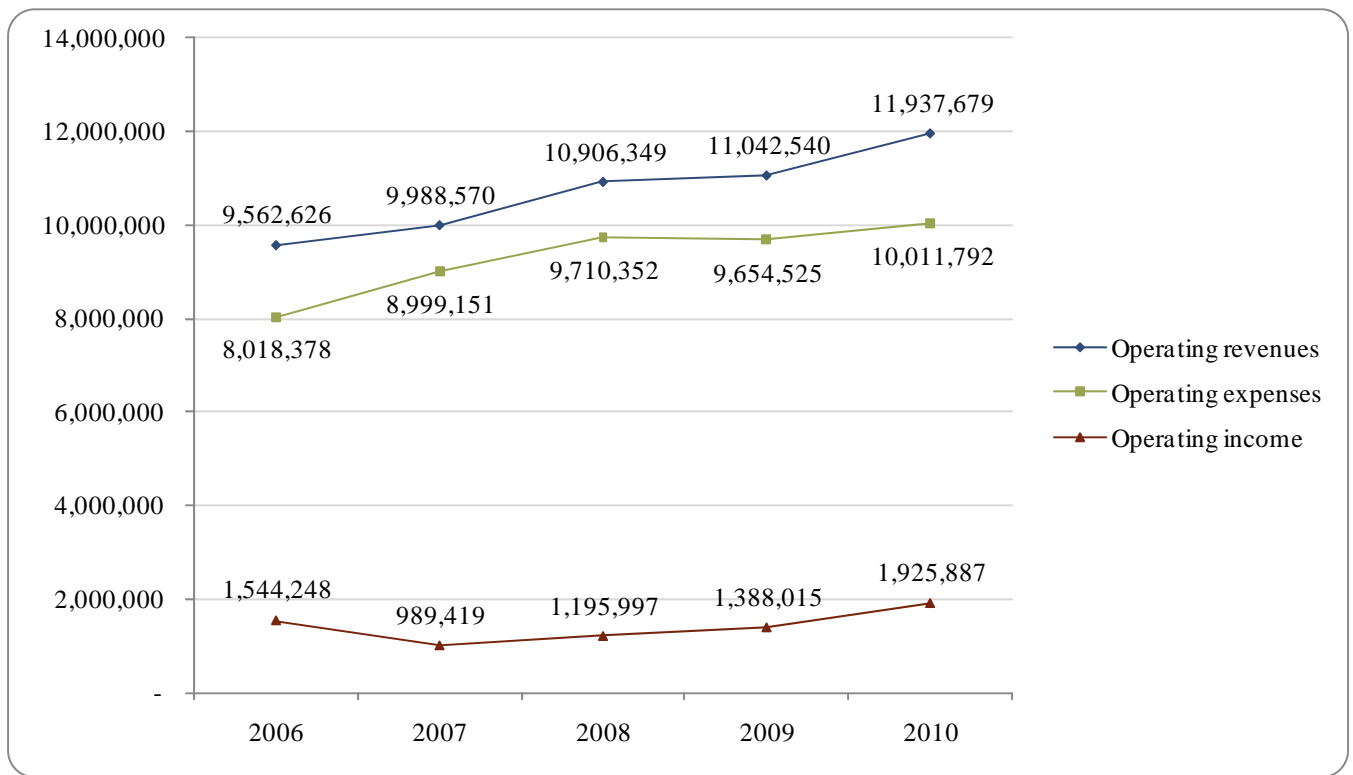
This represents the Electric, Water, and Broadband funds (Broadband Fund ceased operation on 12/31/09).

Operating revenues consist of sales and other miscellaneous charges to customers.

Operating expenses consist of salaries and benefits, purchased power, professional services, insurance, repairs and maintenance, supplies, depreciation, and other miscellaneous expenses.

Operating income is the difference between operating revenues and operating expenses.

Transfers out are the annual appropriations to the City's General Fund, Economic Development Fund, and Capital Improvement Fund, as well as a transfer to the Broadband Fund in 2007.

