

CITY OF CENTRAL, LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our analysis of the City of Central's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities and currently known facts, and should be read in conjunction with the financial statements which begin on Exhibit A.

FINANCIAL HIGHLIGHTS

In 2015, the City of Central experienced an increase in revenues of 9% compared to the prior year while expenditures decreased 15% from the prior year. The City has a contract with a private organization to provide administrative, financial, public works, code enforcement, permitting, and inspection services. In 2015, the cost of this contract was \$3.3 million, which represents 70% of total expenditures. Additionally, the City received sales tax of \$7.5 million. Throughout this period, the City has focused on maintaining a logical and thoughtful alignment of City resources to community needs.

The major financial highlights for 2015 are as follows:

- Assets of the City's primary government exceeded its liabilities at the end of the year by \$29.3 million (net position). Net position includes \$21.2 million that may be used without restriction to meet the City's ongoing obligations to citizens and creditors.
- The primary government's total net position increased by \$5.6 million during 2015 an increase of \$1.8 million in comparison to the prior year.
- At year end, the City's governmental funds reported fund balances of \$28.1 million, an increase of \$5.6 million in comparison to the prior year, with restrictions or commitments as follows:
 - a) Capital projects - \$6.6 million
 - b) Operational reserves - \$1.5 million
 - c) Emergency repairs and maintenance - \$2.9 million
 - d) Drainage repairs and maintenance - \$2.9 million
 - e) Road maintenance - \$2.5 million

Significant aspects of the City's financial well being, as of and for the year ended June 30, 2015, are detailed throughout this analysis.

USING THIS ANNUAL REPORT

The City's financial statements focus on the government as a whole (government-wide) and on major individual funds. Both perspectives (government-wide and major funds) allow the reader to address relevant questions, broaden a basis for comparison from year to year and should enhance the City's accountability.

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) provide information about the activities of the City as a whole.

Fund financial statements start on page 15. For governmental activities, these statements depict how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The City's auditors have provided assurance in their independent auditors' report, located immediately preceding this MD&A, that the financial statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each part of this report.

Reporting on the City as a Whole

The financial statements of the City as a whole begin on page 13. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way to determine if the City is in better condition as a result of the year's financial results. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting methods used by most private-sector companies. All of the revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

These two statements report the City's net position and related changes. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of its financial health. You will need to consider other non-financial factors, such as changes in the City's sales tax base, to assess the overall health of the City.

The Statement of Net Position and the Statement of Activities consist of governmental activities.

Governmental activities - The City's basic services are reported here, including public safety, public works, health and welfare, and general administration. Sales taxes and franchise fees finance the majority of these activities.

At June 30, 2015, the City's net position was \$29.3 million, of which \$21.2 million is unrestricted. Restricted net position is normally reported separately to show legal constraints from debt covenants and enabling legislation that limits the City's ability to use that net position for day-to-day operations.

Our analysis below of the primary government focuses on the net position and change in net position of the City's governmental activities.

City of Central, Louisiana
Statement of Net Position
June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Current and other assets	\$ 28,485,421	\$ 23,020,360
Capital assets	1,497,214	1,393,279
Total assets	29,982,635	24,413,639
Deferred outflow of resources		
Deferred outflows related to pension liability	12,461	-
Total assets and deferred outflows of resources	\$ 29,995,096	\$ 24,413,639
Current and other liabilities	\$ 590,005	\$ 572,546
Long-term payables	90,271	15,775
Total liabilities	680,276	588,321
Net position:		
Invested in capital assets	1,497,214	1,393,279
Restricted	6,645,461	5,514,283
Unrestricted	21,172,145	16,917,756
Total net position	29,314,820	23,825,318
Total liabilities and net position	\$ 29,995,096	\$ 24,413,639

Net position of the City's governmental activities increased by \$5.6 million during the year ended June 30, 2015. Unrestricted net position increased by \$4.3 million. Unrestricted net position represents the amount of the net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements and may be used at the City's discretion. The changes in net position are discussed later in this analysis.

