

CITY OF NEOSHO, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2007

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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, 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2007, 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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Neosho, Missouri's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended September 30, 2007, and in our opinion, is fairly stated in all material respects, in relation to the respective basic financial statements taken as a whole.

Davis, Lynn & Moots, PC

DAVIS, LYNN & MOOTS, P.C.
June 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

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, 2007. 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 \$346,291 or 2% for the year as a result of current year activities. The net assets of the City's business activities decreased by \$666,911 for the year.
- The assets of the City exceeded its liabilities as of September 30, 2007, by \$22.1 million (net assets). Of this amount \$8.8 million was unrestricted and may be used to meet future obligations of the City.
- Total liabilities of the City increased by \$7,618,787 due to the issuance of 2007A and 2007B Certificates of Participation.
- Sales tax collections for fiscal year 2007 experienced a 2.8% gain over fiscal year 2006.
- Franchise fee collections for fiscal year 2007 experienced a 12.5% gain over fiscal year 2006.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

Government-Wide Financial Analysis

NET ASSETS

The following table presents the condensed Statement of Net Assets for the City as of September 30, 2007, and 2006:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u> <u>September 30,</u> <u>2007</u>	<u>Total</u> <u>September 30,</u> <u>2006</u>
Current and other assets	\$ 10,918,071	\$ 1,829,144	\$ 12,747,215	\$ 5,660,393
Capital assets	<u>17,325,972</u>	<u>9,698,063</u>	<u>27,024,035</u>	<u>26,812,690</u>
TOTAL ASSETS	28,244,043	11,527,207	39,771,250	32,473,083
Long-term liabilities outstanding	11,506,184	4,178,376	15,684,560	8,634,720
Other liabilities	<u>1,562,569</u>	<u>433,255</u>	<u>1,995,824</u>	<u>1,426,877</u>
TOTAL LIABILITIES	<u>13,068,753</u>	<u>4,611,631</u>	<u>17,680,384</u>	<u>10,061,597</u>
Net assets:				
Invested in capital assets				
net of related debt	5,724,768	5,510,101	11,234,869	18,233,494
Restricted	1,277,729	775,399	2,053,128	1,622,183
Unrestricted	<u>8,172,793</u>	<u>630,076</u>	<u>8,802,869</u>	<u>2,555,809</u>
TOTAL NET ASSETS	<u>\$ 15,175,290</u>	<u>\$ 6,915,576</u>	<u>\$ 22,090,866</u>	<u>\$ 22,411,486</u>

Total net assets of the City decreased by \$320,620 for the year due to current year activity. Total liabilities for the City have increased by \$7,618,787.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

CHANGES IN NET ASSETS

	Governmental Activities	Business-Type Activities	Total Year Ended September 30, 2007	Total Year Ended September 30, 2006
REVENUES				
Program Revenues				
Charges for services	\$ 1,036,938	\$ 3,323,990	\$ 4,360,928	\$ 4,068,392
Operating grants and contributions	1,735,627	-	1,735,627	128,786
Capital grants and contributions	266,608	-	266,608	486,329
General Revenues				
Sales taxes	4,620,252	-	4,620,252	4,493,979
Motor vehicle and gas taxes	451,778	-	451,778	432,095
Other taxes	216,828	-	216,828	142,187
Franchise fees	643,550	-	643,550	572,244
Interest	190,333	53,063	243,396	195,106
Other revenue	124,670	21,461	146,131	172,358
Transfers	69,570	(69,570)	-	-
Gain on sale of capital assets	401,948	90,185	492,133	-
TOTAL REVENUES	9,758,102	3,419,129	13,177,231	10,691,476
EXPENSES				
General government	1,337,461	-	1,337,461	985,767
Police	1,621,222	-	1,621,222	1,368,308
Fire	1,499,495	-	1,499,495	1,487,992
Street	974,416	-	974,416	807,523
Drainage	6,181	-	6,181	53,547
Recreation	435,823	-	435,823	412,211
Parks	461,593	-	461,593	374,214
Economic development	527,170	-	527,170	651,019
Recycling center	39,340	-	39,340	-
Airport	734,427	-	734,427	420,581
Disaster recovery	1,774,683	-	1,774,683	-
Water and sewer	-	3,256,331	3,256,331	3,016,905
Golf	-	829,709	829,709	762,461
TOTAL EXPENSES	9,411,811	4,086,040	13,497,851	10,340,528
INCREASE (DECREASE)				
IN NET ASSETS	\$ 346,291	\$ (666,911)	\$ (320,620)	\$ 350,948

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

Governmental Activities

Governmental activities increased the net assets of the City by \$346,291. Tax revenues for the City were \$5.9 million, which represents 61% of the financing of these activities. Program revenues for the functions totaled \$3 million, or 31% of the funding. 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	\$ 1,337,461	\$ 1,073,042
Police	1,621,222	1,260,459
Fire	1,499,495	1,405,858
Street	974,416	968,851
Drainage	6,181	6,181
Recreation	435,823	232,243
Parks	461,593	404,597
Economic development	527,170	527,170
Recycling center	39,340	(19,735)
Airport	734,427	300,934
Disaster recovery	1,774,683	213,038
	\$ 9,411,811	\$ 6,372,638

Business-Type Activities

Business-type activities decreased the City's net assets by \$666,911. This is up from the decrease received last year from the City's business-type activities. The decrease incurred in the prior year was \$665,566.

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of September 30, 2007, was \$9.7 million. The General Fund decreased by \$320,182. The Economic Development Fund increased by \$83,791. The Street Fund increased by \$68,704. The 2006 COP Fund increased by \$30,416. The 2007 COP Fund increased by \$7,055,005.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

General Fund Budgetary Highlights

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

- The original revenue budget of \$6,586,560 was increased to \$7,087,147.
- The total original expenditures budget of \$6,183,100 was increased to \$10,476,302.

Budget adjustments were presented and approved by City Council. Budgeted revenues were \$1,039,025 above actual, and budgeted expenditures were \$3,519,807 above actual.

Capital Asset and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$17.3 million (net of accumulated depreciation) as of September 30, 2007. This represents a \$597,153 increase from the prior year. Capital assets for business-type activities were \$9.7 million as of September 30, 2007. This represents a decrease of \$385,808 from the prior year due to current year provisions for depreciation.

Debt

Total debt of the governmental activities as of September 30, 2007, was \$12.1 million, which is up from \$4.8 million from the prior year primarily due to the issuance of \$7,535,000 in Certificates of Participation.

Total debt of the business-type activities as of September 31, 2007, was \$4.3 million, which is unchanged from \$4.3 million in the prior year.