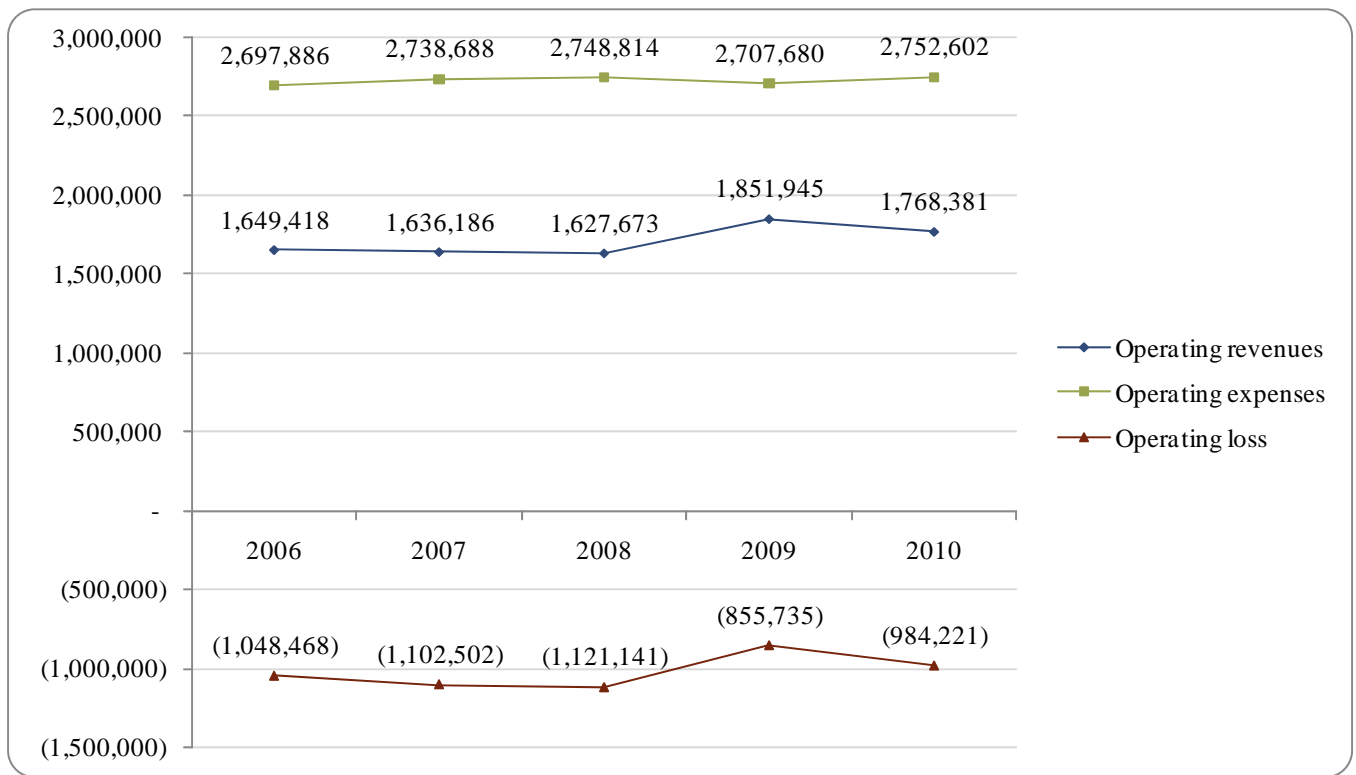


This represents the Wastewater Treatment, Storm Water, Sanitation, Pest Control, and Forestry funds.

Operating revenues consist of sales and other miscellaneous charges to customers.

Operating expenses consist of salaries and benefits, disposal fees, professional services, insurance, repairs and maintenance, supplies, utilities, equipment rental, depreciation, and other miscellaneous expenses.

Operating income is the difference between operating revenues and operating expenses.



This represents the Golf Course, Sports Center, and Municipal Airport funds.

Operating revenues consist of sales and other miscellaneous charges to customers.

Operating expenses consist of salaries and benefits, professional services, insurance, repairs and maintenance, supplies, utilities, equipment rental, depreciation, and other miscellaneous expenses.

Operating loss is the difference between operating revenues and operating expenses.