

Management's Discussion and Analysis

As management of the City of Dogwood, we offer readers of the City of Dogwood's financial statements this narrative overview and analysis of the financial activities of the City of Dogwood for the fiscal year ended June 30, 2004. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

1.A

- The assets of the City of Dogwood exceeded its liabilities at the close of the fiscal year by \$10,614,397 (*net assets*).
- The government's total net assets increased by \$1,032,798, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Dogwood's governmental funds reported combined ending fund balances of \$545,682 an increase of \$110,145 in comparison with the prior year. Approximately 73.95 percent of this total amount, or \$403,558 is available for spending at the government's discretion (*unreserved fund balance*).

3.C

- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$389,158, or 22.3 percent of total general fund expenditures for the fiscal year.
- The City of Dogwood's total debt increase by \$479,914 (25.71%) during the current fiscal year. The key factor in this increase was the issuance of bond anticipation notes of \$675,000 for Water and Sewer improvements and \$200,000 in certificates of participation for parking improvements at Municipal Park.
- The City of Dogwood maintained its AAA bond rating for the 10th consecutive year.

3.C ÷ (4.B + 4.C [as a positive number] - 4.D)

2.Q

3.A or 4.E

3.B divided by 3.A

Note to preparer: Continue to list any other significant financial highlights here.

This data should come from the debt note in the financial report. The % is the change amount divided by the beginning debt figure.

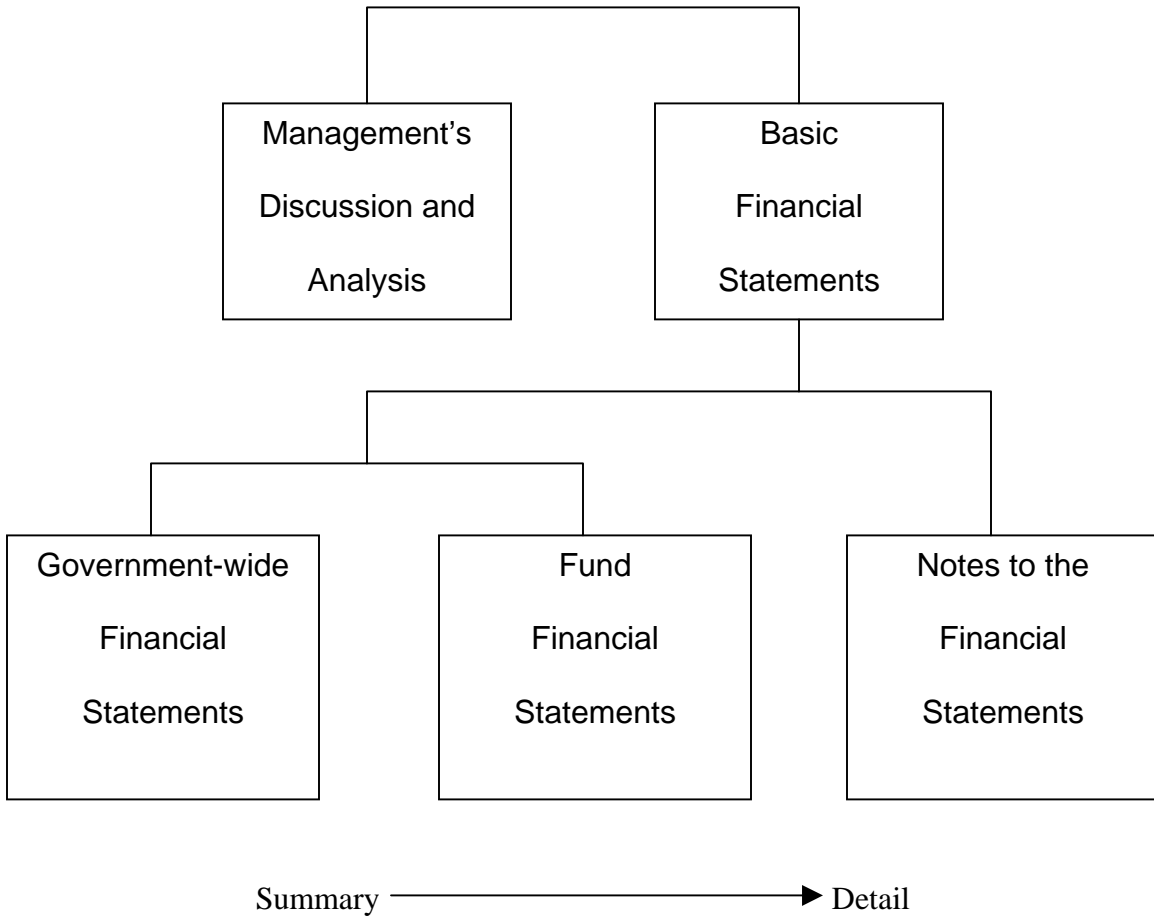
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Dogwood's basic financial statements. The City's basic financial statements consist of

three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Dogwood.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

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The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and electric services offered by the City of Dogwood. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City because the City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. 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 Dogwood, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance.