Economic Factors and Next Year's Budget

During Fiscal Year 2006-2007 the City experienced the following significant economic changes:

- The Lowes Corporation began construction of a new store which opened in January, 2008. The store employs approximately 120 people and will have estimated taxable revenue of \$20 million per year.
- Missouri Sugars Corporation purchased facilities and started manufacturing operations, producing products for the bottled drink industry. This produced approximately fifteen new jobs for the local economy.
- Arby's Restaurants began construction of a new store, which opened in December 2007. The major gain to the City will be in the number of employees added to the workforce.
- Daisy Corporation closed its manufacturing facility in Neosho. Those employees not transferred elsewhere were assimilated into the local workforce.
- The unemployment rate for the Neosho area remained low – at less than four percent. This rate compares favorably with the region and the State of Missouri.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2007

Economic Factors and Next Year's Budget (continued)

In September, 2007, the City Council adopted the Fiscal Year 2007-2008 budget. The governmental fund budget estimates \$7.2 million in revenues and \$11.7 million in expenses. Included in the expenses are \$571,000 for renovation and expansion of the Senior Center and \$2.9 million for renovation of the Auditorium, both of which are funded by the 2007A Certificates of Participation proceeds received in Fiscal Year 2006-2007. Additionally, \$3.5 million in street and bridge projects are appropriated using the proceeds of the 2007B Certificates of Participation. These proceeds were also received in Fiscal Year 2006-2007. The Water/Wastewater enterprise fund budget estimates \$3.8 million in revenues and \$6.5 million in expenses for Fiscal Year 2007-2008.

For Fiscal Year 2007-2008, the golf course will be treated as a special revenue fund (instead of an enterprise fund). Estimated revenue is \$525,000 and budgeted expenditures are \$391,000. Additionally \$181,000 is approved to be transferred to the debt service funds to pay the course's share of the liability on the 2006A & B Certificates of Participation. The budget for the Street Fund includes \$7.9 million in revenue and \$7.3 million in expenditures, with \$64,000 approved for transfer to the debt service funds. City-wide, the 2007-2008 budget approved estimated revenues of \$21.2 million and expenditures amounting to \$28.8 million.

Contacting the City's Financial Management

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

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

Jan Blase, City Manager
Audrey Covey, City Clerk
Angie Kirk, City Collector
Bob Blackwood, Finance Director

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS
September 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 1,342,638	\$ 688,506	\$ 2,031,144
Sales tax receivable, net	597,522	-	597,522
Utilities receivable, net	-	262,852	262,852
Other accounts receivable, net	227,177	10,335	237,512
Court fines receivable, net	38,128	-	38,128
Intergovernmental receivable	231,834	-	231,834
Inventory	41,734	-	41,734
Prepaid expenses	108,886	26,124	135,010
Noncurrent			
Restricted cash and cash equivalents	541,704	203,595	745,299
Restricted investments	7,347,802	634,984	7,982,786
Deferred debt issuance costs	440,646	2,748	443,394
Capital Assets:			
Non-depreciable	10,090,924	338,059	10,428,983
Depreciable, net	7,235,048	9,360,004	16,595,052
TOTAL ASSETS	28,244,043	11,527,207	39,771,250
LIABILITIES			
Current			
Accounts payable	586,190	190,433	776,623
Accrued expenses	174,525	64,870	239,395
Meter deposits payable	-	63,180	63,180
Accrued interest payable	239,344	25,286	264,630
Current maturities of long-term debt	562,510	89,486	651,996
	1,562,569	433,255	1,995,824
Noncurrent			
Compensated absences payable	467,490	79,900	547,390
Capital leases payable	35,855	255,542	291,397
Certificates of participation payable	10,867,839	3,712,934	14,580,773
Special obligation bonds payable	135,000	-	135,000
Revenue bonds payable	-	130,000	130,000
	11,506,184	4,178,376	15,684,560
TOTAL LIABILITIES	13,068,753	4,611,631	17,680,384
NET ASSETS			
Invested in capital assets, net of related debt	5,724,768	5,510,101	11,234,869
Restricted for:			
Non-expendable			
Parks	32,073	-	32,073
Debt service	1,245,656	775,399	2,021,055
Unrestricted	8,172,793	630,076	8,802,869
TOTAL NET ASSETS	\$ 15,175,290	\$ 6,915,576	\$ 22,090,866

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

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	\$ (597,614)	\$ 85,059	\$ 8,566	\$ -	\$ (503,989)	\$ -	\$ (503,989)
Clerk/Council	(88,868)	-	-	-	(88,868)	-	(88,868)
City hall building	(93,835)	-	-	-	(93,835)	-	(93,835)
Auditorium	(87,483)	11,525	-	-	(75,958)	-	(75,958)
Building inspection	(215,081)	151,644	-	-	(63,437)	-	(63,437)
Animal control	(44,332)	7,161	464	-	(36,707)	-	(36,707)
Police	(1,621,222)	340,694	19,614	455	(1,260,459)	-	(1,260,459)
Fire	(1,499,495)	1,000	75,000	17,637	(1,405,858)	-	(1,405,858)
Court	(84,555)	-	-	-	(84,555)	-	(84,555)
Airport	(734,427)	218,824	-	214,669	(300,934)	-	(300,934)
Drainage	(6,181)	-	-	-	(6,181)	-	(6,181)
Parks	(461,593)	11,753	16,961	28,282	(404,597)	-	(404,597)
Recreation	(435,823)	184,324	19,256	-	(232,243)	-	(232,243)
Senior center	(44,886)	-	-	-	(44,886)	-	(44,886)
Recycling center	(39,340)	24,954	34,121	-	19,735	-	19,735
Community center	(80,396)	-	-	-	(80,396)	-	(80,396)
Economic development	(527,170)	-	-	-	(527,170)	-	(527,170)
Street	(974,416)	-	-	5,565	(968,851)	-	(968,851)
Disaster recovery	(1,774,683)	-	1,561,645	-	(213,038)	-	(213,038)
Other	(411)	-	-	-	(411)	-	(411)
TOTAL GOVERNMENTAL ACTIVITIES	(9,411,811)	1,036,938	1,735,627	266,608	(6,372,638)	-	(6,372,638)
Business-Type Activities							
Water and Sewer	(3,256,331)	2,842,778	-	-	-	(413,553)	(413,553)
Golf	(829,709)	481,212	-	-	-	(348,497)	(348,497)
TOTAL BUSINESS-TYPE ACTIVITIES	(4,086,040)	3,323,990	-	-	-	(762,050)	(762,050)
TOTAL PRIMARY GOVERNMENT	\$ (13,497,851)	\$ 4,360,928	\$ 1,735,627	\$ 266,608	(6,372,638)	(762,050)	(7,134,688)
		General Revenues:					
					4,620,252	-	4,620,252
					451,778	-	451,778
					216,828	-	216,828
					643,550	-	643,550
					190,333	53,063	243,396
					124,670	21,461	146,131
					69,570	(69,570)	-
		Special Item:					
					401,948	90,185	492,133
		Total General Revenues, Transfers and Special Item			6,718,929	95,139	6,814,068
		Changes in Net Assets			346,291	(666,911)	(320,620)
		Net Assets, Beginning of year			14,828,999	7,582,487	22,411,486
		Net Assets, End of year			\$ 15,175,290	\$ 6,915,576	\$ 22,090,866

See accompanying notes.

