

CITY OF NEOSHO, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2006

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neosho, Missouri, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Neosho, Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neosho, Missouri, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

Management's Discussion and Analysis, budgetary comparison information, and the schedule of funding progress are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis, Lynn & Moots, P.C.

DAVIS, LYNN & MOOTS, P.C.
April 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS CITY OF NEOSHO, MISSOURI

The management's discussion and analysis of the City of Neosho's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 14.

Financial Highlights

- The net assets of the City's governmental activities increased by \$1,016,514 or 7.4% for the year as a result of current year activities. The net assets of the City's business activities decreased by \$665,566 for the year.
- The assets of the City exceeded its liabilities as of September 30, 2006, by \$22.4 million (net assets). Of this amount \$2.6 million was unrestricted and may be used to meet future obligations of the City.
- Total liabilities of the City decreased by \$78,120.
- In March 2006, the City refinanced three bond issues by issuing the 2006 A & B Certificates of Participation. These certificates affected all activities of the City, but primarily affected the Golf Course business-type activity. The total amount of the issue was \$6.49 million.
- In August, 2006, voters approved a four percent Hotel/Motel tax, the proceeds of which will be dedicated to promoting tourism in Neosho and the surrounding area. The tax will begin in November, 2006. Estimated receipts in the first year are in excess of \$55,000.
- Sales tax collections for fiscal year 2006 experienced a 9.1% gain over fiscal year 2005.
- Franchise fee collections for fiscal year 2006 experienced an 8.4% gain over fiscal year 2005.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF NEOSHO, MISSOURI

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net assets and changes in them. The City's net assets – the difference between assets and liabilities – is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here. Taxes are the primary source of financing for these activities.
- **Business-Type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer and golf services are provided here.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds and not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes and grants.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds are shown in a reconciliation following the fund financial statement.
- **Proprietary Funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Internal Service Fund is used to account for charges made to other units of government for health insurance premiums.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI**

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

NET ASSETS

The following table presents the condensed Statement of Net Assets for the City as of September 30, 2006, and 2005:

	Governmental Activities	Business-Type Activities	Total September 30, 2006	Total September 30, 2005
Current and other assets	\$ 3,536,444	\$ 2,123,949	\$ 5,660,393	\$ 5,487,200
Capital assets	16,728,819	10,083,871	26,812,690	24,417,026
TOTAL ASSETS	20,265,263	12,207,820	32,473,083	29,904,226
Long-term liabilities outstanding	4,530,260	4,104,460	8,634,720	8,325,790
Other liabilities	906,004	520,873	1,426,877	1,813,927
TOTAL LIABILITIES	5,436,264	4,625,333	10,061,597	10,139,717
Net assets:				
Invested in capital assets				
net of related debt	12,359,738	5,873,756	18,233,494	16,035,658
Restricted	835,853	786,330	1,622,183	1,441,607
Unrestricted	1,633,408	922,401	2,555,809	2,287,244
TOTAL NET ASSETS	<u>\$ 14,828,999</u>	<u>\$ 7,582,487</u>	<u>\$ 22,411,486</u>	<u>\$ 19,764,509</u>

Total net assets of the City increased by \$350,948 for the year due to current year activity. Total liabilities for the City have decreased by \$78,120.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI**

CHANGE IN NET ASSETS

	Governmental Activities	Business-Type Activities	Total Year Ended September 30, 2006	Total Year Ended September 30, 2005
REVENUES				
Program Revenues				
Charges for services	\$ 897,097	\$ 3,171,295	\$ 4,068,392	\$ 4,077,440
Operating grants and contributions	128,786	-	128,786	120,485
Capital grants and contributions	486,329	-	486,329	1,453,268
General Revenues				
Sales taxes	4,493,979	-	4,493,979	4,116,277
Motor vehicle and gas taxes	432,095	-	432,095	438,500
Other taxes	142,187	-	142,187	144,391
Franchise fees	572,244	-	572,244	527,658
Interest	111,971	83,135	195,106	99,257
Other revenue	142,646	29,712	172,358	129,561
Transfers	170,342	(170,342)	-	-
TOTAL REVENUES	7,577,676	3,113,800	10,691,476	11,106,837
EXPENSES				
General government	985,767	-	985,767	710,675
Police	1,368,308	-	1,368,308	1,472,369
Fire	1,487,992	-	1,487,992	1,498,441
Street	807,523	-	807,523	1,042,447
Drainage	53,547	-	53,547	8,800
Recreation	412,211	-	412,211	404,151
Parks	374,214	-	374,214	229,907
Economic development	651,019	-	651,019	502,784
Airport	420,581	-	420,581	801,907
Water and sewer	-	3,016,905	3,016,905	2,886,318
Golf	-	762,461	762,461	832,100
TOTAL EXPENSES	6,561,162	3,779,366	10,340,528	10,389,899
INCREASE (DECREASE) IN NET ASSETS	\$ 1,016,514	\$ (665,566)	\$ 350,948	\$ 716,938

**MANAGEMENT’S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI**

Governmental Activities

Governmental activities increased the net assets of the City by \$1,016,514. Tax revenues for the City were \$5.6 million, which represents 74% of the financing of these activities. Program revenues for the functions totaled \$1.5 million. The following table shows the cost of the City’s programs as well as each programs net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

NET COST OF THE CITY OF NEOSHO’S GOVERNMENTAL ACTIVITIES

	Total Cost of Services	Net Cost of Services
General Government	\$ 985,767	\$ 842,955
Police	1,368,308	1,024,336
Fire	1,487,992	1,340,854
Street	807,523	597,080
Drainage	53,547	53,547
Recreation	412,211	210,122
Parks	374,214	145,447
Economic Development	651,019	579,560
Airport	420,581	255,049
	<u>\$ 6,561,162</u>	<u>\$ 5,048,950</u>

Business-Type Activities

Business-type activities decreased the City’s net assets by \$665,566. This is up from the decrease received last year from the City’s business-type activities. The decrease incurred in the prior year was \$267,403.

Financial Analysis of the City’s Funds

The combined fund balances of the City’s governmental funds as of September 30, 2006, was \$2.8 million. The General Fund increased by \$347,150. The Economic Development Fund increased by \$128,601. The Street Fund decreased by \$155,019. The 2006 COP Fund increased by \$2,337.

MANAGEMENT'S DISCUSSION AND ANALYSIS CITY OF NEOSHO, MISSOURI

General Fund Budgetary Highlights

Differences between the original and the final amended budget can be summarized as follows:

- The original revenue budget of \$5,421,169 was increased to \$6,306,651.
- The total original expenditures budget of \$5,264,818 was increased to \$6,333,934.

Budget adjustments were presented and approved by City Council. Budgeted revenues were \$782,934 above actual, and budgeted expenditures were \$1,295,687 above actual.

Capital Asset and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$16.7 million (net of accumulated depreciation) as of September 30, 2006. This represents a \$578,159 increase from the prior year. Capital assets for business-type activities were \$10.1 million as of September 30, 2006. This represents a decrease of \$398,234 from the prior year due to current year provisions for depreciation.

Debt

Total debt of the governmental activities as of September 30, 2006, was \$4.8 million, which is down from \$4.9 million in the prior year.

Total debt of the business-type activities as of September 31, 2006, was \$4.3 million, which is up from \$4.0 million in the prior year.

Economic Factors and Next Year's Budget

The City anticipates sales tax collections to grow at a 5.5% rate for fiscal year 2006-2007. The fiscal policy was followed pertaining to revenues and expenses in the fiscal year 2006-2007 budget, which was approved by council ordinance in September, 2006. The City monitors revenues and expenses constantly and intends to conduct quarterly meetings with the Council to review budget execution.

MANAGEMENT'S DISCUSSION AND ANALYSIS CITY OF NEOSHO, MISSOURI

Economic Factors and Next Year's Budget (continued)

The following active projects are budgeted or will be ongoing in fiscal year 2006-2007:

1. New Airport terminal construction.
2. Replacement of six Police patrol cars.
3. Delivery of a new Fire rescue vehicle.
4. Renovation/expansion of Senior Citizens' Center.
5. Renovation of Municipal Auditorium.
6. Renovation of RV Park pavilion.
7. Paving of Recreation Center/Swimming Pool parking lots.
8. Overlay of City streets.
9. Water/Sewer expansion along Highway 86.

Water and sewer rates were increased by 5.25% for fiscal year 2006-2007. The City will continue to aggressively pursue identifying and eliminating water losses in the City system.

As the City derives a significant portion of its operating budget from sales tax revenues, it remains sensitive to the impact of changing economic conditions no matter the cause.

