

CITY OF NEOSHO, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2008

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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, and each major fund of the City of Neosho, Missouri, as of and for the year ended September 30, 2008, 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.

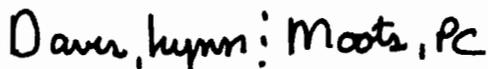
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City of Neosho, Missouri, as of September 30, 2008, and the respective changes in 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 May 28, 2009, 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 schedules, 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, 2008, and in our opinion, is fairly stated in all material respects, in relation to the respective basic financial statements taken as a whole.

Handwritten signature in black ink that reads "Davis, Lynn & Moots, PC".

DAVIS, LYNN & MOOTS, P.C.
May 28, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

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, 2008. Please read it in conjunction with the City's financial statements, which begin on page 15.

Financial Highlights

- The net assets of the City's governmental activities increased by \$556,358 or 4% for the year as a result of current year activities. The net assets of the City's business activities decreased by \$577,661 for the year.
- The assets of the City exceeded its liabilities as of September 30, 2008, by \$22.1 million (net assets). Of this amount \$3.2 million was unrestricted and may be used to meet future obligations of the City.
- Total liabilities of the City increased by \$2,666,340.
- Sales tax collections for fiscal year 2008 experienced a 16.8% gain over fiscal year 2007.
- Franchise fee collections for fiscal year 2008 experienced a 56% gain over fiscal year 2007 due to collection of settlement on protested taxes.

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, 2008

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 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, 2008**

Government-Wide Financial Analysis

NET ASSETS

The following table presents the condensed Statement of Net Assets for the City as of September 30, 2008 and 2007:

	Governmental Activities	Business-Type Activities	Total September 30, 2008	Total September 30, 2007
Current and other assets	\$ 7,896,580	\$ 616,719	\$ 8,513,299	\$ 12,747,215
Capital assets	26,358,210	7,544,778	33,902,988	27,024,035
TOTAL ASSETS	34,254,790	8,161,497	42,416,287	39,771,250
Long-term liabilities outstanding	15,825,248	787,111	16,612,359	15,684,560
Other liabilities	3,184,048	550,317	3,734,365	1,995,824
TOTAL LIABILITIES	19,009,296	1,337,428	20,346,724	17,680,384
Net assets:				
Invested in capital assets				
net of related debt	10,463,315	6,750,759	17,214,074	11,234,869
Restricted	1,475,739	155,871	1,631,610	2,053,128
Unrestricted	3,306,440	(82,561)	3,223,879	8,802,869
TOTAL NET ASSETS	\$ 15,245,494	\$ 6,824,069	\$ 22,069,563	\$ 22,090,866

Total net assets of the City decreased by \$21,303 for the year due to current year activity. Total liabilities for the City have increased by \$2,666,340.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

CHANGES IN NET ASSETS

	Governmental Activities	Business-Type Activities	Total Year Ended September 30, 2008	Total Year Ended September 30, 2007
REVENUES				
Program Revenues				
Charges for services	\$ 1,446,164	\$ 2,935,298	\$ 4,381,462	\$ 4,360,928
Operating grants and contributions	278,788	-	278,788	1,735,627
Capital grants and contributions	1,376,630	72,403	1,449,033	266,608
General Revenues				
Sales taxes	5,397,636	-	5,397,636	4,620,252
Motor vehicle and gas taxes	413,022	-	413,022	451,778
Other taxes	221,440	-	221,440	216,828
Franchise fees	1,004,984	-	1,004,984	643,550
Interest	171,602	14,438	186,040	243,396
Other revenue	85,709	38,690	124,399	146,131
Transfers	(25,759)	25,759	-	-
Gain on disposal of capital assets	430,361	-	430,361	492,133
TOTAL REVENUES	10,800,577	3,086,588	13,887,165	13,177,231
EXPENSES				
General government	2,527,634	-	2,527,634	1,337,461
Police	1,727,466	-	1,727,466	1,621,222
Fire	1,718,214	-	1,718,214	1,499,495
Emergency management	16,778	-	16,778	-
Airport	525,122	-	525,122	734,427
Drainage	17,532	-	17,532	6,181
Street	1,079,635	-	1,079,635	974,416
Economic development	703,042	-	703,042	527,170
Parks	500,060	-	500,060	461,593
Recreation	502,898	-	502,898	435,823
Recycling center	113,254	-	113,254	39,340
Concessions	93,178	-	93,178	-
Golf course	659,677	-	659,677	829,709
Tourism	33,471	-	33,471	-
Disaster recovery	26,258	-	26,258	1,774,683
Water and sewer	-	3,664,249	3,664,249	3,256,331
TOTAL EXPENSES	10,244,219	3,664,249	13,908,468	13,497,851
INCREASE (DECREASE)				
IN NET ASSETS	\$ 556,358	\$ (577,661)	\$ (21,303)	\$ (320,620)