CITY OF NEOSHO, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2007

	General Fund	Economic Development Fund	Street Fund	2006 COP Fund	2007 COP Fund	FEMA Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 401,017	\$ 417,397	\$ 343,761	\$ -	\$ -	\$ -	\$ 180,463	\$ 1,342,638
Sales tax receivable, net	461,564	45,400	90,558	-	-	-	-	597,522
Other accounts receivable, net	34,122	193,055	-	-	-	-	-	227,177
Court fines receivable, net	38,128	-	-	-	-	-	-	38,128
Intergovernmental receivable	231,834	-	-	-	-	-	-	231,834
Inventory	41,734	-	-	-	-	-	-	41,734
Due from other funds	466,669	-	-	-	-	-	-	466,669
Prepaid expenses	101,971	-	6,915	-	-	-	-	108,886
Restricted cash and cash equivalents	20,263	32,364	-	32,753	-	-	456,324	541,704
Restricted investments	-	72,000	-	-	7,251,813	-	23,989	7,347,802
TOTAL ASSETS	\$ 1,797,302	\$ 760,216	\$ 441,234	\$ 32,753	\$ 7,251,813	\$ -	\$ 660,776	\$ 10,944,094
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 451,177	\$ 12,500	\$ 122,513	\$ -	\$ -	\$ -	\$ -	\$ 586,190
Accrued expenses	157,944	-	16,581	-	-	-	-	174,525
Due to other funds	-	269,861	-	-	196,808	-	-	466,669
TOTAL LIABILITIES	609,121	282,361	139,094	-	196,808	-	-	1,227,384
Fund Balances								
Reserved for:								
Permanent funds:								
Nonexpendable								
Parks	-	-	-	-	-	-	32,073	32,073
Debt service funds:								
Principal and interest	-	-	-	32,753	7,055,005	-	620,948	7,708,706
Special revenue funds:								
Principal and interest	-	104,364	-	-	-	-	-	104,364
General Fund	20,263	-	-	-	-	-	-	20,263
Unreserved, reported in:								
General Fund	1,167,918	-	-	-	-	-	-	1,167,918
Special Revenue Fund	-	373,491	302,140	-	-	-	-	675,631
Capital Projects Fund	-	-	-	-	-	-	7,755	7,755
TOTAL FUND BALANCES	1,188,181	477,855	302,140	32,753	7,055,005	-	660,776	9,716,710
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,797,302	\$ 760,216	\$ 441,234	\$ 32,753	\$ 7,251,813	\$ -	\$ 660,776	\$ 10,944,094

See accompanying notes.

CITY OF NEOSHO, MISSOURI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF
NET ASSETS
September 30, 2007

Fund balance - total governmental funds	\$ 9,716,710
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	36,654,613
Less accumulated depreciation	<u>(19,328,641)</u>
	17,325,972
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due	(239,344)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(12,135,855)
Deferred loss on debt refunding	67,161
Unamortized debt issuance costs	<u>440,646</u>
Net assets of governmental activities	<u><u>\$ 15,175,290</u></u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
 Year Ended September 30, 2007

	General Fund	Economic Development Fund	Street Fund	2006 COP Fund	2007 COP Fund	FEMA Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 4,387,044	\$ 312,391	\$ 1,168,469	\$ -	\$ -	\$ -	\$ 64,505	\$ 5,932,409
Licenses and permits	191,034	-	-	-	-	-	-	191,034
Intergovernmental revenues	382,127	-	-	-	-	1,561,645	6,755	1,950,527
Charges for services	440,984	-	-	-	-	-	-	440,984
Fines and forfeitures	306,014	-	-	-	-	-	-	306,014
Miscellaneous	340,919	11,801	14,320	21,085	60,301	-	17,190	465,616
TOTAL REVENUES	6,048,122	324,192	1,182,789	21,085	60,301	1,561,645	88,450	9,286,584
EXPENDITURES								
Current								
Administrative	591,180	-	-	-	-	-	-	591,180
Clerk/Council	87,593	-	-	-	-	-	-	87,593
City hall building	93,835	-	-	-	-	-	-	93,835
Auditorium	336,878	-	-	-	-	-	-	336,878
Building inspection	210,385	-	-	-	-	-	-	210,385
Animal control	43,660	-	-	-	-	-	-	43,660
Police	1,689,235	-	-	-	-	-	-	1,689,235
Fire	1,438,231	-	-	-	-	-	-	1,438,231
Court	83,165	-	-	-	-	-	-	83,165
Airport	1,141,172	-	-	-	-	-	-	1,141,172
Drainage	624	-	-	-	-	-	-	624
Parks	412,763	-	-	-	-	-	-	412,763
Recreation	504,577	-	-	-	-	-	-	504,577
Senior center	169,243	-	-	-	-	-	-	169,243
Recycling center	73,558	-	-	-	-	-	-	73,558
Community center	80,396	-	-	-	-	-	-	80,396
Economic development	-	197,687	-	-	-	-	-	197,687
Street	-	-	1,208,755	-	-	-	-	1,208,755
Capital outlay	-	-	-	-	-	-	1,498	1,498
Disaster recovery	-	-	-	-	-	1,774,683	-	1,774,683
Other	-	-	-	-	-	-	411	411
Debt Service								
Principal and interest	-	75,188	-	218,101	-	-	179,612	472,901
TOTAL EXPENDITURES	6,956,495	272,875	1,208,755	218,101	-	1,774,683	181,521	10,612,430

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)
Year Ended September 30, 2007

	General Fund	Economic Development Fund	Street Fund	2006 COP Fund	2007 COP Fund	FEMA Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(908,373)	51,317	(25,966)	(197,016)	60,301	(213,038)	(93,071)	(1,325,846)
OTHER FINANCING SOURCES (USES)								
Operating transfers in (out)	561,790	(690,024)	(23,225)	227,432	(302,742)	213,038	83,301	69,570
Certificate of participation proceeds	-	-	-	-	7,535,000	-	-	7,535,000
Sale of property	26,401	722,498	117,895	-	-	-	-	866,794
COP issuance costs	-	-	-	-	(237,554)	-	-	(237,554)
TOTAL OTHER FINANCING SOURCES (USES)	<u>588,191</u>	<u>32,474</u>	<u>94,670</u>	<u>227,432</u>	<u>6,994,704</u>	<u>213,038</u>	<u>83,301</u>	<u>8,233,810</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(320,182)	83,791	68,704	30,416	7,055,005	-	(9,770)	6,907,964
FUND BALANCE, October 1	<u>1,508,363</u>	<u>394,064</u>	<u>233,436</u>	<u>2,337</u>	<u>-</u>	<u>-</u>	<u>670,546</u>	<u>2,808,746</u>
FUND BALANCE, September 30	<u>\$ 1,188,181</u>	<u>\$ 477,855</u>	<u>\$ 302,140</u>	<u>\$ 32,753</u>	<u>\$ 7,055,005</u>	<u>\$ -</u>	<u>\$ 660,776</u>	<u>\$ 9,716,710</u>

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, 2007

Net change in fund balances - total governmental funds \$ 6,907,964

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 capital outlays exceeded depreciation for the year.