Contacting the City's Financial Management

For additional information or questions, please contact any of the following officers at:

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Neosho, Missouri 64850
(417) 451-8050
administration@neoshomo.org

Jan Blase, City Manager
Eric Haddock, City Clerk
Angie Kirk, City Collector
Bob Blackwood, Finance Director

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS
September 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 1,826,176	\$ 846,018	\$ 2,672,194
Sales tax receivable, net	509,221	-	509,221
Utilities receivable, net	-	319,147	319,147
Other accounts receivable, net	35,941	6,159	42,100
Accrued interest receivable	11,540	5,241	16,781
Court fines receivable, net	28,642	-	28,642
Intergovernmental receivable	49,655	-	49,655
Internal balances	(110,096)	110,096	-
Inventory	52,625	-	52,625
Prepaid expenses	74,637	47,588	122,225
Noncurrent			
Restricted cash and cash equivalents	738,739	155,114	893,853
Restricted investments	95,682	631,216	726,898
Deferred debt issuance costs	223,682	3,370	227,052
Capital Assets:			
Non-depreciable	9,981,914	275,221	10,257,135
Depreciable, net	6,746,905	9,808,650	16,555,555
TOTAL ASSETS	20,265,263	12,207,820	32,473,083
LIABILITIES			
Current			
Accounts payable	356,713	178,912	535,625
Accrued expenses	147,303	61,678	208,981
Meter deposits payable	-	64,998	64,998
Deferred revenue	-	12,893	12,893
Accrued interest payable	146,192	29,658	175,850
Current maturities of long-term debt	255,796	172,734	428,530
	906,004	520,873	1,426,877
Noncurrent			
Compensated absences payable	416,975	67,079	484,054
Capital leases payable	68,366	203,233	271,599
Certificates of participation payable	3,764,919	3,679,148	7,444,067
Special obligation bonds payable	280,000	-	280,000
Revenue bonds payable	-	155,000	155,000
	4,530,260	4,104,460	8,634,720
TOTAL LIABILITIES	5,436,264	4,625,333	10,061,597
NET ASSETS			
Invested in capital assets, net of related debt	12,359,738	5,873,756	18,233,494
Restricted for:			
Non-expendable			
Parks	22,767	-	22,767
Debt service	813,086	786,330	1,599,416
Unrestricted	1,633,408	922,401	2,555,809
TOTAL NET ASSETS	\$ 14,828,999	\$ 7,582,487	\$ 22,411,486

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses), Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Administrative	\$ (485,799)	\$ 68,797	\$ -	\$ -	\$ (417,002)	\$ -	\$ (417,002)
Clerk/Council	(65,268)	-	-	-	(65,268)	-	(65,268)
City hall building	(69,048)	-	-	-	(69,048)	-	(69,048)
Auditorium	(44,359)	23,512	-	-	(20,847)	-	(20,847)
Building inspection	(161,169)	40,760	-	-	(120,409)	-	(120,409)
Animal control	(39,480)	9,393	350	-	(29,737)	-	(29,737)
Police	(1,368,308)	317,649	12,502	13,821	(1,024,336)	-	(1,024,336)
Fire	(1,487,992)	470	75,000	71,668	(1,340,854)	-	(1,340,854)
Court	(76,898)	-	-	-	(76,898)	-	(76,898)
Airport	(420,581)	165,532	-	-	(255,049)	-	(255,049)
Drainage	(53,547)	-	-	-	(53,547)	-	(53,547)
Parks	(374,214)	16,173	22,197	190,397	(145,447)	-	(145,447)
Recreation	(412,211)	183,352	18,737	-	(210,122)	-	(210,122)
Senior Center	(43,580)	-	-	-	(43,580)	-	(43,580)
Economic development	(651,019)	71,459	-	-	(579,560)	-	(579,560)
Street	(807,523)	-	-	210,443	(597,080)	-	(597,080)
Other	(166)	-	-	-	(166)	-	(166)
TOTAL GOVERNMENTAL ACTIVITIES	(6,561,162)	897,097	128,786	486,329	(5,048,950)	-	(5,048,950)
Business-Type Activities							
Water and Sewer	(3,016,905)	2,639,545	-	-	-	(377,360)	(377,360)
Golf	(762,461)	531,750	-	-	-	(230,711)	(230,711)
TOTAL BUSINESS-TYPE ACTIVITIES	(3,779,366)	3,171,295	-	-	-	(608,071)	(608,071)
TOTAL PRIMARY GOVERNMENT	\$ (10,340,528)	\$ 4,068,392	\$ 128,786	\$ 486,329	(5,048,950)	(608,071)	(5,657,021)
General Revenues and Transfers:							
					4,493,979	-	4,493,979
					432,095	-	432,095
					142,187	-	142,187
					572,244	-	572,244
					111,971	83,135	195,106
					142,646	29,712	172,358
					170,342	(170,342)	-
					6,065,464	(57,495)	6,007,969
					Changes in Net Assets		350,948
					1,016,514	(665,566)	350,948
					13,812,485	8,248,053	22,060,538
					\$ 14,828,999	\$ 7,582,487	\$ 22,411,486

See accompanying notes.

CITY OF NEOSHO, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2006

	General Fund	Economic Development Fund	Street Fund	2006 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,209,055	\$ 225,280	\$ 266,782	\$ -	\$ 125,059	\$ 1,826,176
Sales tax receivable, net	403,751	26,367	79,103	-	-	509,221
Other accounts receivable, net	35,941	-	-	-	-	35,941
Court fines receivable, net	28,642	-	-	-	-	28,642
Accrued interest receivable	6,690	1,061	1,355	2,337	97	11,540
Intergovernmental receivable	49,655	-	-	-	-	49,655
Inventory	52,625	-	-	-	-	52,625
Due from other funds	9,965	5,000	-	-	-	14,965
Prepaid expenses	58,534	288	15,815	-	-	74,637
Restricted cash and cash equivalents	-	91,970	-	-	646,769	738,739
Restricted investments	-	72,000	-	-	23,682	95,682
TOTAL ASSETS	\$ 1,854,858	\$ 421,966	\$ 363,055	\$ 2,337	\$ 795,607	\$ 3,437,823
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 212,080	\$ 27,902	\$ 116,731	\$ -	\$ -	\$ 356,713
Accrued expenses	134,415	-	12,888	-	-	147,303
Due to other funds	-	-	-	-	125,061	125,061
TOTAL LIABILITIES	346,495	27,902	129,619	-	125,061	629,077
Fund Balances						
Reserved for:						
Permanent funds:						
Nonexpendable						
Parks	-	-	-	-	22,767	22,767
Debt service funds:						
Principal and interest	-	-	-	2,337	646,779	649,116
Special revenue funds:						
Principal and interest	-	163,970	-	-	-	163,970
Unreserved, reported in:						
General Fund	1,508,363	-	-	-	-	1,508,363
Special Revenue Fund	-	230,094	233,436	-	-	463,530
Capital Projects Fund	-	-	-	-	1,000	1,000
TOTAL FUND BALANCES	1,508,363	394,064	233,436	2,337	670,546	2,808,746
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,854,858	\$ 421,966	\$ 363,055	\$ 2,337	\$ 795,607	\$ 3,437,823

See accompanying notes.

CITY OF NEOSHO, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET
 ASSETS
 September 30, 2006

Fund balance - total governmental funds	\$ 2,808,746
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	35,606,797
Less accumulated depreciation	<u>(18,877,978)</u>
	16,728,819
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due	(146,192)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,856,137)
Deferred loss on debt refunding	70,081
Unamortized debt issuance costs	<u>223,682</u>
Net assets of governmental activities	<u><u>\$ 14,828,999</u></u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL
FUNDS
Year Ended September 30, 2006

	General Fund	Economic Development Fund	Street Fund	2006 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,213,572	\$ 232,614	\$ 1,130,813	\$ -	\$ 63,506	\$ 5,640,505
Licenses and permits	73,959	-	-	-	-	73,959
Intergovernmental revenues	204,070	-	-	-	153,203	357,273
Charges for services	363,546	-	-	-	-	363,546
Fines and forfeitures	268,005	-	-	-	-	268,005
Miscellaneous	400,565	82,718	23,977	14,263	182,522	704,045
TOTAL REVENUES	5,523,717	315,332	1,154,790	14,263	399,231	7,407,333
EXPENDITURES						
Current						
Administrative	423,162	-	-	-	-	423,162
Clerk/Council	64,253	-	-	-	-	64,253
City hall building	69,048	-	-	-	-	69,048
Auditorium	88,141	-	-	-	-	88,141
Building inspection	157,113	-	-	-	-	157,113
Animal control	38,808	-	-	-	-	38,808
Police	1,382,838	-	-	-	-	1,382,838
Fire	1,496,313	-	-	-	-	1,496,313
Court	75,959	-	-	-	-	75,959
Airport	262,691	-	-	-	-	262,691
Drainage	50,474	-	-	-	-	50,474
Parks	473,938	-	-	-	-	473,938
Recreation	411,929	-	-	-	-	411,929
Senior center	43,580	-	-	-	-	43,580
Economic development	-	162,801	-	-	-	162,801
Street	-	-	1,199,244	-	-	1,199,244
Capital outlay	-	-	-	-	331,374	331,374
Other	-	-	-	-	166	166
Debt Service						
Principal and interest	-	76,563	32,421	3,108,325	263,525	3,480,834
TOTAL EXPENDITURES	5,038,247	239,364	1,231,665	3,108,325	595,065	10,212,666
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	485,470	75,968	(76,875)	(3,094,062)	(195,834)	(2,805,333)
OTHER FINANCING SOURCES (USES)						
Operating transfers in (out)	(138,320)	52,633	(78,144)	207,872	126,301	170,342
Certificate of participation proceeds	-	-	-	3,065,000	-	3,065,000
Bond issuance costs	-	-	-	(176,473)	-	(176,473)
TOTAL OTHER FINANCING SOURCES (USES)	(138,320)	52,633	(78,144)	3,096,399	126,301	3,058,869
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	347,150	128,601	(155,019)	2,337	(69,533)	253,536
FUND BALANCE, October 1, as restated	1,161,213	265,463	388,455	-	740,079	2,555,210
FUND BALANCE, September 30	\$ 1,508,363	\$ 394,064	\$ 233,436	\$ 2,337	\$ 670,546	\$ 2,808,746

See accompanying notes.