The results of the past two years' operations for the primary government as a whole, as reported in the Statement of Activities, are as follows:

City of Central, Louisiana
Changes in Net Position
For the years June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 1,081,612	\$ 1,041,663
Operating grants and contributions	6,906	41,905
Capital grants and contributions	53,468	-
General revenues:		
Sales and use taxes	7,447,657	6,718,491
Franchise taxes	1,705,508	1,641,615
Investment earnings	134,190	94,215
Total revenues	<u>10,429,341</u>	<u>9,537,889</u>
Functions/Program expenses:		
General government	533,029	600,145
Health and welfare	114,440	114,440
Public works	3,802,747	3,827,454
Highways and streets	132,047	908,779
Public safety	260,285	298,302
Total expenses	<u>4,842,548</u>	<u>5,749,120</u>
Increase in net position	5,586,793	3,788,769
Beginning net position, as restated	<u>23,728,027</u>	<u>20,036,549</u>
Ending net position	<u>\$ 29,314,820</u>	<u>\$ 23,825,318</u>

The increase in net position of \$5.6 million is primarily attributed to increases in revenues generated by charges for services, sales tax, and decreases in public works and highways and street expenditures.

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. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than generic fund types.

Reporting the City's Most Significant Funds

The City's major funds begin on page 15 with the fund financial statements that provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law, and the City Council establishes other funds to control and manage financial resources for particular purposes or to meet legal responsibilities for using certain taxes, grants and other assets.

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 balances of spendable resources available at the end of the fiscal year. All of the City's basic services are reported in governmental funds. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation to the financial statements. The governmental major funds (Exhibits A-2 and A-4) presentation uses the modified accrual basis and focuses on the major funds of the City. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The City has four governmental funds, which are the General Fund, Emergency Services, Drainage, and Local Road Improvement & Maintenance Fund (ESDRIM Fund), Half Cent Sales Tax and Traffic Contribution special revenue funds.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-6.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning original and final budgetary comparisons to actual results for the year for the City's major funds and can be found in Exhibits B through B-4.

Financial Analysis of the General Fund

The general government operations of the City are accounted for in the General Fund and special revenue funds. The focus of these funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. The following is a summary of general governmental operations for 2015 by fund type:

	(in thousands)			
	2015		2014	
	General Fund	Special Revenue Funds	Total	Total
Revenues	\$ 7,506	\$ 3,057	\$ 10,563	\$ 9,627
Expenditures	4,702	240	4,942	5,761
Net change in fund balance	2,804	2,817	5,621	3,866
Beginning fund balance	10,191	12,289	22,480	18,614
Ending fund balance	<u>\$ 12,995</u>	<u>\$ 15,106</u>	<u>\$ 28,101</u>	<u>\$ 22,480</u>

The City's governmental funds experienced a surplus of \$5.6 million during 2015. At year end, fund balances were \$28.1 million, of which \$11.5 million is unassigned and available for utilization at the City's discretion. The remaining fund balance has been restricted for capital projects (\$6.6 million), or committed (\$9.8 million) and assigned (\$181,000) where internal constraints have been established by the City. At June 30, 2015, the fund balance of the General Fund was \$13 million compared to the fund balance of \$10.2 million at June 30, 2014. The increase in fund balance was primarily related to an increase in sales tax revenue and a decrease in expenses related to highway and streets projects.

The City's other major funds are the ESDRIM, Half Cent Sales Tax and Traffic Contribution special revenue funds. The following is a summary of changes in fund balance by special revenue fund:

Fund	(in thousands)		
	Beginning Fund Balance	Net Change in Fund Balance	Ending Fund Balance
ESDRIM	\$ 6,601	\$ 1,679	\$ 8,280
Half Cent Sales Tax	5,514	1,131	6,645
Traffic Contributions	174	7	181
Total	<u>\$ 12,289</u>	<u>\$ 2,817</u>	<u>\$ 15,106</u>

Sources of governmental revenues, excluding transfers, are summarized below:

<u>Source of Revenue</u>	(in thousands)			
	2015		2014	
	Revenue	%	Revenue	%
Sales and use taxes	\$ 7,518	72	\$ 6,869	71
Franchise taxes	1,802	17	1,545	16
Charges for services	1,090	9	1,019	10
Intergovernmental	12	1	100	1
Investment and other income	141	1	94	2
Total	<u>\$ 10,563</u>	<u>100</u>	<u>\$ 9,627</u>	<u>100</u>

Revenues of the governmental funds increased by \$936,000. This increase is directly attributable to an increase in sales and use taxes, franchise taxes, charges for services and investment income, although intergovernmental revenues decreased during 2015.

Governmental expenditures are summarized as follows:

<u>Function</u>	(in thousands)			
	2015		2014	
	Expenditure	%	Expenditure	%
General government	\$ 549	11	\$ 584	10
Health and welfare	114	2	114	2
Public works	3,803	77	3,828	66
Highways and streets	41	1	834	14
Public safety	217	4	246	4
Capital outlay	218	5	155	4
Total	<u>\$ 4,942</u>	<u>100</u>	<u>\$ 5,761</u>	<u>100</u>

Governmental expenditures decreased by \$820,000 or 14%. This decrease is related to the decrease in highways and street maintenance.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year the City's General Fund operating budget was amended, which is a customary practice of the City, to reflect the changes that occur with financial related matters throughout the fiscal year. The most significant changes during 2015 were as follows:

- Increases in sales and use tax revenue by \$600,000 and charges for services by \$40,000, and
- Decrease in operating grants by \$2.3 million, and
- Decrease in public works and public safety by \$81,000 and \$79,000, respectively.

With these adjustments, the charges to appropriations (expenditures) were \$129,000 less than the related final budget appropriations of \$4.8 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the completion of the fiscal year ended June 30, 2015, the City had \$1.5 million invested in capital assets, net of accumulated depreciation of \$716,000, which was comprised of construction in progress, leasehold improvements, equipment, vehicles, and infrastructure.

	2015	2014
Construction in progress	\$ 75,617	\$ 75,617
Leasehold improvements	11,192	21,444
Equipment	65,217	78,745
Vehicles	45,670	28,473
Infrastructure	1,299,518	1,189,000
Total assets, net of accumulated depreciation	<u>\$ 1,497,214</u>	<u>\$ 1,393,279</u>

The City elected to capitalize infrastructure assets, such as roads and bridges, on a prospective basis as a Phase 3 government, in accordance with GASB No. 34. As of June 30, 2015, the City has constructed \$1,611,115 of infrastructure since inception. More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Debt

As of June 30, 2015, accrued compensated absences comprise the City's long-term debt, as follows:

	Beginning of Year	Additions	Deletions	End of Year
Net pension obligation	\$ 108,160	\$ 7,525	\$ 26,039	\$ 89,646
Accrued compensated absences	<u>17,775</u>	<u>3,333</u>	<u>20,483</u>	<u>625</u>
Total long-term debt	<u>\$ 125,935</u>	<u>\$ 10,858</u>	<u>\$ 46,522</u>	<u>\$ 90,271</u>

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials considered many factors when setting the fiscal year 2016 budget and tax rates, including the national, state, and local economies. The General Fund's revenue is budgeted to increase by 34% to \$10.1 million for the 2015-2016 fiscal year while expenditures are expected to increase to \$5.4 million. Intergovernmental revenues are expected to increase \$2.5 million during the 2015-2016 fiscal year. Additionally, judicial expenditures are expected to increase \$100,000 in the 2015-2016 fiscal year. Highway and streets expenditures in the Half Cent Sales Tax Fund are expected to decrease \$50,000 due to completion of the ongoing rehabilitation and construction projects. The administration of the City has made it a priority to complete the development and design of the Master Plan for the City of Central to provide the framework for the future growth and land use for the City.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Office at (225) 261-5988, www.centralgov.com or 13421 Hooper Road, Suite 9, Central, Louisiana, 70818.