Capital outlay	1,919,832
Sale of capital assets, net	(667,421)
Depreciation	(655,258)
	<u>597,153</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	(7,535,000)
Repayment of principal on bonds and leases	305,797
Issuance cost amortization	216,964
Deferred loss on refunding	(2,920)
Change in accrued interest payable	(93,152)
	<u>(7,108,311)</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. (50,515)

Change in net assets of governmental activities \$ 346,291

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
September 30, 2007

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 561,746	\$ 126,760	\$ 688,506	\$ 157,504
Utilities receivable, net	262,852	-	262,852	-
Other accounts receivable	10,335	-	10,335	19,243
Prepaid expenses	22,482	3,642	26,124	-
TOTAL CURRENT ASSETS	857,415	130,402	987,817	176,747
Restricted Assets				
Cash and cash equivalents	168,524	35,071	203,595	-
Investments	58,148	576,836	634,984	-
TOTAL RESTRICTED ASSETS	226,672	611,907	838,579	-
Deferred Bond Issuance Costs	2,748	-	2,748	-
Property, Plant and Equipment				
Land	251,578	23,643	275,221	-
Work in progress	62,838	-	62,838	-
Water plant and equipment	12,914,534	-	12,914,534	-
Buildings and improvements	85,591	301,740	387,331	-
Sewer plant and equipment	10,451,477	-	10,451,477	-
Golf course	-	3,291,243	3,291,243	-
Major moveable equipment	-	695,363	695,363	-
	23,766,018	4,311,989	28,078,007	-
Less accumulated depreciation	(16,336,607)	(2,043,337)	(18,379,944)	-
TOTAL PROPERTY, PLANT AND EQUIPMENT	7,429,411	2,268,652	9,698,063	-
TOTAL ASSETS	8,516,246	3,010,961	11,527,207	176,747

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)
September 30, 2007

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
LIABILITIES				
Current Liabilities				
Accounts payable	176,419	14,014	190,433	176,747
Accrued expenses	64,870	-	64,870	-
Accrued interest payable	15,265	10,021	25,286	-
Meter deposits payable	63,180	-	63,180	-
Current maturities of long-term debt	87,530	1,956	89,486	-
TOTAL CURRENT LIABILITIES	407,264	25,991	433,255	176,747
Long-Term Liabilities				
Capital leases payable	122,352	133,190	255,542	-
Revenue bonds payable	130,000	-	130,000	-
Certificates of participation	375,000	3,337,934	3,712,934	-
Compensated absences payable	79,900	-	79,900	-
TOTAL LONG-TERM LIABILITES	707,252	3,471,124	4,178,376	-
TOTAL LIABILITIES	1,114,516	3,497,115	4,611,631	176,747
NET ASSETS				
Invested in capital assets, net of related debt	6,714,529	(1,204,428)	5,510,101	-
Restricted for debt service	163,492	611,907	775,399	-
Unrestricted	523,709	106,367	630,076	-
TOTAL NET ASSETS	\$ 7,401,730	\$ (486,154)	\$ 6,915,576	\$ -

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
Year Ended September 30, 2007

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
OPERATING REVENUES				
Charges for services				
Water	\$ 2,842,778	\$ -	\$ 2,842,778	\$ -
Golf	-	481,212	481,212	-
TOTAL OPERATING REVENUES	2,842,778	481,212	3,323,990	-
OPERATING EXPENSES				
Personnel services	1,369,861	-	1,369,861	-
Contractual services	206,612	233,468	440,080	-
Repairs and maintenance	435,995	43,382	479,377	-
Supplies	214,540	64,462	279,002	-
Utilities	424,740	23,168	447,908	-
Insurance	71,883	7,680	79,563	-
Depreciation	466,542	256,712	723,254	-
Miscellaneous	24,721	9,352	34,073	-
TOTAL OPERATING EXPENSES	3,214,894	638,224	3,853,118	-
OPERATING (LOSS)	(372,116)	(157,012)	(529,128)	-
NONOPERATING REVENUES				
(EXPENSES)				
Interest income	38,323	14,740	53,063	-
Other revenue	21,267	194	21,461	-
Interest expense	(41,437)	(191,485)	(232,922)	-
Gain on disposal of equipment	-	90,185	90,185	-
TOTAL NONOPERATING				
REVENUES (EXPENSES)	18,153	(86,366)	(68,213)	-
(LOSS) BEFORE				
OPERATING TRANSFERS	(353,963)	(243,378)	(597,341)	-
OTHER FINANCING (USES)				
Transfers (out)	(10,916)	(58,654)	(69,570)	-
TOTAL OTHER				
FINANCING (USES)	(10,916)	(58,654)	(69,570)	-
NET (LOSS)	(364,879)	(302,032)	(666,911)	-
NET ASSETS, October 1	7,766,609	(184,122)	7,582,487	-
NET ASSETS, September 30	\$ 7,401,730	\$ (486,154)	\$ 6,915,576	\$ -

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended September 30, 2007

	Enterprise Funds		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Golf Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,878,177	\$ 483,221	\$ 3,361,398	\$ -
Cash paid to suppliers	(1,323,558)	(403,459)	(1,727,017)	(50,659)
Cash paid to employees	(1,353,848)	-	(1,353,848)	-
Other cash received for nonoperating revenues	21,267	194	21,461	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	222,038	79,956	301,994	(50,659)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer to other funds	(10,916)	(58,654)	(69,570)	-
Repayment of loans from other funds	110,096	-	110,096	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	99,180	(58,654)	40,526	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of principal on capital leases	(40,878)	(75,207)	(116,085)	-
Purchase of fixed assets	(109,840)	(137,422)	(247,262)	-
Payment of principal on certificates of participation	(20,000)	-	(20,000)	-
Payment of principal on bonds	(25,000)	-	(25,000)	-
Lease proceeds	-	135,146	135,146	-
Payment of interest expense	(42,391)	(190,495)	(232,886)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(238,109)	(267,978)	(506,087)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	41,704	16,600	58,304	-
Maturity (purchase) of investments	(4,931)	1,163	(3,768)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	36,773	17,763	54,536	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119,882	(228,913)	(109,031)	(50,659)
CASH AND CASH EQUIVALENTS, Beginning of year	610,388	390,744	1,001,132	208,163
CASH AND CASH EQUIVALENTS, End of year	730,270	161,831	892,101	157,504
LESS RESTRICTED CASH AND CASH EQUIVALENTS	168,524	35,071	203,595	-
UNRESTRICTED CASH AND CASH EQUIVALENTS	\$ 561,746	\$ 126,760	\$ 688,506	\$ 157,504
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating (loss)	\$ (372,116)	\$ (157,012)	\$ (529,128)	\$ -
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:				
Depreciation	466,542	256,712	723,254	-
(Increase) decrease in:				
Utilities receivable	56,295	-	56,295	-
Other accounts receivable	(6,185)	2,009	(4,176)	(19,243)
Prepaid expenses	23,561	(2,097)	21,464	-
Increase (decrease) in:				
Accounts payable	31,372	(19,850)	11,522	(31,416)
Accrued expenses	3,192	-	3,192	-
Meter deposits payable	(1,818)	-	(1,818)	-
Deferred revenues	(12,893)	-	(12,893)	-
Compensated absences	12,821	-	12,821	-
Other cash received for nonoperating revenues	21,267	194	21,461	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 222,038	\$ 79,956	\$ 301,994	\$ (50,659)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2006 COP Fund: The 2006 COP Fund accounts for revenues and other financing sources used for the payment of principal and interest on the 2006A and 2006B Certificates of Participation.