CITY OF NEOSHO, MISSOURI
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ 253,536

Amounts reported for governmental activities in the statement
 of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement
 of activities the cost of these assets is allocated over their estimated useful lives on a
 straight line basis and reported as depreciation expense. The following is the detail
 of the amount by which depreciation exceeded capital outlays for the year.

Capital outlay	1,212,529
Depreciation	(633,732)
Loss on disposal of capital assets	(638)
	<u>578,159</u>

The issuance of long-term debt provides current financial resources to governmental
 funds. The repayment of the principal of long-term debt is a use of current
 financial resources of governmental funds. Also, governmental funds report
 the effect of issuance costs and similar items when debt is issued, whereas
 these amounts are deferred and amortized in the statement of activities. In
 the statement of activities, interest is accrued on outstanding bonds whereas
 in the governmental funds, an interest expenditure is reported when due.
 The following is the detail of the net affect of these differences.

Certificate of participation proceeds	(3,065,000)
Repayment of principal on bonds and leases	3,145,439
Issuance cost amortization	69,554
Deferred loss on refunding	70,081
Change in accrued interest payable	(7,320)
	<u>212,754</u>

Some expenditures reported in the governmental funds represent the use of current
 financial resources and were recognized in the statement of activities when incurred. (27,935)

Change in net assets of governmental activities \$ 1,016,514

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
September 30, 2006

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 488,804	\$ 357,214	\$ 846,018	\$ 208,163
Utilities receivable, net	319,147	-	319,147	-
Other accounts receivable	4,150	2,009	6,159	-
Accrued interest receivable	3,381	1,860	5,241	-
Due from other funds	110,187	-	110,187	-
Prepaid expenses	46,043	1,545	47,588	-
TOTAL CURRENT ASSETS	971,712	362,628	1,334,340	208,163
Restricted Assets				
Cash and cash equivalents	121,584	33,530	155,114	-
Investments	53,217	577,999	631,216	-
TOTAL RESTRICTED ASSETS	174,801	611,529	786,330	-
Deferred Bond Issuance Costs	3,370	-	3,370	-
Property, Plant and Equipment				
Land	251,578	23,643	275,221	-
Water plant and equipment	12,868,332	-	12,868,332	-
Buildings and improvements	85,591	301,740	387,331	-
Sewer plant and equipment	10,454,477	-	10,454,477	-
Golf course	-	3,288,493	3,288,493	-
Major moveable equipment	-	729,842	729,842	-
	23,659,978	4,343,718	28,003,696	-
Less accumulated depreciation	(15,873,865)	(2,045,960)	(17,919,825)	-
TOTAL PROPERTY, PLANT AND EQUIPMENT	7,786,113	2,297,758	10,083,871	-
TOTAL ASSETS	8,935,996	3,271,915	12,207,911	208,163

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)
September 30, 2006

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
LIABILITIES				
Current Liabilities				
Accounts payable	145,047	33,865	178,912	208,163
Accrued expenses	61,678	-	61,678	-
Accrued interest payable	16,841	12,817	29,658	-
Deferred revenue	12,893	-	12,893	-
Meter deposits payable	64,998	-	64,998	-
Due to other funds	91	-	91	-
Current maturities of long-term debt	135,878	36,856	172,734	-
TOTAL CURRENT LIABILITIES	437,426	83,538	520,964	208,163
Long-Term Liabilities				
Capital leases payable	164,882	38,351	203,233	-
Revenue bonds payable	155,000	-	155,000	-
Certificates of participation	345,000	3,334,148	3,679,148	-
Compensated absences payable	67,079	-	67,079	-
TOTAL LONG-TERM LIABILITES	731,961	3,372,499	4,104,460	-
TOTAL LIABILITIES	1,169,387	3,456,037	4,625,424	208,163
NET ASSETS				
Invested in capital assets, net of related debt	6,985,353	(1,111,597)	5,873,756	-
Restricted for debt service	174,801	611,529	786,330	-
Unrestricted	606,455	315,946	922,401	-
TOTAL NET ASSETS	\$ 7,766,609	\$ (184,122)	\$ 7,582,487	\$ -

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
Year Ended September 30, 2006

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
OPERATING REVENUES				
Charges for services				
Water	\$ 2,639,545	\$ -	\$ 2,639,545	\$ -
Golf	-	531,750	531,750	-
TOTAL OPERATING REVENUES	2,639,545	531,750	3,171,295	-
OPERATING EXPENSES				
Personnel services	1,311,756	-	1,311,756	-
Contractual services	115,716	238,786	354,502	-
Repairs and maintenance	330,708	28,180	358,888	-
Supplies	209,717	71,957	281,674	-
Utilities	398,740	25,263	424,003	-
Insurance	56,090	5,828	61,918	-
Depreciation	522,714	259,619	782,333	-
Miscellaneous	22,000	6,507	28,507	-
TOTAL OPERATING EXPENSES	2,967,441	636,140	3,603,581	-
OPERATING (LOSS)	(327,896)	(104,390)	(432,286)	-
NONOPERATING REVENUES (EXPENSES)				
Interest income	63,593	19,542	83,135	-
Other revenue	17,830	11,882	29,712	-
Interest expense	(48,845)	(126,321)	(175,166)	-
Loss on disposal of equipment	(619)	-	(619)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	31,959	(94,897)	(62,938)	-
(LOSS) BEFORE OPERATING TRANSFERS	(295,937)	(199,287)	(495,224)	-
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(261,850)	91,508	(170,342)	-
TOTAL OTHER FINANCING SOURCES (USES)	(261,850)	91,508	(170,342)	-
NET (LOSS)	(557,787)	(107,779)	(665,566)	-
NET ASSETS, October 1, as restated	8,324,396	(76,343)	8,248,053	-
NET ASSETS, September 30	\$ 7,766,609	\$ (184,122)	\$ 7,582,487	\$ -

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended September 30, 2006

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,612,296	\$ 530,629	\$ 3,142,925	\$ -
Cash paid to suppliers	(1,103,717)	(353,208)	(1,456,925)	(72,903)
Cash paid to employees	(1,337,320)	-	(1,337,320)	-
Other cash received for nonoperating revenues	17,830	11,882	29,712	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	189,089	189,303	378,392	(72,903)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer to other funds	(261,850)	-	(261,850)	-
Transfer from other funds	-	91,508	91,508	-
Repayment of loans from other funds	103,142	-	103,142	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(158,708)	91,508	(67,200)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of principal on capital leases	(5,380)	(35,420)	(40,800)	-
Purchase of fixed assets	(378,587)	(6,131)	(384,718)	-
Payment of principal on certificates of participation	(40,000)	(3,100,000)	(3,140,000)	-
Certificate of participation proceeds	-	3,425,000	3,425,000	-
Lease proceeds	195,000	-	195,000	-
Payment of interest expense	(39,133)	(129,123)	(168,256)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(268,100)	154,326	(113,774)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	60,212	17,682	77,894	-
Sale of investments	6,989	(254,020)	(247,031)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	67,201	(236,338)	(169,137)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(170,518)	198,799	28,281	(72,903)
CASH AND CASH EQUIVALENTS, Beginning of year	780,906	191,945	972,851	281,066
CASH AND CASH EQUIVALENTS, End of year	610,388	390,744	1,001,132	208,163
LESS RESTRICTED CASH AND CASH EQUIVALENTS	121,584	33,530	155,114	-
UNRESTRICTED CASH AND CASH EQUIVALENTS	\$ 488,804	\$ 357,214	\$ 846,018	\$ 208,163
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss)	\$ (327,896)	\$ (104,390)	\$ (432,286)	\$ -
Adjustments to reconcile operating (loss) to net cash provided by operating activities:				
Depreciation	522,714	259,619	782,333	-
(Increase) decrease in:				
Utilities receivable	(32,256)	-	(32,256)	-
Other accounts receivable	276	(1,121)	(845)	-
Prepaid expenses	(21,345)	(353)	(21,698)	-
Increase (decrease) in:				
Accounts payable	50,599	23,666	74,265	(72,903)
Accrued expenses	5,837	-	5,837	-
Meter deposits payable	(5,085)	-	(5,085)	-
Deferred revenues	9,816	-	9,816	-
Compensated absences	(31,401)	-	(31,401)	-
Other cash received for nonoperating revenues	17,830	11,882	29,712	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 189,089	\$ 189,303	\$ 378,392	\$ (72,903)

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Neosho, Missouri, (the City) adopted a home rule charter in 1973 and operates under the Council/City Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), streets, culture-recreation, public improvements, planning, and general administrative services. Other services include water and sewer operations and golf course.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. In accordance with GASB-20 (Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting), the proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, except those pronouncements that conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies.

Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Financially accountable means the primary government is accountable for the component unit and the primary government is able to impose its will or the component unit may provide financial benefits or impose a financial burden on the primary government. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is a primary government, which is governed by an elected board. As required by accounting principles generally accepted in the United States of America, the City has evaluated the above criteria to determine whether any other entity meets the definition of a component unit and must be included in these financial statements. The City has determined that no other outside entity meets the above criteria and therefore, no other entity has been included as a component unit in the City's financial statements. In addition, the City is not aware of any entity for which the City would be considered as a component unit of that entity.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide (the Statement of Net Assets and the Statement of Activities) and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements display information about the government as a whole. Interfund activity has been eliminated from these statements to minimize the duplication of internal activities. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for services for support.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are consolidated and presented on the full accrual, economic resources basis of accounting. The consolidated presentation incorporates long-term assets and receivables as well as long-term debt and obligations, and it provides information to improve analysis and comparability.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a program or a function. Program revenues include charges for goods or services offered by the programs and grants and contributions that are restricted to meet operating and capital expenses of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

Separate fund financial statements report information on the City's governmental and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds in their respective categories.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Consequently, the emphasis on near-term inflows and outflows of resources do not present the long-term impact of transactions. Conversely, the proprietary fund statements incorporate the accrual basis of accounting and focus on the change in total economic resources. This presentation records long-term assets and liabilities, and recognizes revenues and expenses when transactions occur, regardless of their impact on the flow of cash. Since the accounting differs significantly between the governmental funds and the proprietary funds, it is necessary to convert the governmental fund data to arrive at the government-wide financial statements. Therefore, reconciliations have been provided following the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance identifying categories that required conversion from the fund statements.

The City reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Economic Development Fund: The Economic Development Fund of the City is used to account for resources restricted for certain capital improvements and other improvements within the City.

Street Fund: The Street Fund is used to account for tax revenues related to the installation and maintenance of streets within the City.

The City reports the following major proprietary funds:

Water and Sewer Fund: The Water and Sewer Fund accounts for the activities and capital improvements of the City's water and sewer system.

Golf Fund: The Golf Fund accounts for the activities and capital improvements of the City's golf course.

Capital Assets

Capital assets include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, storm sewers, and similar items) and are included in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, excluding land, are defined by the City as assets with a cost of \$5,000 or greater and an estimated useful life of at least one year. All land purchases are capitalized regardless of cost. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Historically, governmental infrastructure assets have not been capitalized and reported in the financial statements. In conformity with GASB 34, infrastructure, such as streets and storm sewers, has been capitalized. Additionally, the city elected to depreciate its infrastructure assets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Major moveable equipment	2 to 10 years
Sewer mains, lines and treatment plant	30 to 50 years
Water wells, mains and lines	15 to 40 years
Buildings and improvements	10 to 50 years
Streets	25 years
Bridges	50 years
Traffic lights and signals	25 years
Land improvements	25 years

Expenditures for maintenance and repairs are charged to expense; renewals and betterments are capitalized.

Pooled Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in interest-bearing accounts.

Unreserved Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventory usage is recognized on the consumption method.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

The City's vacation policy grants an employee two weeks vacation after one year of service and three weeks vacation after ten years. Vacations not taken within one year are forfeited unless written permission is granted to carry unused vacation forward. Unused vacations at termination of employment are paid to the terminated employee provided proper notice was given by the employee.

After employment for six months, employees are allowed to accumulate one day per month sick pay up to a maximum of sixty-five days. Unused sick pay is paid upon retirement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest Capitalization

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62 - *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*. There was no interest capitalized during the current fiscal year.

Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City first applies restricted net assets.

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the City’s deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of September 30, 2006, all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of September 30, 2006, are as follows:

Investment Type	Maturity	Fair Value
Goldman Sachs Treasury	10/15/2008	\$ 3,384
Goldman Sachs Treasury	10/15/2008	3,941
Goldman Sachs Treasury	10/15/2008	36,958
Goldman Sachs Treasury	10/15/2008	2,475
Goldman Sachs Treasury	10/15/2008	528,206
Goldman Sachs Treasury	10/15/2008	3,035
AIGFMC Fixed Income Securities	7/1/2014	7,810
Trinity Plus Funding	1/1/2019	198
Trinity Plus Funding	1/1/2019	4,617
Fidelity Treasury Fund	N/A	132,762
Fidelity Treasury Fund	N/A	3,512
		\$ 726,898

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE C – INVESTMENTS (continued)

The City has Goldman, Sachs & Co., investment instruments on deposit with The Bank of New York, which are rated A+ by Standard and Poor’s. Fair market value approximates cost as the City has a pro-rata share of the fund. These deposits are held in a trust account for the 2006A and 2006B Certificates of Participation reserve accounts.

The City also has AIGFMC Fixed Income Security funds on deposit with United Missouri Bank, which are rated AAm by Standard and Poor’s. Fair market value approximates cost as the City has a pro-rata share of the fund. These deposits are held in a trust account for the Series 1992A Waterworks and Sewerage System Revenue bonds reserve account.

The City also has Trinity Plus Funding funds on deposit with United Missouri Bank, which are rated AAAM by Standard and Poor’s. Fair market value approximates cost as the City has a pro-rata share of the fund. These deposits are held in a trust account for the Series 1992A Waterworks and Sewerage System Revenue bonds reserve account.

The City also has Fidelity Treasury funds on deposit with United Missouri Bank, which are rated AAAM by Standard and Poor’s. Fair market value approximates cost as the City has a pro-rata share of the fund. These deposits are held in a trust account for the 2003 Certificates of Participation reserve account.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable is presented net of an allowance for doubtful accounts as follows:

	Gross Receivable	Allowance	Net Receivable
TAXES RECEIVABLE			
General Fund	\$ 403,751	\$ -	\$ 403,751
Economic Development Fund	26,367	-	26,367
Street Fund	79,103	-	79,103
	<u>\$ 509,221</u>	<u>\$ -</u>	<u>\$ 509,221</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE D – ACCOUNTS RECEIVABLE (continued)

	Gross Receivable	Allowance	Net Receivable
UTILITIES RECEIVABLE			
Water and Sewer Fund	\$ 327,850	\$ 8,703	\$ 319,147
OTHER ACCOUNTS RECEIVABLE			
General Fund			
Sanitation fees	\$ 22,775	\$ -	\$ 22,775
Other	13,166	-	13,166
	35,941	-	35,941
Water and Sewer Fund	4,150	-	4,150
Golf Fund	2,009	-	2,009
	\$ 42,100	\$ -	\$ 42,100
COURT FINES RECEIVABLE			
General Fund	\$ 140,124	\$ 111,482	\$ 28,642

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

The business-type activities long-term debt at September 30, 2006, consists of the 1992B Revenue Bond issue, the 2003, 2006A and 2006B Certificates of Participation, three capital lease obligations and compensated absences payable.

Revenue Bonds

\$420,000 in combined waterworks and sewerage system revenue bonds series 1992B, issued June 1992, due in varying annual installments through December 31, 2012; interest at 3.75% to 6.55% plus administrative fees of 1%, current maturities of \$25,000.