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

Governmental Activities

Governmental activities increased the net assets of the City by \$556,358. Tax revenues for the City were \$7 million, which represents 65% of the financing of these activities. Program revenues for the functions totaled \$3.1 million, or 29% 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	\$ 2,527,634	\$ 2,180,855
Police	1,727,466	1,343,732
Fire	1,718,214	1,416,318
Emergency management	16,778	16,778
Airport	525,122	287,480
Drainage	17,532	17,532
Street	1,079,635	665,510
Economic development	703,042	183,789
Parks	500,060	439,338
Recreation	502,898	370,185
Recycling center	113,254	(4,138)
Concessions	93,178	12,027
Golf course	659,677	183,720
Tourism development	33,471	33,471
Disaster recovery	26,258	(3,960)
	\$ 10,244,219	\$ 7,142,637

Business-Type Activities

Business-type activities decreased the City's net assets by \$577,661. This is down from the decrease received last year from the City's business-type activities. The decrease incurred in the prior year was \$666,911.

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of September 30, 2008, was \$5.2 million. The General Fund decreased by \$1,006,467. The Hotel/Motel Tax Fund increased by \$66,468. The Golf Fund decreased by \$139,850. The 2006 COP Fund increased by \$5,199. The 2007 COP Fund decreased by \$4,302,601.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

General Fund Budgetary Highlights

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

- The original revenue budget of \$11,051,864 was decreased to \$9,743,192.
- The total original expenditures budget of \$19,907,766 was decreased to \$16,646,407.

Budget adjustments were presented and approved by City Council. Budgeted revenues were \$218,032 above actual, and budgeted expenditures were \$936,040 above actual.

Capital Asset and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$26.4 million (net of accumulated depreciation) as of September 30, 2008. This represents a \$6,763,586 increase from the prior year. Capital assets for business-type activities were \$7.5 million as of September 30, 2008. This represents a decrease of \$115,367 from the prior year due to current year provisions for depreciation.

Debt

Total debt of the governmental activities as of September 30, 2008, was \$16.5 million, which is up from \$15.5 million from the prior year primarily due to the issuance of three capital leases and a loan obligation.

Total debt of the business-type activities as of September 31, 2008, was \$876,032, which is up from \$794,782 in the prior year due to the issuance of a loan obligation.

Economic Factors and Next Year's Budget

During Fiscal Year 2007-2008 the City experienced the following significant economic changes:

- The Lowe's Corporation opened a new store in January 2008. The store employs approximately 120 people and the taxable sales have increased the City's monthly sales tax revenue over 5%.
- In May 2008, Scholastic Corporation's call center in Neosho was flooded by torrential rains. In conjunction with the Missouri Department of Community Development, AT&T, Crowder College, and the Neosho Area Business & Industry Foundation Inc. (NABIFI), a temporary call center was set up at Crowder College while a new call center was installed in a building owned by NABIFI in the Neosho Industrial Park. The call center was opened in August 2008. The result of these extraordinary efforts was over 300 jobs were kept in Neosho. The City received a CDBG pass through grant of \$500,000 for this project.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

Economic Factors and Next Year's Budget (continued)