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All of the funds of City of Dogwood can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City’s programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Dogwood adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – City of Dogwood has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Dogwood uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of City of Dogwood. The City uses an internal service fund to account for one activity – its central garage operations. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

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 on page 35-I-39 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Dogwood's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 35-I-68 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2004 are the beginning of a new era in financial reporting for the City of Dogwood, and many other units of government across the United States. Prior to this year, the City of Dogwood maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Dogwood. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Dogwood's financial reports as well as those of many other units of government. While the City of Dogwood was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002 or 2003.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

The City of Dogwood's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 793,968	\$ 755,340	\$ 2,445,856	\$ 2,535,436	\$ 3,239,824	\$ 3,290,776
Capital assets	3,321,437	2,724,701	8,906,631	7,850,023	12,228,068	10,574,724
Total assets	4,115,405	3,480,041	11,352,487	10,385,459	15,467,892	13,865,500
Long-term liabilities outstanding	498,719	238,295	3,755,586	3,179,716	4,254,305	3,418,011
Other liabilities	145,631	130,754	453,559	735,136	599,190	865,890
Total liabilities	644,350	369,049	4,209,145	3,914,852	4,853,495	4,283,901
Net assets:						
Invested in capital assets, net of related debt	3,050,460	2,647,349	6,898,270	4,541,198	9,948,730	7,188,547
Restricted	44,555	25,351	-	-	44,555	25,351
Unrestricted	376,040	438,292	245,072	1,929,409	621,112	2,367,701
Total net assets	\$ 3,471,055	\$ 3,110,992	\$ 7,143,342	\$ 6,470,607	\$ 10,614,397	\$ 9,581,599

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Dogwood exceeded liabilities by

\$10,614,397 as of June 30, 2004. The City's net assets increased by \$1,032,798 for the

fiscal year ended June 30, 2004. However, the largest portion (93.73%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less

any related debt still outstanding that was issued to acquire those items. The City of

Dogwood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Dogwood's investment

in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used

to liquidate these liabilities. An additional portion of the City of Dogwood's net assets

(0.42%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$621,112 (5.85%) is unrestricted.

1.A

2.Q

1.B ÷ 1.A

1.C ÷ 1.A

1.D

1.D ÷ 1.A

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Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

Note to preparer - List here anything you wish to highlight – fee revenue or tax revenue increases due to annexation and/or economic growth, reductions in spending, savings from debt refundings, new operating grants received, etc. The following is an example based on the City of Dogwood.

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.54%, which is comparable to the statewide average of 97.03% [*State-wide figure comes from our annual Cash and Taxes Memorandum*]
- Increased sales tax revenues of approximately \$75,000 due to economic growth in the City
- Continued low cost of debt due to the City's high bond rating

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City of Dogwood Changes in Net Assets
 Figure 3

	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	40,333	\$ 3,938,199	\$ 3,978,532
Operating grants and contributions	228,344	24,254	252,598
Capital grants and contributions	293,402	127,948	421,350
General revenues:			
Property taxes	829,767	-	829,767
Other taxes	800,804	-	800,804
Grants and contributions not restricted to specific programs	702,269	-	702,269
Other	41,687	39,350	81,037
Total revenues	2,936,606	4,129,751	7,066,357
Expenses:			
General government	175,844	-	175,844
Public safety	1,383,526	-	1,383,526
Highways/streets	476,935	-	476,935
Sanitation	90,620	-	90,620
Economic development	275,748	-	275,748
Culture and recreation	81,918	-	81,918
Interest on long-term debt	5,365	-	5,365
Water and sewer	-	727,334	727,334
Electric	-	2,816,269	2,816,269
Total expenses	2,489,956	3,543,603	6,033,559
Increase in net assets before transfers	446,650	586,148	1,032,798
Transfers	(86,587)	86,587	-
Increase in net assets (computed)	360,063	672,735	1,032,798
Net assets, July 1	3,110,992	6,470,607	9,581,599
Net assets, June 30	\$ 3,471,055	\$ 7,143,342	\$ 10,614,397

Ending Net Assets should match Exhibit 1 of the Statements and Figure 1 that appears earlier in this document.

2.R÷2.Q

Governmental activities. Governmental activities increased the City's net assets by \$360,063, thereby accounting for 34.9% of the total growth in the net assets of the City of Dogwood. Key elements of this increase are as follows:

2.R

Note to preparer - List here anything you wish to highlight with regards to governmental activities as a factor in increasing your net assets. The following is an example based on the City of Dogwood.

- Grant revenues in the cultural and recreational area and in the economic development area were used to construct capital assets.
- Tax revenues remained steady

2.S

2.S÷2.Q

Business-type activities: Business-type activities increased the City of Dogwood's net assets by \$672,735, accounting for 65.1% of the total growth in the government's net assets. Key elements of this increase are as follows:

Note to preparer - List here anything you wish to highlight with regards to business-type activities as reasons for increases in net assets.

Financial Analysis of the City's Funds

As noted earlier, the City of Dogwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Dogwood's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Dogwood's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

3.C

3.D

The general fund is the chief operating fund of the City of Dogwood. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$389,158, while total fund balance reached \$491,811. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.3 percent of total General Fund expenditures.