\$ 180,000

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

Principal and interest payments on the revenue bonds are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest and Admin. Fees</u>	<u>Total</u>
2007	\$ 25,000	\$ 13,540	\$ 38,540
2008	25,000	11,678	36,678
2009	30,000	9,815	39,815
2010	30,000	7,550	37,550
2011	35,000	5,285	40,285
2012	35,000	2,643	37,643
	<u>\$ 180,000</u>	<u>\$ 50,511</u>	<u>\$ 230,511</u>

Certificates of Participation

In 2003, the City issued \$1,510,000 in Certificates of Participation for the purpose of refunding the Series 2000 Certificates of Participation and providing funds for water and sewer improvements. \$465,000 of the \$1,510,000 outstanding certificates was recorded as long-term debt within the business-type activities and \$1,045,000 was recorded in the governmental activities of the City. The Certificates of Participation bear interest at various rates ranging from 3.4% to 5.0% with principal payments due May 1 and interest payments due May 1 and November 1 of each year. The certificates outstanding at September 30, 2006, are due as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

Year Ended September 30,	Principal	Interest	Total
2007	\$ 85,000	\$ 50,950	\$ 135,950
2008	85,000	48,825	133,825
2009	90,000	46,445	136,445
2010	90,000	43,655	133,655
2011	90,000	40,595	130,595
2012	95,000	37,333	132,333
2013	100,000	33,770	133,770
2014	105,000	29,770	134,770
2015	105,000	25,150	130,150
2016	40,000	20,530	60,530
2017	40,000	18,770	58,770
2018	40,000	17,010	57,010
2019	45,000	15,250	60,250
2020	45,000	13,000	58,000
2021	50,000	10,750	60,750
2022	50,000	8,250	58,250
2023	115,000	5,750	120,750
	<u>\$ 1,270,000</u>	<u>\$ 465,803</u>	<u>\$ 1,735,803</u>

Amount recorded in:

Water and Sewer Fund	\$ 415,000
Governmental Activities	<u>855,000</u>
TOTAL	<u>\$ 1,270,000</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

On March 1, 2006, the City issued \$6,490,000 in Series 2006A and 2006B Certificates of Participation for the purpose of refunding the Series 1999 and 2000 Certificates of Participation and the Series 2000 General Obligation Bonds. \$3,425,000 of the \$6,425,000 outstanding certificates is recorded as long-term debt within the business-type activities and \$3,065,000 is recorded in the governmental activities of the City. The Certificates of Participation bear interest at various rates ranging from 4.375% to 6.625% with principal payments due May 1 and interest payments due May 1 and November 1 each year. The certificates outstanding at September 30, 2006, are due as follows:

Year Ended September 30,	Principal	Interest	Total
2007	\$ 70,000	\$ 325,569	\$ 395,569
2008	65,000	322,419	387,419
2009	75,000	319,494	394,494
2010	190,000	316,119	506,119
2011	200,000	307,569	507,569
2012	245,000	298,569	543,569
2013	280,000	287,637	567,637
2014	310,000	274,737	584,737
2015	345,000	260,145	605,145
2016	340,000	243,640	583,640
2017	385,000	226,965	611,965
2018	405,000	207,446	612,446
2019	415,000	186,937	601,937
2020	690,000	165,929	855,929
2021	180,000	131,359	311,359
2022	230,000	121,769	351,769
2023	170,000	108,740	278,740
2024	175,000	99,900	274,900
2025	180,000	90,800	270,800
2026	180,000	81,440	261,440
2027	200,000	72,080	272,080
2028	210,000	61,480	271,480
2029	225,000	50,350	275,350
2030	240,000	38,425	278,425
2031	485,000	25,705	510,705
	<u>\$ 6,490,000</u>	<u>\$ 4,625,223</u>	<u>\$ 11,115,223</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

Amount recorded in:

Golf Fund	\$ 3,425,000
Governmental Activities	<u>3,065,000</u>
TOTAL	<u><u>\$ 6,490,000</u></u>

On May 20, 2003, the City entered into a cancelable lease purchase agreement as lessee to finance the purchase of golf carts in the amount of \$181,650. The lease requires annual payments of \$39,895 on November 1 of each year including interest at 4.0%.

On January 6, 2004, the City entered into a cancelable lease purchase agreement as lessee to finance the purchase of property in the amount of \$27,300. The lease requires varying annual payments through January 15, 2008.

On March 1, 2006, the City entered into a cancelable lease purchase agreement as lessee to finance the purchase of a UV treatment system in the amount of \$195,000. The lease requires annual payments of \$44,687 on March 1 of each year including interest at 5.0% through March 1, 2011.

Although the lease agreements provide for the cancellation of the leases if the City should fail to appropriate funds at the annual renewal dates, the City does not foresee exercising its option to cancel. Therefore, these leases are accounted for as noncancelable capital leases in accordance with Statement of Financial Accounting Standards 13, "Accounting for Leases".

The total annual minimum lease payments required at September 30, 2006, are as follows:

Year Ended September 30,	
2007	\$ 89,973
2008	89,973
2009	44,687
2010	44,687
2011	<u>44,687</u>
TOTAL MINIMUM LEASE PAYMENTS	314,007
LESS AMOUNT REPRESENTING INTEREST	<u>(33,040)</u>
NET LEASE PAYMENTS	<u><u>\$ 280,967</u></u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE E – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (continued)

A summary of the changes in long-term debt – business-type activities for the year ended September 30, 2006, is as follows:

	Balance September 30, 2005	Additions	Retirements	Balance September 30, 2006
GOLF FUND				
Golf cart lease	\$ 110,627	\$ -	\$ 35,420	\$ 75,207
1999 Certificates of Participation	1,605,000	-	1,605,000	-
2000 Certificates of Participation	1,495,000	-	1,495,000	-
2006A Certificates of Participation	-	3,060,000	-	3,060,000
2006B Certificates of Participation	-	365,000	-	365,000
	<u>3,210,627</u>	<u>3,425,000</u>	<u>3,135,420</u>	<u>3,500,207</u>
Less:				
Deferred loss on debt refunding	-	(94,638)	(3,786)	(90,852)
	<u>3,210,627</u>	<u>3,330,362</u>	<u>3,131,634</u>	<u>3,409,355</u>
WATER AND SEWER FUND				
Land lease	16,140	-	5,380	10,760
UV treatment system lease	-	195,000	-	195,000
1992B Revenue Bonds	205,000	-	25,000	180,000
2003 Certificate of Participation	430,000	-	15,000	415,000
	<u>651,140</u>	<u>195,000</u>	<u>45,380</u>	<u>800,760</u>
Compensated Absences Payable	98,480	-	31,401	67,079
TOTAL	<u><u>\$ 3,960,247</u></u>	<u><u>\$ 3,525,362</u></u>	<u><u>\$ 3,208,415</u></u>	<u><u>\$ 4,277,194</u></u>

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt for governmental activities at September 30, 2006, consists of two capital lease obligations, special obligation bonds, certificates of participation, and compensated absences payable.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (continued)

Capital Lease Obligations

During March 1999, the City entered into a cancelable lease purchase agreement as lessee to finance the acquisition of a 2000 Spartan fire truck. The lease requires yearly payments on May 1 of each year of \$34,249, which includes interest at 5.95%.

During April 2005, the City entered into a cancelable lease purchase agreement to finance the purchase of property in the amount of \$11,000. The lease requires varying annual payments at 5% interest through May 15, 2010.

Although the lease agreements provide for the cancellation of the leases if the City should fail to appropriate funds at the annual renewal dates, the City does not foresee exercising its options to cancel. Therefore, these leases are accounted for as noncancellable capital leases in accordance with Statement of Financial Accounting Standards 13, "Accounting for Leases".

The total annual minimum lease payments required at September 30, 2006, are as follows:

<u>Year Ended September 30,</u>	
2007	\$ 36,649
2008	36,549
2009	36,449
2010	<u>2,100</u>
TOTAL MINIMUM LEASE PAYMENTS	111,747
LESS AMOUNT REPRESENTING INTEREST	<u>(12,585)</u>
NET LEASE PAYMENTS	<u><u>\$ 99,162</u></u>

Special Obligation Bonds

In 1998, the City issued \$1,370,000 in special obligation property acquisition bonds, bearing interest at 4.5% to 4.6%. Interest payments are due semi-annually on May 1 and November 1 of each year with bonds maturing annually on November 1, with final payoff on November 1, 2008. The bonds are not callable prior to maturity under the terms outlined in the bond ordinance. The annual principal and interest requirements for the special obligation property acquisition bonds are as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (continued)

Year Ended September 30,	Principal	Interest	Total
2007	\$ 140,000	\$ 15,750	\$ 155,750
2008	145,000	9,338	154,338
2009	135,000	3,038	138,038
	<u>\$ 420,000</u>	<u>\$ 28,126</u>	<u>\$ 448,126</u>

NOTE G – SUMMARY OF CHANGES IN LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

A summary of the changes in long-term debt – governmental activities for the year ended September 30, 2006, is as follows:

	Balance September 30, 2005	Additions	Retirements	Balance September 30, 2006
Capital Lease Obligations				
1996 Pierce Quantum fire truck	\$ 40,529	\$ -	\$ 40,529	\$ -
2000 Spartan fire truck	118,341	-	27,179	91,162
Street sweeper	30,731	-	30,731	-
Land lease	10,000	-	2,000	8,000
	<u>199,601</u>	<u>-</u>	<u>100,439</u>	<u>99,162</u>
Special Obligation Bonds				
1998	555,000	-	135,000	420,000
2000	2,845,000	-	2,845,000	-
	<u>3,400,000</u>	<u>-</u>	<u>2,980,000</u>	<u>420,000</u>
Certificates of Participation				
2003	920,000	-	65,000	855,000
2006A	-	3,065,000	-	3,065,000
	<u>920,000</u>	<u>3,065,000</u>	<u>65,000</u>	<u>3,920,000</u>
Less: Deferred loss on debt refunding	-	(73,001)	(2,920)	(70,081)
	<u>920,000</u>	<u>2,991,999</u>	<u>62,080</u>	<u>3,849,919</u>
Compensated absences payable	389,040	27,935	-	416,975
TOTAL	<u>\$ 4,908,641</u>	<u>\$ 3,019,934</u>	<u>\$ 3,142,519</u>	<u>\$ 4,786,056</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Governmental Activities				
Non-Depreciable Capital Assets:				
Land	\$ 9,131,180	\$ 144,407	\$ -	\$ 9,275,587
Work in progress	469,240	541,571	304,484	706,327
Total Non-Depreciable Capital Assets	<u>9,600,420</u>	<u>685,978</u>	<u>304,484</u>	<u>9,981,914</u>
Depreciable Capital Assets:				
Land improvements	343,177	-	-	343,177
Building and improvements	3,767,648	71,414	-	3,839,062
Machinery and equipment	4,183,187	189,604	110,315	4,262,476
Infrastructure	16,610,151	570,017	-	17,180,168
Total Depreciable Capital Assets	24,904,163	<u>\$ 831,035</u>	<u>\$ 110,315</u>	25,624,883
Less Accumulated Depreciation	<u>18,353,923</u>	<u>\$ 633,732</u>	<u>\$ 109,677</u>	<u>18,877,978</u>
Total Depreciable Capital Assets, Net	<u>6,550,240</u>			<u>6,746,905</u>
Total Governmental Activities Capital Assets	<u>\$ 16,150,660</u>			<u>\$ 16,728,819</u>

Depreciation expense for governmental activities was charged to functions as follows:

Administration	\$ 61,161
Clerk/Council	456
Auditorium	984
Economic development	18,425
Building inspection	3,218
Animal control	672
Police	33,572
Fire	75,321
Court	380
Airport	242,996
Parks	56,445
Recreation	22,995
Street	117,107
	<u>\$ 633,732</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE H – CAPITAL ASSETS (continued)

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Business-Type Activities				
Water and Sewer				
Non-Depreciable Capital Assets:				
Land	\$ 251,578	\$ -	\$ -	\$ 251,578
Depreciable Capital Assets:				
Buildings	85,591	\$ -	\$ -	85,591
Water plant and equipment	12,640,013	230,274	1,955	12,868,332
Sewer plant and equipment	10,457,686	148,313	151,522	10,454,477
	<u>23,183,290</u>	<u>\$ 378,587</u>	<u>\$ 153,477</u>	23,408,400
Less Accumulated Depreciation	<u>15,504,009</u>	<u>\$ 522,714</u>	<u>\$ 152,858</u>	<u>15,873,865</u>
Depreciable Capital Assets, Net	7,679,281			7,534,535
Golf				
Non-Depreciable Capital Assets:				
Land	23,643	\$ -	\$ -	23,643
Depreciable Capital Assets:				
Buildings	301,740	\$ -	\$ -	301,740
Golf course	3,288,493	-	-	3,288,493
Equipment	752,011	6,131	28,300	729,842
	<u>4,342,244</u>	<u>\$ 6,131</u>	<u>\$ 28,300</u>	4,320,075
Less Accumulated Depreciation	<u>1,814,641</u>	<u>\$ 259,619</u>	<u>\$ 28,300</u>	<u>2,045,960</u>
Depreciable Capital Assets, Net	<u>2,527,603</u>			<u>2,274,115</u>
Total Capital Assets - Business-Type Activities, Net	<u>\$ 10,482,105</u>			<u>\$ 10,083,871</u>

NOTE I – EMPLOYEE PENSION PLAN

Plan Description

The City of Neosho participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

Funding Status

The City of Neosho's full-time employees do not contribute to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the current rate is 10.7% (general), 7.0% (police) and 11% (fire) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost

For 2006, the political subdivision's annual pension cost of \$253,185 was equal to the required and actual contributions. The required contribution was determined as part of the February 29, 2004 and/or February 28, 2005, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2006, included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2006, was 15 years.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE I – EMPLOYEE PENSION PLAN (continued)

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/04	\$ 130,204	100%	\$ -
06/30/05	149,826	100%	-
06/30/06	253,185	100%	-

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has transferred its risk by obtaining coverage from a public self-insured insurance pool. In addition, it has effectively managed risk through various employee education and prevention programs. There has been no significant reduction in insurance coverage from the previous year.

NOTE K – DEFERRED DEBT ISSUANCE COSTS

During 1992, the City issued the 1992B Water and Sewer Revenue bonds. The issue costs will be amortized as an adjustment to interest expense using straight-line amortization over 20 years.

The deferred debt issuance costs for governmental activities consist of the 1998 Special Obligation bonds, and 2003 and 2006 COP issuance costs. The issue costs will be amortized as an adjustment to interest expense using straight-line amortization over the lives of the issues ranging from 10 to 25 years.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE K – DEFERRED DEBT ISSUANCE COSTS (continued)

These deferred debt issuance costs are presented net of current amortization as follows:

	Total Debt Issue Costs	Accumulated Amortization September 30, 2005	Current Amortization	Net Debt Issue Costs
Water and Sewer Fund	\$ 12,060	\$ 8,068	\$ 622	\$ 3,370
Governmental Activities	\$ 265,284	\$ 28,582	\$ 13,020	\$ 223,682

NOTE L – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2006, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 138,320
Economic Development Fund	-	(52,633)
Street Fund	-	78,144
Golf Fund	-	(91,508)
Water and Sewer Fund	-	261,850
2006 COP Fund	207,872	-
Nonmajor Governmental Funds	126,301	-
	<u>\$ 334,173</u>	<u>\$ 334,173</u>

Transfers are used to (1) move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) use unrestricted receipts in the Enterprise Funds and General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE M – INTERNAL BALANCES

Internal balances as of September 30, 2006, consisted of the following:

	General Fund	Economic Development Fund	Water and Sewer Fund	Nonmajor Governmental Funds
Internal balances	\$ 9,965	\$ 5,000	\$ 110,096	\$ (125,061)

During the course of its operations, the City has numerous transactions between funds to finance operation, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of September 30, 2006, balances of interfund amounts receivable or payable have been recorded within the fund financial statements.

NOTE N – CLAIMS AND ADJUSTMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulation, the City may be required to reimburse the grantor government. As of September 30, 2006, expenditures have not been audited by grantor governments, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the City.

NOTE O – RESTATEMENTS

Fund Balance/Net Assets have been restated as of October 1, 2005, as follows:

<u>Street Fund</u>	
Fund Balance, as previously stated, September 30, 2005	\$ 308,167
Accounts payable	80,288
Fund Balance, as restated, October 1, 2005	<u>\$ 388,455</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE O – RESTATEMENTS (continued)

Water and Sewer Fund

Net Assets, as previously stated, September 30, 2005	\$ 8,343,354
Fixed assets	199,883
Accumulated depreciation	(218,841)
Net Assets, as restated, October 1, 2005	<u>\$ 8,324,396</u>

Golf Fund

Net Assets, as previously stated, September 30, 2005	\$ (73,743)
Accumulated depreciation	(2,600)
Net Assets, as restated, October 1, 2005	<u>\$ (76,343)</u>

Governmental Activities

Net Assets, as previously stated, September 30, 2005	\$ 11,494,898
Accounts payable	80,288
Fixed assets	2,053,526
Accumulated depreciation	183,773
Net Assets, as restated, October 1, 2005	<u>\$ 13,812,485</u>

NOTE P – DEBT REFUNDING

On March 1, 2006, the City issued \$6,490,000 in Series 2006A and 2006B Certificates of Participation with interest rates ranging from 4.375% to 6.625%. The City issued the certificates to refund \$2,845,000 of outstanding Series 2000 Special Obligation Bonds, \$1,535,000 of outstanding Series 2000 Certificates of Participation, and \$1,605,000 of outstanding Series 1999 Certificates of Participation with interest rates ranging from 4.15% to 6.63%. The City used the net proceeds to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust to provide for the debt service on the 1999 and 2000 certificates through September 1, 2008, when the certificates will be redeemed, and for the debt service on the 2000 bonds through May 1, 2009, when the bonds will be redeemed. Accordingly, the trust account assets and the liability for the defeased certificates and bonds are not included in the City's financial statements on September 30, 2006. \$5,880,000 of these defeased bonds and certificates are still outstanding and the cash and investment balance in the irrevocable trust account on September 30, 2006, was \$5,948,932.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2006

NOTE P – DEBT REFUNDING (continued)

The advanced refunding resulted in the recognition of a deferred loss on bond refunding in the Golf Fund of \$94,638 and \$73,001 in the governmental activities. The deferred losses are being amortized as an adjustment to interest expense over a period of 25 years.