2007 COP Fund: The 2007 COP Fund accounts for revenues and other financing sources used for the payment of principal and interest on the 2007A and 2007B Certificates of Participation.

FEMA Grant Fund: The FEMA Grant Fund is used to account for grant revenues related to disaster recovery.

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 vacation at termination of employment is 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, 2007

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, 2007, all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of September 30, 2007, are as follows:

Investment Type	Maturity	Fair Value
Goldman Sachs Treasury	10/15/2008	\$ 7,828,648
AIGFMC Fixed Income Securities	7/1/2014	14,060
Trinity Plus Funding	1/1/2019	4,089
Fidelity Treasury Fund	N/A	135,989
		\$ 7,982,786

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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, 2006B, 2007A, and 2007B 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 accounts.

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 accounts.

NOTE D – ACCOUNTS RECEIVABLE

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

	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
TAXES RECEIVABLE			
General Fund	\$ 461,564	\$ -	\$ 461,564
Economic Development Fund	45,400	-	45,400
Street Fund	90,558	-	90,558
	<u>\$ 597,522</u>	<u>\$ -</u>	<u>\$ 597,522</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

NOTE D – ACCOUNTS RECEIVABLE (continued)

	<u>Gross Receivable</u>	<u>Allowance</u>	<u>Net Receivable</u>
UTILITIES RECEIVABLE			
Water and Sewer Fund	\$ 271,555	\$ 8,703	\$ 262,852
OTHER ACCOUNTS RECEIVABLE			
General Fund			
Sanitation fees	\$ 14,000	\$ -	\$ 14,000
Other	20,122	-	20,122
	34,122	-	34,122
Economic Development Fund	193,055	-	193,055
Water and Sewer Fund	10,335	-	10,335
	\$ 237,512	\$ -	\$ 237,512
COURT FINES RECEIVABLE			
General Fund	\$ 152,875	\$ 114,747	\$ 38,128

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

The business-type activities long-term debt at September 30, 2007, 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.

\$ 155,000

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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>
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>\$ 155,000</u>	<u>\$ 36,971</u>	<u>\$ 191,971</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, 2007, are due as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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

Year Ended September 30,	Principal	Interest	Total
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>\$ 1,185,000</u>	<u>\$ 414,853</u>	<u>\$ 1,599,853</u>

Amount recorded in:

Water and Sewer Fund	\$ 395,000
Governmental Activities	790,000
TOTAL	<u>\$ 1,185,000</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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, 2007, are due as follows:

Year Ended September 30,	Principal	Interest	Total
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>\$ 6,420,000</u>	<u>\$ 4,299,654</u>	<u>\$ 10,719,654</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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

Amount recorded in:

Golf Fund	\$ 3,425,000
Governmental Activities	<u>2,995,000</u>
TOTAL	<u><u>\$ 6,420,000</u></u>

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 October 28, 2011.

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.

On August 17, 2007, the City entered into a cancelable lease purchase agreement as lessee to finance the purchase of golf carts in the amount of \$135,146. The lease requires varying monthly payments including interest at 5.4%.

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 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, 2007, are as follows:

Year Ended <u>September 30,</u>	
2008	\$ 57,806
2009	63,260
2010	63,259
2011	63,259
2012	<u>92,227</u>
TOTAL MINIMUM LEASE PAYMENTS	339,811
LESS AMOUNT REPRESENTING INTEREST	<u>(39,783)</u>
NET LEASE PAYMENTS	<u><u>\$ 300,028</u></u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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, 2007, is as follows:

	Balance September 30, 2006	Additions	Retirements	Balance September 30, 2007
GOLF FUND				
Golf cart lease - 2003	\$ 75,207	\$ -	\$ 75,207	\$ -
Golf cart lease - 2007	-	135,146	-	135,146
2006A Certificates of Participation	3,060,000	-	-	3,060,000
2006B Certificates of Participation	365,000	-	-	365,000
	<u>3,500,207</u>	<u>135,146</u>	<u>75,207</u>	<u>3,560,146</u>
Less:				
Deferred loss on debt refunding	(90,852)	-	(3,786)	(87,066)
	<u>3,409,355</u>	<u>135,146</u>	<u>71,421</u>	<u>3,473,080</u>
WATER AND SEWER FUND				
Land lease	10,760	-	5,380	5,380
UV treatment system lease	195,000	-	35,498	159,502
1992B Revenue Bonds	180,000	-	25,000	155,000
2003 Certificate of Participation	415,000	-	20,000	395,000
	<u>800,760</u>	<u>-</u>	<u>85,878</u>	<u>714,882</u>
Compensated Absences Payable	67,079	12,821	-	79,900
TOTAL	<u>\$ 4,277,194</u>	<u>\$ 147,967</u>	<u>\$ 157,299</u>	<u>\$ 4,267,862</u>

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt for governmental activities at September 30, 2007, consists of two capital lease obligations, special obligation bonds, certificates of participation, and compensated absences payable.

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%.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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

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, 2007, are as follows:

Year Ended September 30,		
2008		\$ 36,549
2009		36,449
2010		<u>2,100</u>
	TOTAL MINIMUM LEASE PAYMENTS	75,098
	LESS AMOUNT REPRESENTING INTEREST	<u>(6,733)</u>
	NET LEASE PAYMENTS	<u><u>\$ 68,365</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:

Year Ended September 30,	Principal	Interest	Total
2008	\$ 145,000	\$ 9,338	\$ 154,338
2009	<u>135,000</u>	<u>3,038</u>	<u>138,038</u>
	<u><u>\$ 280,000</u></u>	<u><u>\$ 12,376</u></u>	<u><u>\$ 292,376</u></u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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

Certificates of Participation

On April 1, 2007, the City issued \$3,625,000 in Certificates of Participation, Series 2007A for the purpose of providing funds to pay the costs of renovating the City's existing municipal auditorium and senior citizens center. The Certificates of Participation bear interest at various rates with principal payments due April 1 and interest payments due April 1 and October 1 of each year. The certificates outstanding at September 30, 2007, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 60,000	\$ 165,842	\$ 225,842
2009	90,000	163,441	253,441
2010	100,000	159,841	259,841
2011	100,000	155,841	255,841
2012	110,000	151,592	261,592
2013	125,000	146,916	271,916
2014	130,000	141,728	271,728
2015	135,000	136,334	271,334
2016	140,000	130,428	270,428
2017	155,000	124,302	279,302
2018	165,000	117,250	282,250
2019	175,000	109,742	284,742
2020	185,000	101,780	286,780
2021	195,000	93,085	288,085
2022	210,000	83,920	293,920
2023	220,000	74,050	294,050
2024	235,000	63,600	298,600
2025	245,000	52,438	297,438
2026	265,000	40,800	305,800
2027	585,000	28,080	613,080
	<u>\$ 3,625,000</u>	<u>\$ 2,241,010</u>	<u>\$ 5,866,010</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