$3.C \div (4.B + 4.C)$ [as a positive number]-
4.D)

4.E

At June 30, 2004, the governmental funds of City of Dogwood reported a combined fund balance of \$545,682, a 25.3 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

The percentage change is the amount of the change this year divided by the beginning fund balance.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Note to preparer - Insert here a brief discussion here about differences between budgeted and actual numbers and why this occurs. The following is an example based on City of Dogwood.

Revenues were less than the budgeted amounts primarily because some grant funds that the City originally had expected to receive became unavailable. However, expenditures were held in check to compensate for the lack of funding and the City was able to comply with its budgetary requirements.

Proprietary Funds. The City of Dogwood's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer District at the end of the fiscal year amounted to \$203,779, and those for the Electric Fund amounted to \$40,989. The total growth in net assets for both funds was \$660,479 and \$11,952 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Dogwood's business-type activities.

6.B

6.A

7.B

7.A

Capital Asset and Debt Administration

Capital assets. The City of Dogwood's investment in capital assets for its governmental and business-type activities as of June 30, 2004, totals \$12,228,068 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

1.M

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

Note to preparer - List major activities, including demolitions. The following is an example based on the City of Dogwood.

- Construction in progress for water and sewer capital assets of \$1,147,613.
- Construction in progress of \$590,000 in governmental-type activities for park improvement projects and new parking facilities at Municipal Park.
- No major demolitions were recorded this year.

City of Dogwood's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities		Business-type Activities		Total
	2004		2004		2004
Land	\$	176,767	\$	615,900	\$ 792,667
Buildings and system improvements other than buildings		599,736		4,936,190	5,535,926
Machinery and equipment		163,034		-	163,034
Infrastructure		200,882		724,668	925,550
Vehicles and motorized equipment		1,401,959		-	1,401,959
Construction in progress		86,059		177,824	263,883
		693,000		2,452,049	3,145,049
Total	\$	3,321,437	\$	8,906,631	\$ 12,228,068

This data comes from the capital asset note as it appears in the notes to the audited financial statements.

Additional information on the City's capital assets can be found in note IV.A. 5 and 6 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2004, the City of Dogwood had total bonded debt outstanding of \$3,666,486. Of this, \$2,759,563 is debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

**City of Dogwood's Outstanding Debt
 General Obligation and Revenue Bonds**

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 60,000	\$ 70,000	\$ 2,024,563	\$ 344,723	\$ 2,084,563	\$ 414,723
Revenue bonds	-	-	906,923	921,923	\$ 906,923	\$ 921,923
Total	\$ 60,000	\$ 70,000	\$ 2,931,486	\$ 1,266,646	\$ 2,991,486	\$ 1,336,646

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The City of Dogwood's total debt increased by \$479,914 (25.71%) during the past fiscal year, primarily due to the \$675,000 bond anticipation notes issued for water and sewer improvements. The government also issued \$200,000 in installment purchase financing to construct parking facilities for Municipal Park.

The debt information comes from the debt note as it appears in the audited financial statements.

As mentioned in the financial highlights section of this document, the City of Dogwood maintained for the 10th consecutive year, its Aaa bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation and FitchRatings. This bond rating is a clear indication of the sound financial condition of City of Dogwood. The City of Dogwood is one of the few counties in the country that maintains the highest financial rating from both major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Dogwood is \$10,484,099. The City has \$1,000,000 in bonds authorized but un-issued at June 30, 2004.

Units required to submit secondary market disclosure should have this figure calculated as part of that disclosure.

During the past fiscal year, the City refinanced some of its existing debt to take advantage of historically low interest rates. On July 1, 2001, the City refunded \$1,000,000 of Water and Sewer debt with a \$1.2 million general obligation issue. Total debt payments will be reduced by \$188,000. See note B.6.e for more information.

Additional information regarding the City of Dogwood's long-term debt can be found in note III-B-6 beginning on page 35-I-56 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

Note to preparer - List items such as number of new jobs created in unit, number of occupied square feet of business property, unemployment rate and how it compares to state average, total retail sales for the unit for the year, etc. The following is an example based on the City of Dogwood.

- Low unemployment. The City of Dogwood unemployment rate of 3.9% is well below the State average of 5.9%.
- New manufacturing jobs. The City added approximately 4,000 new jobs last year in the manufacturing sector with the opening of the Doohickey Factory.
- Occupancy rates on office and retail space. The City's occupancy rates are about 90% for the year, which is an increase from last year and higher than the area average of 85%.

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue by 2.0 percent. The City will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise 10% to \$1,677,288. The largest increments are in employee compensation, including funding compensation and benefits adjustments.

Note to preparer - Add here any other discussion about the General Fund budget for the new fiscal year that you wish to highlight.

Business – type Activities: The water and sewer rates in the City will increase by 5%, primarily to cover increased costs of operations. General operating expenses will increase by 2% to cover increased personnel costs, and 2.5% to cover increased costs of material, supplies, and other operating expenses. Rates for electricity will increase by an average of 4% to cover an equal increase in operating costs there, primarily in personnel costs and equipment maintenance expense.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Dogwood, 789 Government Drive, Dogwood, NC 00000.