A summary of the deferred loss on bond refunding is listed below:

	Balance September 30, 2005	Additions	Current Amortization	Balance September 30, 2006
Golf Fund	\$ -	\$ 94,638	\$ (3,786)	\$ 90,852
Governmental Activities	\$ -	\$ 73,001	\$ (2,920)	\$ 70,081

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended September 30, 2006

Missouri Local Government Employees Retirement System (LAGERS)

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Liability	(Excess) Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll
02/29/04	\$ 6,126,423	\$ 4,643,142	\$ (1,483,281)	132%	\$ 3,162,792	0%
02/28/05	6,141,049	4,713,697	(1,427,352)	130%	3,182,971	0%
02/28/06	6,374,844	6,459,980	85,136	99%	3,335,458	3%

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006, annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
City sales tax	\$ 3,598,570	\$ 3,622,308	\$ 3,562,647	\$ (59,661)
Utility franchise tax	516,000	572,244	572,244	-
Cigarette tax	60,000	64,000	78,681	14,681
	<u>4,174,570</u>	<u>4,258,552</u>	<u>4,213,572</u>	<u>(44,980)</u>
Licenses and Permits				
Occupational licenses	18,500	18,500	21,104	2,604
Building permits	46,800	46,800	40,760	(6,040)
Animal licenses and fees	8,100	8,100	7,095	(1,005)
Other	1,970	1,970	5,000	3,030
	<u>75,370</u>	<u>75,370</u>	<u>73,959</u>	<u>(1,411)</u>
Intergovernmental Revenues				
Grants	96,301	299,046	79,426	(219,620)
Fire district	86,220	86,220	75,000	(11,220)
Other	42,708	42,708	49,644	6,936
	<u>225,229</u>	<u>427,974</u>	<u>204,070</u>	<u>(223,904)</u>
Charges for Services				
Sanitation	40,000	40,000	44,991	4,991
Airport fuel sales	102,250	102,250	121,860	19,610
Park fees	13,200	13,200	12,873	(327)
Recreational fees	170,200	175,422	183,352	7,930
Other	-	-	470	470
	<u>325,650</u>	<u>330,872</u>	<u>363,546</u>	<u>32,674</u>
Fines and Forfeitures				
City court fines	259,830	259,830	260,889	1,059
Police training fees	7,000	7,000	7,116	116
	<u>266,830</u>	<u>266,830</u>	<u>268,005</u>	<u>1,175</u>
Miscellaneous				
Leases and rent income	81,920	81,920	70,483	(11,437)
Interest	5,000	5,000	56,249	51,249
Donations and other contributions	33,900	156,559	145,938	(10,621)
Other	232,700	703,574	127,895	(575,679)
	<u>353,520</u>	<u>947,053</u>	<u>400,565</u>	<u>(546,488)</u>
TOTAL REVENUES	5,421,169	6,306,651	5,523,717	(782,934)

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
 Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
EXPENDITURES				
Current				
Administrative	341,366	404,174	423,162	(18,988)
Clerk/Council	69,830	69,785	64,253	5,532
City hall building	66,422	69,412	69,048	364
Auditorium	270,173	270,249	88,141	182,108
Building inspection	160,927	199,854	157,113	42,741
Animal control	43,895	44,295	38,808	5,487
Police	1,418,361	1,449,713	1,382,838	66,875
Fire	1,900,111	1,934,910	1,496,313	438,597
Court	74,423	75,423	75,959	(536)
Airport	156,618	830,681	262,691	567,990
Drainage	24,000	24,000	50,474	(26,474)
Parks	285,357	475,538	473,938	1,600
Recreation	379,860	412,425	411,929	496
Senior Center	73,475	73,475	43,580	29,895
TOTAL EXPENDITURES	<u>5,264,818</u>	<u>6,333,934</u>	<u>5,038,247</u>	<u>1,295,687</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	156,351	(27,283)	485,470	512,753
OTHER FINANCING (USES)				
Operating transfers (out)	<u>(291,791)</u>	<u>(131,248)</u>	<u>(138,320)</u>	<u>(7,072)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(135,440)	(158,531)	347,150	505,681
FUND BALANCE, October 1	<u>1,161,213</u>	<u>1,161,213</u>	<u>1,161,213</u>	<u>-</u>
FUND BALANCE, September 30	<u><u>\$ 1,025,773</u></u>	<u><u>\$ 1,002,682</u></u>	<u><u>\$ 1,508,363</u></u>	<u><u>\$ 505,681</u></u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – ECONOMIC DEVELOPMENT FUND
 Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Sales taxes	\$ 238,000	\$ 238,000	\$ 232,614	\$ (5,386)
Rental income	-	66,060	71,460	5,400
Miscellaneous	55,000	55,000	11,258	(43,742)
TOTAL REVENUES	293,000	359,060	315,332	(43,728)
EXPENDITURES				
Current				
Economic development	204,000	241,918	162,801	79,117
Debt Service				
Principal and interest	77,800	77,800	76,563	1,237
TOTAL EXPENDITURES	281,800	319,718	239,364	80,354
EXCESS OF REVENUES OVER EXPENDITURES	11,200	39,342	75,968	36,626
OTHER FINANCING SOURCES				
Operating transfers in	-	-	52,633	52,633
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	11,200	39,342	128,601	89,259
FUND BALANCE, October 1	265,463	265,463	265,463	-
FUND BALANCE, September 30	\$ 276,663	\$ 304,805	\$ 394,064	\$ 89,259

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – STREET FUND
 Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes	\$ 1,156,200	\$ 1,156,200	\$ 1,130,813	\$ (25,387)
Intergovernmental revenue	100,000	694,000	-	(694,000)
Miscellaneous	-	206,818	23,977	(182,841)
TOTAL REVENUES	<u>1,256,200</u>	<u>2,057,018</u>	<u>1,154,790</u>	<u>(902,228)</u>
EXPENDITURES				
Current				
Street	1,054,829	2,269,150	1,199,244	1,069,906
Debt Service				
Principal and interest	<u>32,421</u>	<u>32,421</u>	<u>32,421</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,087,250</u>	<u>2,301,571</u>	<u>1,231,665</u>	<u>1,069,906</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	168,950	(244,553)	(76,875)	167,678
OTHER FINANCING (USES)				
Operating transfers (out)	<u>(72,634)</u>	<u>(72,634)</u>	<u>(78,144)</u>	<u>(5,510)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER (USES)	96,316	(317,187)	(155,019)	162,168
FUND BALANCE, October 1, as restated	<u>388,455</u>	<u>388,455</u>	<u>388,455</u>	<u>-</u>
FUND BALANCE, September 30	<u><u>\$ 484,771</u></u>	<u><u>\$ 71,268</u></u>	<u><u>\$ 233,436</u></u>	<u><u>\$ 162,168</u></u>

CITY OF NEOSHO, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended September 30, 2006

Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October, Administration submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditure plans for all fund types and the proposed means of financing them.
2. One public hearing is conducted by the City Council in late August or early September to obtain taxpayers' comments on the proposed budget and tax levy.
3. Prior to October 1, ordinances are passed by Council which provide for legally adopted budgets for all funds of the City.
4. The City operates on a program performance budget system, with legally adopted budgets prepared by fund, program and department. The level of budgetary control is at the department level. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of City Council.
5. Formal budgetary integration is employed as a management control device for all funds of the City.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP. Budgeted amounts may be amended during the year by City Council on approved budget adjustment forms.

OTHER FINANCIAL INFORMATION

CITY OF NEOSHO, MISSOURI
 COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2006

	Debt Service Funds			Capital Project Funds				Permanent Funds		Total Nonmajor Governmental Funds
	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NRCS Demolition Fund	Downtown Tax Credit Fund	Drainage Project Fund	WMD Project Fund	Abbot Brothers Fund	Morse Park Fund	
ASSETS										
Cash and cash equivalents-unrestricted	\$ -	\$ 125,059	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,059
Accrued interest receivable	-	2	-	-	-	-	-	81	14	97
Cash and cash equivalents-restricted	404,807	208,563	9,727	-	-	1,000	-	19,369	3,303	646,769
Investments - restricted	-	-	23,682	-	-	-	-	-	-	23,682
TOTAL ASSETS	\$ 404,807	\$ 333,624	\$ 33,409	\$ -	\$ -	\$ 1,000	\$ -	\$ 19,450	\$ 3,317	\$ 795,607
LIABILITIES										
Due to other funds	\$ -	\$ 125,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,061
TOTAL LIABILITIES	-	125,061	-	-	-	-	-	-	-	125,061
FUND EQUITY										
Fund Balance										
Reserved	404,807	208,563	33,409	-	-	-	-	19,450	3,317	669,546
Unreserved	-	-	-	-	-	1,000	-	-	-	1,000
TOTAL FUND BALANCE	404,807	208,563	33,409	-	-	1,000	-	19,450	3,317	670,546
TOTAL LIABILITIES AND FUND BALANCE	\$ 404,807	\$ 333,624	\$ 33,409	\$ -	\$ -	\$ 1,000	\$ -	\$ 19,450	\$ 3,317	\$ 795,607

CITY OF NEOSHO, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL
 FUNDS
 Year Ended September 30, 2006