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

On September 1, 2007, the City issued \$3,910,000 in Certificates of Participation, Series 2007B for the purpose of providing funds to pay the costs of constructing a railroad overpass, vehicle and pedestrian bridge and other roadway extensions and improvements. The Certificates of Participation bear interest at various rates with principal payments due April 1 and interest payments due April 1 and October 1 of each year. The certificates outstanding at September 30, 2007, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 195,000	\$ 89,077	\$ 284,077
2009	120,000	167,677	287,677
2010	125,000	162,997	287,997
2011	130,000	158,060	288,060
2012	135,000	152,860	287,860
2013	140,000	147,392	287,392
2014	150,000	141,652	291,652
2015	155,000	135,427	290,427
2016	160,000	128,917	288,917
2017	165,000	122,118	287,118
2018	175,000	115,023	290,023
2019	180,000	107,410	287,410
2020	190,000	99,400	289,400
2021	200,000	90,755	290,755
2022	205,000	81,555	286,555
2023	215,000	72,023	287,023
2024	225,000	61,595	286,595
2025	240,000	50,683	290,683
2026	250,000	39,043	289,043
2027	555,000	26,918	581,918
	<u>\$ 3,910,000</u>	<u>\$ 2,150,582</u>	<u>\$ 6,060,582</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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, 2007, is as follows:

	Balance September 30, 2006	Additions	Retirements	Balance September 30, 2007
Capital Lease Obligations				
2000 Spartan fire truck	\$ 91,162	\$ -	\$ 28,797	\$ 62,365
Land lease	8,000	-	2,000	6,000
	<u>99,162</u>	<u>-</u>	<u>30,797</u>	<u>68,365</u>
Special Obligation Bonds				
1998	420,000	-	140,000	280,000
	<u>420,000</u>	<u>-</u>	<u>140,000</u>	<u>280,000</u>
Certificates of Participation				
2003	855,000	-	65,000	790,000
2006A	3,065,000	-	70,000	2,995,000
2007A	-	3,625,000	-	3,625,000
2007B	-	3,910,000	-	3,910,000
	<u>3,920,000</u>	<u>7,535,000</u>	<u>135,000</u>	<u>11,320,000</u>
Less: Deferred loss on debt refunding	<u>(70,081)</u>	<u>-</u>	<u>(2,920)</u>	<u>(67,161)</u>
	3,849,919	7,535,000	132,080	11,252,839
Compensated absences payable	<u>416,975</u>	<u>50,515</u>	<u>-</u>	<u>467,490</u>
TOTAL	<u>\$ 4,786,056</u>	<u>\$ 7,585,515</u>	<u>\$ 302,877</u>	<u>\$ 12,068,694</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance September 30, 2006	Additions	Deletions	Balance September 30, 2007
Governmental Activities				
Non-Depreciable Capital Assets:				
Land	\$ 9,275,587	\$ -	\$ 223,006	\$ 9,052,581
Work in progress	706,327	534,592	202,576	1,038,343
Total Non-Depreciable Capital Assets	<u>9,981,914</u>	<u>534,592</u>	<u>425,582</u>	<u>10,090,924</u>
Depreciable Capital Assets:				
Land improvements	343,177	-	-	343,177
Building and improvements	3,839,062	730,154	303,439	4,265,777
Machinery and equipment	4,262,476	245,509	142,995	4,364,990
Infrastructure	17,180,168	409,577	-	17,589,745
Total Depreciable Capital Assets	25,624,883	<u>\$ 1,385,240</u>	<u>\$ 446,434</u>	26,563,689
Less Accumulated Depreciation	18,877,978	<u>\$ 655,258</u>	<u>\$ 204,595</u>	19,328,641
Total Depreciable Capital Assets, Net	<u>6,746,905</u>			<u>7,235,048</u>
Total Governmental Activities Capital Assets	<u>\$ 16,728,819</u>			<u>\$ 17,325,972</u>

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

Administration	\$ 52,963
Clerk/Council	265
Auditorium	674
Economic development	13,421
Building inspection	3,181
Animal control	672
Police	49,530
Fire	70,361
Recycling	728
Court	380
Airport	248,940
Parks	56,692
Recreation	23,869
Street	133,582
	<u>\$ 655,258</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

NOTE H – CAPITAL ASSETS (continued)

	Balance September 30, 2006	Additions	Deletions	Balance September 30, 2007
Business-Type Activities				
Water and Sewer				
Non-Depreciable Capital Assets:				
Land	\$ 251,578	\$ -	\$ -	\$ 251,578
Work in progress	-	62,838	-	62,838
Total Non-Depreciable Capital Assets	<u>251,578</u>	<u>\$ 62,838</u>	<u>\$ -</u>	<u>314,416</u>
Depreciable Capital Assets:				
Buildings	85,591	\$ -	\$ -	85,591
Water plant and equipment	12,868,332	47,002	800	12,914,534
Sewer plant and equipment	10,454,477	-	3,000	10,451,477
	23,408,400	<u>\$ 47,002</u>	<u>\$ 3,800</u>	23,451,602
Less Accumulated Depreciation	<u>15,873,865</u>	<u>\$ 466,542</u>	<u>\$ 3,800</u>	<u>16,336,607</u>
Depreciable Capital Assets, Net	7,534,535			7,114,995
Golf				
Non-Depreciable Capital Assets:				
Land	23,643	<u>\$ -</u>	<u>\$ -</u>	23,643
Depreciable Capital Assets:				
Buildings	301,740	\$ -	\$ -	301,740
Golf course	3,288,493	2,750	-	3,291,243
Equipment	729,842	253,671	288,150	695,363
	4,320,075	<u>\$ 256,421</u>	<u>\$ 288,150</u>	4,288,346
Less Accumulated Depreciation	<u>2,045,960</u>	<u>\$ 256,712</u>	<u>\$ 259,335</u>	<u>2,043,337</u>
Depreciable Capital Assets, Net	<u>2,274,115</u>			<u>2,245,009</u>
Total Capital Assets - Business-Type Activities, Net	<u>\$ 10,083,871</u>			<u>\$ 9,698,063</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 10.9% (general), 7.6% (police) and 11.6% (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 2007, the political subdivision's annual pension cost of \$342,708 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2005 and/or February 28, 2006, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2007, 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, 2007, was 15 years.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

NOTE I – EMPLOYEE PENSION PLAN (continued)

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/05	\$ 149,826	100%	\$ -
06/30/06	253,185	100%	-
06/30/07	342,708	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; 2003, 2006, and 2007 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, 2007

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, 2006	Current Amortization	Net Debt Issue Costs
Water and Sewer Fund	\$ 12,060	\$ 8,690	\$ 622	\$ 2,748
Governmental Activities	\$ 498,360	\$ 41,602	\$ 16,112	\$ 440,646

NOTE L – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2007, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 1,144,584	\$ 582,794
Economic Development Fund	75,188	765,212
Street Fund	46,717	69,942
Golf Fund	186,821	245,475
Water and Sewer Fund	148,493	159,409
FEMA Fund	213,038	-
2006 COP Fund	227,432	-
2007 COP Fund	72,189	374,931
Nonmajor Governmental Funds	217,110	133,809
	<u>\$ 2,331,572</u>	<u>\$ 2,331,572</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, 2007

NOTE M – INTERNAL BALANCES

Internal balances as of September 30, 2007, consisted of the following:

	General Fund	Economic Development Fund	2007 COP Fund
Internal balances	<u>\$ 466,669</u>	<u>\$ (269,861)</u>	<u>\$ (196,808)</u>

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, 2007, 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, 2007, 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 – 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, 2007. \$5,755,000 of these defeased bonds and certificates are still outstanding and the cash and investment balance in the irrevocable trust account on September 30, 2007, was \$5,702,721.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2007

NOTE O – 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, 2006	Additions	Current Amortization	Balance September 30, 2007
Golf Fund	\$ 90,852	\$ -	\$ (3,786)	\$ 87,066
Governmental Activities	\$ 70,081	\$ -	\$ (2,920)	\$ 67,161

NOTE P – COMMITMENTS

At September 30, 2007, the City had the following commitments:

1. Sprenkle & Associates for the South Street Overpass project in the amount of \$20,621.
2. Tri-State Engineering for the Howard Bush Extension project in the amount of \$76,292.
3. Chuck Nelson for courthouse renovations in the amount of \$24,000.
4. Darin Miller Construction for senior center renovations in the amount of \$395,418.
5. Justin S. Beck for a golf course management contract through April 2009, in the amount of \$211,297.
6. Branco Enterprises for Auditorium renovations in the amount of \$2,621,127.

NOTE Q – SUBSEQUENT EVENTS

In October 2007, the City purchased land in the amount of \$148,000. In December 2007, the City entered into a capital lease agreement for the purchase of a new fire truck in the amount of \$162,676.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended September 30, 2007

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 Accrued Liability	(Excess) Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll
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%
02/28/07	5,649,486	5,371,229	(278,257)	105%	3,309,477	0%

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, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
City sales tax	\$ 3,942,700	\$ 3,942,700	\$ 3,664,676	\$ (278,024)
Utility franchise tax	596,808	642,808	643,550	742
Cigarette tax	75,000	75,000	78,818	3,818
	<u>4,614,508</u>	<u>4,660,508</u>	<u>4,387,044</u>	<u>(273,464)</u>
Licenses and Permits				
Occupational licenses	25,000	25,000	28,878	3,878
Building permits	66,448	151,297	151,644	347
Animal licenses and fees	7,500	7,500	5,485	(2,015)
Other	2,800	2,800	5,027	2,227
	<u>101,748</u>	<u>186,597</u>	<u>191,034</u>	<u>4,437</u>
Intergovernmental Revenues				
Grants	13,576	200,679	272,447	71,768
Fire district	75,000	75,000	75,000	-
Other	44,819	44,819	34,680	(10,139)
	<u>133,395</u>	<u>320,498</u>	<u>382,127</u>	<u>61,629</u>
Charges for Services				
Sanitation	58,000	58,000	46,435	(11,565)
Airport fuel sales	110,250	110,250	173,618	63,368
Park fees	13,200	13,200	10,653	(2,547)
Recreational fees	168,000	179,390	184,324	4,934
Recycling center fees	-	19,914	24,954	5,040
Other	-	-	1,000	1,000
	<u>349,450</u>	<u>380,754</u>	<u>440,984</u>	<u>60,230</u>
Fines and Forfeitures				
City court fines	288,485	324,219	302,770	(21,449)
Police training fees	7,550	7,550	3,244	(4,306)
	<u>296,035</u>	<u>331,769</u>	<u>306,014</u>	<u>(25,755)</u>
Miscellaneous				
Leases and rent income	65,970	75,970	64,226	(11,744)
Interest	27,000	27,000	75,143	48,143
Donations and other contributions	803,000	851,704	86,387	(765,317)
Other	195,454	252,347	115,163	(137,184)
	<u>1,091,424</u>	<u>1,207,021</u>	<u>340,919</u>	<u>(866,102)</u>
TOTAL REVENUES	6,586,560	7,087,147	6,048,122	(1,039,025)

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
 Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	478,475	565,283	591,180	(25,897)
Clerk/Council	112,851	112,851	87,593	25,258
City hall building	80,431	95,831	93,835	1,996
Auditorium	116,903	3,066,903	336,878	2,730,025
Building inspection	200,764	238,719	210,385	28,334
Animal control	51,006	51,006	43,660	7,346
Police	1,635,678	1,648,908	1,689,235	(40,327)
Fire	1,568,746	1,568,746	1,438,231	130,515
Court	84,681	84,681	83,165	1,516
Airport	942,944	1,156,938	1,141,172	15,766
Drainage	53,360	53,360	624	52,736
Parks	356,592	444,833	412,763	32,070
Recreation	436,164	559,585	504,577	55,008
Senior Center	55,505	666,505	169,243	497,262
Recycling Center	-	82,897	73,558	9,339
Community Center	9,000	79,256	80,396	(1,140)
TOTAL EXPENDITURES	<u>6,183,100</u>	<u>10,476,302</u>	<u>6,956,495</u>	<u>3,519,807</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	403,460	(3,389,155)	(908,373)	2,480,782
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	3,569,550	1,144,584	(2,424,966)
Operating transfers (out)	(288,962)	(533,646)	(582,794)	(49,148)
Sale of property	15,000	15,000	26,401	11,401
TOTAL OTHER FINANCING SOURCES (USES)	<u>(273,962)</u>	<u>3,050,904</u>	<u>588,191</u>	<u>(2,462,713)</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	129,498	(338,251)	(320,182)	18,069
FUND BALANCE, October 1	<u>1,508,363</u>	<u>1,508,363</u>	<u>1,508,363</u>	<u>-</u>
FUND BALANCE, September 30	<u>\$ 1,637,861</u>	<u>\$ 1,170,112</u>	<u>\$ 1,188,181</u>	<u>\$ 18,069</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – ECONOMIC DEVELOPMENT FUND
 Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Sales taxes	\$ 264,000	\$ 264,000	\$ 238,885	\$ (25,115)
Motel taxes	-	40,000	73,506	33,506
Rental income	66,060	66,060	-	(66,060)
Miscellaneous	3,000	3,000	11,801	8,801
TOTAL REVENUES	<u>333,060</u>	<u>373,060</u>	<u>324,192</u>	<u>(48,868)</u>
EXPENDITURES				
Current				
Economic development	252,170	312,604	197,687	114,917
Debt Service				
Principal and interest	76,988	76,988	75,188	1,800
TOTAL EXPENDITURES	<u>329,158</u>	<u>389,592</u>	<u>272,875</u>	<u>116,717</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES				
	3,902	(16,532)	51,317	67,849
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	75,188	75,188
Operating transfers (out)	(12,000)	(681,461)	(765,212)	(83,751)
Sale of property	-	719,698	722,498	2,800
TOTAL OTHER FINANCING SOURCES (USES)	<u>(12,000)</u>	<u>38,237</u>	<u>32,474</u>	<u>(5,763)</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)				
	(8,098)	21,705	83,791	62,086
FUND BALANCE, October 1	394,064	394,064	394,064	-
FUND BALANCE, September 30	<u>\$ 385,966</u>	<u>\$ 415,769</u>	<u>\$ 477,855</u>	<u>\$ 62,086</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – STREET FUND
 Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes	\$ 1,250,000	\$ 1,250,000	\$ 1,168,469	\$ (81,531)
Intergovernmental revenue	600,000	600,000	-	(600,000)
Miscellaneous	12,500	12,500	14,320	1,820
TOTAL REVENUES	<u>1,862,500</u>	<u>1,862,500</u>	<u>1,182,789</u>	<u>(679,711)</u>
EXPENDITURES				
Current				
Street	1,571,009	1,601,009	1,208,755	392,254
TOTAL EXPENDITURES	<u>1,571,009</u>	<u>1,601,009</u>	<u>1,208,755</u>	<u>392,254</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	291,491	261,491	(25,966)	(287,457)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	46,717	46,717
Operating transfers (out)	(75,525)	(75,525)	(69,942)	5,583
Sale of property	-	117,895	117,895	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(75,525)</u>	<u>42,370</u>	<u>94,670</u>	<u>52,300</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	215,966	303,861	68,704	(235,157)
FUND BALANCE, October 1	<u>233,436</u>	<u>233,436</u>	<u>233,436</u>	<u>-</u>
FUND BALANCE, September 30	<u><u>\$ 449,402</u></u>	<u><u>\$ 537,297</u></u>	<u><u>\$ 302,140</u></u>	<u><u>\$ (235,157)</u></u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – FEMA GRANT FUND
 Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Intergovernmental revenue	\$ -	\$ 1,843,992	\$ 1,561,645	\$ (282,347)
TOTAL REVENUES	-	1,843,992	1,561,645	(282,347)
EXPENDITURES				
Current				
Ice storm	-	1,843,992	1,774,683	69,309
TOTAL EXPENDITURES	-	1,843,992	1,774,683	69,309
(DEFICIT) OF REVENUES OVER EXPENDITURES	-	-	(213,038)	(213,038)
OTHER FINANCING SOURCES				
Operating transfers in	-	-	213,038	213,038
TOTAL OTHER FINANCING SOURCES	-	-	213,038	213,038
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	-	-	-	-
FUND BALANCE, October 1	-	-	-	-
FUND BALANCE, September 30	\$ -	\$ -	\$ -	\$ -

