

MANAGEMENT'S DISCUSSION and ANALYSIS

As management of the City of Jefferson, we offer readers of the City of Jefferson's financial statements this narrative overview and analysis of the financial activities of the **City of Jefferson** for the fiscal year ended **October 31, 2008**. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets of the City of Jefferson exceeded its liabilities as of October 31, 2008 by \$177,987,975 (**net assets**). Of this amount, \$23,147,018 (**unrestricted net assets**) may be used to meet the government's ongoing obligations to citizens and creditors. However, the unrestricted net assets in the **Governmental Activities** of \$15,842,746 include reserves of \$7,940,272 for inventories, encumbrances and capital projects.
- The government's **total net assets** increased by \$8,061,107 of which \$6,858,330 was from a **change in net assets** in the **Governmental Activities** and \$1,202,777 from **Business-Type Activities**. The key factor in this increase was an increase in donated/annexed capital assets of \$6,835,256.
- As of the close of fiscal year 2008, the City of Jefferson's **government funds** reported combined ending **fund balances** of \$16,749,244 - a decrease of \$484,696 in comparison with the prior year. The amount available for spending at the government's discretion is \$8,503,782 since this is the government funds combined unreserved fund balance (General Fund \$4,980,218; Parks \$2,530,680; Capital Improvements \$649,223; and other non-major funds \$343,661.)
- At the end of the current fiscal year, the **unreserved fund balance** for the **general fund** was \$4,980,218, or 17.9% of total general fund expenditures, or 17.3% of total general fund expenditures and transfers out.
- The City of Jefferson's total **debt** increased by \$2,350,773 due to the Sewerage System issuance of \$3,900,000 revenue bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Jefferson's basic financial statements. The City of Jefferson's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Jefferson's finances in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City of Jefferson's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Jefferson is improving or deteriorating.

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, grants receivable, and earned but unused vacation and sick incentive leave).

Both of the government-wide financial statements distinguish functions of the City of Jefferson that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City of Jefferson include general government, public safety, community development, transportation, and cultural and recreation. The business-type activities of the City of Jefferson include Wastewater, Water, Airport, Parking and Transit.

The government-wide financial statements include not only the City of Jefferson itself (known as the primary government), but also a legal separate non-profit organization, Jefferson City Convention and Visitors Bureau for which the City of Jefferson is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The government-wide financial

statements can be found on pages 25-26 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Jefferson, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Jefferson can be divided into three categories: **governmental funds, proprietary funds, and fiduciary funds.**

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in the fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Jefferson maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, parks fund and capital improvement tax fund, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 27-30 of this report.

The City of Jefferson adopts an annual appropriated budget for all of its funds with the exception of the Stone Ridge Transportation Development District funds. A budgetary comparison statement has been provided for all governmental funds to demonstrate compliance with the budget.

Proprietary funds. The City of Jefferson maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Jefferson uses enterprise funds to account for its wastewater, water, airport, parking and transit operations. Information is presented separately in the statement of net assets, proprietary funds, and the statement of revenues, expenses, and changes in net assets, proprietary funds, for the wastewater and transit funds, which are considered to be the major funds. Data from the other three enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report. The other type of proprietary fund is an internal service fund for workers compensation self insurance which is reported separately on the statement of net assets, proprietary funds, and the statement of revenues, expenses, and changes in net assets, proprietary funds. The basic proprietary fund financial statements can be found on pages 31-33 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The firefighter's retirement plan is a fiduciary fund. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Jefferson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 34-35 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-59 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and enterprise funds can be found on pages 65-77 of this report, as well as individual fund statements and schedules.

Government-wide Financial Analysis

As noted earlier, **net assets** may serve over time as a useful indicator of a government's financial position. In the case of the City of Jefferson, **assets exceeded liabilities** by \$177,987,975 which exceeded last year's by \$8,061,107. These increases were due primarily to the **increase in invested in capital assets, net of related debt** of \$10,298,154. The increase of capital assets and the increase of revenues were due primarily to donated/annexed capital assets of \$6,153,007 in the governmental activities and donated capital infrastructure by developers of \$682,249 in the business-type activities. **Long-term liabilities increase** of \$2,889,973 was due primarily to the Wastewater Fund issuance of \$3,900,000 revenue bonds with an offset for the principal payments of \$1,460,000 on prior revenue bonds. However, the bond issuance on October 30 has created an **increase in current assets** since they are included in investments held by others until expenses are reimbursed by the bond construction funds. The Parks Fund net assets increased by \$1,166,636 due mainly to an increase in charges for services and intergovernmental revenue. The Wastewater Fund net assets increased by \$964,422 mainly due to capital contributions of \$877,104 (includes donated capital assets by developers of \$682,249.)

By far the largest portion of the City of Jefferson's net assets (86.2%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Jefferson uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Jefferson's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Jefferson's Net Assets

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$26,470,596	\$26,546,543	\$38,843,049	\$37,764,681	\$65,313,645	\$64,311,224
Capital assets	109,007,352	101,182,622	77,943,294	76,512,809	186,950,646	177,695,431
Total assets	135,477,948	127,729,165	116,786,343	114,277,490	252,264,291	242,006,655
Long-term liabilities	2,607,554	2,209,823	62,592,867	60,100,625	65,200,421	62,310,448
Other liabilities	7,746,991	7,254,269	1,328,904	2,515,070	9,075,895	9,769,339
Total liabilities	10,354,545	9,464,092	63,921,771	62,615,695	74,276,316	72,079,787
Net assets:						
Invested in capital assets, net of related debt	109,007,352	101,182,622	44,497,159	42,023,735	153,504,511	143,206,357
Restricted	273,305	274,269	1,063,141	944,902	1,336,446	1,219,171
Unrestricted	15,842,746	16,808,182	7,304,272	8,693,158	23,147,018	25,501,340
Total net assets	\$125,123,403	\$118,265,073	\$52,864,572	\$51,661,795	\$177,987,975	\$169,926,868

An additional portion of the City of Jefferson's net assets (.75%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$23,147,018) may be used to meet the government's ongoing obligations to citizens and creditors. However, the unrestricted net assets in the governmental activities include reserves of \$7,940,272 for inventories, encumbrances and capital projects.

There was an increase of \$117,275 in total restricted net assets. A decrease in the governmental activities of \$964 was due solely to a sober driver expenses exceeding donations for the fiscal year by \$8,389, and there was an increase in the business-type activities of \$118,239 related to Wastewater bond and replacement requirements.