- During the summer of 2008, JT Sports, a manufacturer of items for the Xtreme sports market, opened a 140,000 square foot assembly and shipping operation in Neosho which employs approximately 75 people.
- During 2008, Ozark Brick began manufacturing operations of synthetic brick. The company employs 25 people.
- During the summer of 2008, private developers completed renovation of two historic buildings on the Neosho square. In July the old Newton Hotel opened as Newton Place, providing moderate income apartments for seniors. In August the old Sterling building opened providing apartments, condominiums and retail space on the square.
- In the summer of 2008, Crowder College completed construction of the Arnold Farber Building, which houses the college library, administrative offices, conference rooms and additional classrooms.
- The unemployment rate for Neosho remained low compared to State and National unemployment rates. At the end of September 2008, Neosho's unemployment rate was 4%.
- The City began a series of projects during the summer of 2008:
 - Renovation of parking lots in the vicinity of the downtown square was started. The estimated total cost of this project is \$500,000.
 - Construction commenced on the South Street Bridge and road approaches. When completed in the summer of 2009, this project is estimated to cost \$3.1 million.
 - Construction also commenced on Phase I of the Howard Bush Drive extension, which will ultimately connect Howard Bush Drive to High Street and provide the first through-road in the City that will run from the south city limit to the north city limit. The cost of this project is estimated to be \$1.8 million.
 - Expansion and renovation of the Senior Citizens Center, started in Fiscal Year 2007, was virtually completed. The new Center was occupied while final work was completed in the fall of 2008. The total cost was \$650,000.
 - Expansion and renovation of the city auditorium, the Civic, also started in the previous fiscal year, was similarly almost complete. Two events were held in the Civic during September 2008. Final work was completed in late 2008 at a cost of \$3.750 million.
 - In August 2008, voters in the City voted to endorse the City's application for State Department of Natural Resources revolving loan program. This vote means the City will be eligible for extremely low interest funding for Phase I of sewer improvements, most of which are mandated by State and Federal regulations. The estimated cost of the Phase I improvements is \$8.5 million and the bonds will be repaid from increases to the sewer fees which go into effect in May 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF NEOSHO, MISSOURI
September 30, 2008

Economic Factors and Next Year's Budget (continued)

- In September 2008, the City Council adopted the Fiscal Year 2008-2009 budget. The governmental fund budget estimates \$11.9 million in revenues and \$15 million in expenses. Included in the expenses are \$3.4 million for major street construction projects funded with 2007B Certificate of Participation Bond proceeds, \$750,000 for street repaving partially funded with \$487,000 in STP funding, and grant funded construction projects totaling \$1.5 million.
- The Water/Wastewater enterprise fund budget estimates \$12.7 million in revenues and \$13.4 million in expenses for Fiscal Year 2008-2009. In this fund \$8.5 million will be funded from state revolving loan proceeds for Phase I of the Sewer Improvements program. Debt service on the loan will be covered by sewer service rate increases enacted in May 2009.
- The Golf Course special revenue fund budget estimates \$493,000 in revenue and operating expenses of \$451,000. This fund will also have a debt service transfer of \$181,000 to partially fund the 2006A & 2006B Certificates of Participation.
- City-wide, the 2008-2009 approved budget estimated revenues of \$25.4 million and expenses amounting to \$30.3 million. Management is quite sensitive to the effect of the current economic downturn and is taking proactive measures to control expenses. Expenses will be closely controlled until the recession has passed.

Contacting the City's Financial Management

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

City of Neosho
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, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 1,311,869	\$ 28,386	\$ 1,340,255
Sales tax receivable	779,282	-	779,282
Utilities receivable, net	-	308,231	308,231
Other accounts receivable	67,600	11,707	79,307
Court fines receivable, net	16,243	-	16,243
Intergovernmental receivable	77,657	-	77,657
Inventory	45,007	-	45,007
Prepaid expenses	79,107	45,669	124,776
Noncurrent			
Restricted cash and cash equivalents	877,572	160,448	1,038,020
Restricted investments	4,221,387	60,152	4,281,539
Deferred debt issuance costs	420,856	2,126	422,982
Capital Assets:			
Non-depreciable	11,125,122	253,780	11,378,902
Depreciable, net	15,233,088	7,290,998	22,524,086
TOTAL ASSETS	34,254,790	8,161,497	42,416,287
LIABILITIES			
Current			
Accounts payable	1,957,995	318,451	2,276,446
Accrued expenses	183,483	64,620	248,103
Deferred revenue	62,358	-	62,358
Meter deposits payable	-	64,729	64,729
Accrued interest payable	330,997	13,596	344,593
Current maturities of long-term debt	649,215	88,921	738,136
	3,184,048	550,317	3,734,365
Noncurrent			
Capital leases payable	1,054,869	83,431	1,138,300
Loans payable	333,333	166,667	500,000
Certificates of participation payable	13,857,478	355,000	14,212,478
Revenue bonds payable	-	100,000	100,000
Compensated absences payable	579,568	82,013	661,581
	15,825,248	787,111	16,612,359
TOTAL LIABILITIES	19,009,296	1,337,428	20,346,724
NET ASSETS			
Invested in capital assets, net of related debt	10,463,315	6,750,759	17,214,074
Restricted for:			
Non-expendable			
Parks	32,610	-	32,610
Debt service	1,443,129	155,871	1,599,000
Unrestricted	3,306,440	(82,561)	3,223,879
TOTAL NET ASSETS	\$ 15,245,494	\$ 6,824,069	\$ 22,069,563