	Debt Service Funds			Capital Project Funds				Permanent Funds		Total
	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NCRS Demolition Fund	Downtown Tax Credit Fund	Drainage Project Fund	WMD Project Fund	Abbot Brothers Fund	Morse Park Fund	Nonmajor Governmental Funds
REVENUES										
Taxes	\$ -	\$ 63,506	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,506
Intergovernmental revenues	-	-	-	98,750	-	48,895	5,558	-	-	153,203
Miscellaneous	13,669	8	1,526	-	161,548	-	-	5,622	149	182,522
TOTAL REVENUES	13,669	63,514	1,526	98,750	161,548	48,895	5,558	5,622	149	399,231
EXPENDITURES										
Current										
Capital outlay	-	-	-	115,178	161,548	47,895	5,558	1,195	-	331,374
Other	-	-	-	-	-	-	-	166	-	166
Debt Service										
Principal and interest	214,560	28,205	20,760	-	-	-	-	-	-	263,525
TOTAL EXPENDITURES	214,560	28,205	20,760	115,178	161,548	47,895	5,558	1,361	-	595,065
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(200,891)	35,309	(19,234)	(16,428)	-	1,000	-	4,261	149	(195,834)
OTHER FINANCING SOURCES										
Operating transfers in	24,890	63,383	21,600	16,428	-	-	-	-	-	126,301
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(176,001)	98,692	2,366	-	-	1,000	-	4,261	149	(69,533)
FUND BALANCE, October 1	580,808	109,871	31,043	-	-	-	-	15,189	3,168	740,079
FUND BALANCE, September 30	\$ 404,807	\$ 208,563	\$ 33,409	\$ -	\$ -	\$ 1,000	\$ -	\$ 19,450	\$ 3,317	\$ 670,546



DAVIS, LYNN &
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Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

In planning and performing our audit of the basic financial statements of the City of Neosho, Missouri, for the year ended September 30, 2006, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of some matters to bring to your attention. The following paragraphs summarize our comments and suggestions regarding these matters.

1. Segregation of Duties

The City does not have an adequate segregation of duties within various accounting functions. The basic premise behind the segregation of duties is that no one employee should have access to all phases of a transaction to help prevent errors or irregularities. This weakness is found in the majority of smaller entities.

We Recommend:

The City take any steps economically feasible to segregate incompatible duties to help protect City assets.

2. Bank Depository Agreements

As custodian of public monies, we believe the City should review certain elements of depository agreements with the City's banking institutions to ensure proper controls are in place regarding City deposits. The City has a responsibility for the safety of City monies and the depository agreements are often not reviewed and updated appropriately.

We Recommend:

- a. The City determine that the depository agreement with the banking institution has instructions regarding when a check is valid and may be honored by the institution. If more than one signature is required on checks, then the depository agreement should reflect that requirement.
- b. The City determine that the depository agreement specify the persons authorized to make wire transfers and to whom routine wire transfers are authorized. This is necessary to prevent unauthorized wire transfers of City funds.
- c. The City determine that the depository agreement has procedures for opening new accounts in order to prevent unauthorized accounts from being opened under the City's name.

3. Statement on Auditing Standards Number 112 (SAS No. 112)

In May 2006, SAS No. 112 was issued by the American Institute of Certified Public Accountants to establish standards and provide guidance on communicating matters related to an entity's internal control. Under SAS No. 112, if an auditor identifies control deficiencies and determines that these meet the definition of a significant deficiency or a material weakness, the auditor is required to communicate these findings in writing to management and the City Council. Examples of deficiencies include a need for audit adjustments to record activity in bond trust statement accounts, year-end accruals, any material adjustments, and detected flaws in the design or operation of existing controls.

Although SAS No. 112 pertains to auditors who express opinions on financial statements, the impact of this standard will be felt by governmental entities. The effective date for implementation of this standard is audit periods ending after December 15, 2006. This means the City of Neosho will be affected by this standard in the fiscal year ending September 30, 2007.

We Recommend:

In order to ease the impact of implementing this standard, the City should consider the following:

- a. Review the adjusting journal entries historically proposed in previous audits and post those entries throughout the year to alleviate the need for an audit adjustment.
- b. The City should evaluate its accounting procedures. Based on that evaluation, the City should take any steps economically feasible to ensure that accounting principles generally accepted in the United States of America will be properly selected and applied.
- c. Adopt a formal anti-fraud program and an ethics policy. An anti-fraud program and ethics policy can help the City identify and prevent fraud or theft from occurring in the City. The anti-fraud program should include instruction for employees on how to report fraud or unethical practices.

4. Utility Billing Adjustments

The City currently does not require utility billing adjustments be approved before being made to the system. The City also does not have procedures in place to compare adjustments made to the system to adjustments that have been approved on a monthly basis. This is a necessary internal control procedure to prevent unauthorized adjustments to utility billings.

We Recommend:

The City require utility billing adjustment to be approved before they are made to the system. The City should also establish procedures to ensure that adjustments made to the system are reviewed monthly and compared to the adjustments that have been approved to prevent unauthorized adjustments.

5. Court Fines Receivable Listing

During our audit, we noted that the court fines receivable listing is not reconciled and properly recorded on the general ledger on a monthly basis. This is a necessary internal control procedure to ensure court fines are properly recorded on the general ledger.

We Recommend:

The City establish procedures and policies to ensure the court fines receivable listing is reconciled and recorded on the general ledger on a monthly basis.

6. Collection of Court Fines

During our audit, we noted that the court fine receivable listing and collection of court fines are performed by the same individual. These duties should be segregated. This is a necessary internal control procedure to protect City assets.

We Recommend:

The City segregate these duties. One option the City may consider is to allow court fines to be collected within the City's collections department.

7. Verification of Daily Deposits

The City's collection department prepares and makes deposits daily. However, the daily deposits currently are not verified the next day to deposit records by someone independent of the collections department. This is a necessary internal control procedure to ensure deposits are properly made.

We Recommend:

The City establish procedures to ensure deposits are verified daily by someone independent of the collections department.

8. Backup of Financial Records

We were pleased to note that City financial and utility records are being backed up to removable media on a regular basis. However, we noted that no master backup is maintained in an offsite location. In the event of a disaster, all financial information could be lost.

We Recommend:

The Organization maintain a master backup media at a separate location on a monthly basis.

9. Documentation of Voided Transactions

During our audit, we noted that voided transactions are not properly documented and reconciled on a monthly basis. The reason why a transaction is voided should be documented. Also, voided transactions should be reconciled to the system by someone independent of collections to ensure unauthorized and undocumented voids are not occurring. This may require an update to the City's software.

We recommend:

The City establish procedures requiring proper documentation for all voided transactions. The City should also establish procedures for reconciling voided transactions daily.

10. Cash Register Receipts

The City has not required individuals making collections to give cash register receipts to patrons. This is a necessary internal control to ensure transactions are recorded within the system.

We Recommend:

The City require cash register receipts be given to all patrons making payments at the City's collection department.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's administrative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We appreciate this opportunity to serve as the City of Neosho's independent auditors and the courtesies and assistance extended to us by the City's employees.

Respectfully submitted,

Davis, Lynn & Moots, P.C.

DAVIS, LYNN & MOOTS, P.C.
April 6, 2007



DAVIS, LYNN &
MOOTS, P.C.
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Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the basic financial statements of the City of Neosho, Missouri for the year ended September 30, 2006, and have issued our report thereon dated April 6, 2007. Professional standards require that we communicate certain matters to you related to our audit. These are provided below:

1. *Our responsibility under auditing standards generally accepted in the United States of America* – We are responsible for conducting our audit under auditing standards generally accepted in the United States of America as described in our engagement letter dated October 16, 2006. Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement, whether caused by error or by fraud. The concept of reasonable assurance indicates that we did not test all transactions; therefore, there is a risk that material errors, fraud, or illegal acts may have occurred that we did not detect in our audit.
2. *Significant accounting policies* – The significant accounting policies adopted by the City of Neosho, Missouri are described in detail in Note A to the financial statements. There were no new or revised accounting policies adopted by the City during the current year.
3. *Accounting estimates* – Accounting estimates are made by management as part of the overall preparation of the financial statements. Of the various estimates made by management, we believe these estimates had no significant affect on the financial reporting of the City of Neosho, Missouri.
4. *Significant audit adjustments* – Under our professional standards, a significant audit adjustment is one that is proposed by us and, in our judgment, may not have been detected by your employees in the normal course of their activities. We believe that no entries would be considered significant audit adjustments.
5. *Disagreements with management* – We are required by our professional standards to inform the Council of any significant disagreements with management, whether resolved or not. We are pleased to report that no such disagreements occurred during the audit.

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri
Page Two

6. *Consultations with other auditors* – During the period audited, management did not consult with any other audit firms regarding accounting and auditing matters relative to the financial statements or to our audit.
7. *Difficulties encountered in the audit* – We are pleased to report that there were no disagreements or difficulties encountered in the course of the audit.

This report is intended solely for the information and use of the City Council and management of the City of Neosho, Missouri and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Davis, Lynn & Moots, P.C." The signature is written in a cursive, slightly slanted style.

DAVIS, LYNN & MOOTS, P.C.
April 6, 2007