CITY OF NEOSHO, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended September 30, 2007

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, 2007

	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	Abbot Brothers Fund	Morse Park Fund	
ASSETS									
Cash and cash equivalents-unrestricted	\$ -	\$ 180,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,463
Cash and cash equivalents-restricted	405,321	-	11,175	1,190	-	6,565	28,611	3,462	456,324
Investments - restricted	-	-	23,989	-	-	-	-	-	23,989
TOTAL ASSETS	\$ 405,321	\$ 180,463	\$ 35,164	\$ 1,190	\$ -	\$ 6,565	\$ 28,611	\$ 3,462	\$ 660,776
FUND EQUITY									
Fund Balance									
Reserved	\$ 405,321	\$ 180,463	\$ 35,164	\$ -	\$ -	\$ -	\$ 28,611	\$ 3,462	\$ 653,021
Unreserved	-	-	-	1,190	-	6,565	-	-	7,755
TOTAL FUND BALANCE	\$ 405,321	\$ 180,463	\$ 35,164	\$ 1,190	\$ -	\$ 6,565	\$ 28,611	\$ 3,462	\$ 660,776

CITY OF NEOSHO, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL
 FUNDS

Year Ended September 30, 2007

	Debt Service Funds			Capital Project Funds			Permanent Funds		Total Nonmajor Governmental Funds
	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NCRS Demolition Fund	Downtown Tax Credit Fund	Drainage Project Fund	Abbot Brothers Fund	Morse Park Fund	
REVENUES									
Taxes	\$ -	\$ 64,505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,505
Intergovernmental revenues	-	-	-	1,190	-	5,565	-	-	6,755
Miscellaneous	1,136	2,596	3,741	-	-	-	9,572	145	17,190
TOTAL REVENUES	1,136	67,101	3,741	1,190	-	5,565	9,572	145	88,450
EXPENDITURES									
Current									
Capital outlay	-	-	-	-	1,498	-	-	-	1,498
Other	-	-	-	-	-	-	411	-	411
Debt Service									
Principal and interest	157,372	-	22,240	-	-	-	-	-	179,612
TOTAL EXPENDITURES	157,372	-	22,240	-	1,498	-	411	-	181,521
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(156,236)	67,101	(18,499)	1,190	(1,498)	5,565	9,161	145	(93,071)
OTHER FINANCING SOURCES (USES)									
Operating transfers in	156,750	38,608	20,254	-	1,498	-	-	-	217,110
Operating transfers (out)	-	(133,809)	-	-	-	-	-	-	(133,809)
TOTAL OTHER FINANCING SOURCES (USES)	156,750	(95,201)	20,254	-	1,498	-	-	-	83,301
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	514	(28,100)	1,755	1,190	-	5,565	9,161	145	(9,770)
FUND BALANCE, October 1	404,807	208,563	33,409	-	-	1,000	19,450	3,317	670,546
FUND BALANCE, September 30	\$ 405,321	\$ 180,463	\$ 35,164	\$ 1,190	\$ -	\$ 6,565	\$ 28,611	\$ 3,462	\$ 660,776



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**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the financial statements of the City of Neosho, Missouri as of and for the year ended September 30, 2007, and have issued our report thereon dated June 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Neosho, Missouri's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also consider to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Neosho, Missouri's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the City of Neosho, Missouri in a separate letter dated June 11, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Honorable Mayor and City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Lynn & Moots, PC

DAVIS, LYNN & MOOTS, P.C.
June 11, 2008



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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the compliance of the City of Neosho, Missouri with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2007. The City of Neosho, Missouri's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Neosho, Missouri's management. Our responsibility is to express an opinion on the City of Neosho, Missouri's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Neosho, Missouri's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Neosho, Missouri's compliance with those requirements.

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

In our opinion, the City of Neosho, Missouri complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City of Neosho, Missouri is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Neosho, Missouri's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Honorable Mayor and City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Lynn; Moots, PC

DAVIS, LYNN & MOOTS, P.C.
June 11, 2008

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2007

Federal Grantor Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Missouri State Emergency Management Agency Public Assistance Grant	97.036	FEMA-1676-DR	\$ 1,382,980
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			1,382,980
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Missouri Department of Transportation Airport Improvement Program	20.106	AIRE 06-096A-1&2	199,097
State and Community Highway Safety	20.600	07-PT-02-96	4,576
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			203,673
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,586,653</u>

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures and Federal Awards is presented using the accrual basis of accounting, which is describe in Note A to the City's financial statements.

CITY OF NEOSHO, MISSOURI
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements.
2. A significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This deficiency is reported as a material weakness.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No findings relative to a major federal award program were noted.
7. The program tested as a major program was:

Public Assistance Grant	97.036
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8. The threshold for determining Type A programs was \$300,000.
9. The City of Neosho, Missouri was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

07-1. Segregation of duties

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

CITY OF NEOSHO, MISSOURI
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended September 30, 2007

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: The limited number of available personnel prohibits segregation of incompatible duties.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no findings or questioned costs for the major federal award program.

CITY OF NEOSHO, MISSOURI
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2007

There were no prior audit findings.