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2008

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	\$ (803,651)	\$ 80,532	\$ -	\$ -	\$ (723,119)	\$ -	\$ (723,119)
Clerk/Council	(106,874)	-	-	-	(106,874)	-	(106,874)
City hall building	(169,636)	-	-	-	(169,636)	-	(169,636)
Auditorium	(159,328)	21,019	-	164,722	26,413	-	26,413
Building inspection	(205,163)	69,232	-	-	(135,931)	-	(135,931)
Animal control	(52,070)	10,845	429	-	(40,796)	-	(40,796)
Police	(1,727,466)	304,187	73,143	6,404	(1,343,732)	-	(1,343,732)
Fire	(1,718,214)	675	75,500	225,721	(1,416,318)	-	(1,416,318)
Emergency management	(16,778)	-	-	-	(16,778)	-	(16,778)
Court	(60,123)	-	-	-	(60,123)	-	(60,123)
Airport	(525,122)	237,642	-	-	(287,480)	-	(287,480)
Drainage	(17,532)	-	-	-	(17,532)	-	(17,532)
Street	(1,079,635)	-	-	414,125	(665,510)	-	(665,510)
Economic development	(703,042)	-	-	519,253	(183,789)	-	(183,789)
Parks	(500,060)	16,900	41,225	2,597	(439,338)	-	(439,338)
Recreation	(502,898)	110,870	-	21,843	(370,185)	-	(370,185)
Senior center	(107,421)	-	-	-	(107,421)	-	(107,421)
Recycling center	(113,254)	37,154	58,273	21,965	4,138	-	4,138
Communications	(45,360)	-	-	-	(45,360)	-	(45,360)
Information technology	(53,443)	-	-	-	(53,443)	-	(53,443)
Concessions	(93,178)	81,151	-	-	(12,027)	-	(12,027)
Property control	(14,102)	-	-	-	(14,102)	-	(14,102)
Golf course	(659,677)	475,957	-	-	(183,720)	-	(183,720)
Tourism development	(33,471)	-	-	-	(33,471)	-	(33,471)
Disaster recovery	(26,258)	-	30,218	-	3,960	-	3,960
Other	(174)	-	-	-	(174)	-	(174)
Debt service	(750,289)	-	-	-	(750,289)	-	(750,289)
TOTAL GOVERNMENTAL ACTIVITIES	(10,244,219)	1,446,164	278,788	1,376,630	(7,142,637)	-	(7,142,637)

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES (CONTINUED)
Year Ended September 30, 2008

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
Business-Type Activities							
Water and Sewer	(3,664,249)	2,935,298	-	72,403	-	(656,548)	(656,548)
TOTAL BUSINESS-TYPE ACTIVITIES	(3,664,249)	2,935,298	-	72,403	-	(656,548)	(656,548)
TOTAL GOVERNMENT	<u>\$ (13,908,468)</u>	<u>\$ 4,381,462</u>	<u>\$ 278,788</u>	<u>\$ 1,449,033</u>	(7,142,637)	(656,548)	(7,799,185)
		General Revenues:					
					5,397,636	-	5,397,636
					413,022	-	413,022
					221,440	-	221,440
					1,004,984	-	1,004,984
					171,602	14,438	186,040
					85,709	38,690	124,399
					(25,759)	25,759	-
				Special Item:			
					430,361	-	430,361
				Total General Revenues, Transfers and Special Item			
					7,698,995	78,887	7,777,882
				Changes in Net Assets			
					556,358	(577,661)	(21,303)
				Net Assets, Beginning of year, as restated			
					14,689,136	7,401,730	22,090,866
				Net Assets, End of year			
					<u>\$ 15,245,494</u>	<u>\$ 6,824,069</u>	<u>\$ 22,069,563</u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2008

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 789,867	\$ 141,498	\$ 19,444	\$ -	\$ 156,539	\$ 18,612	\$ 1,125,960
Taxes receivable	759,425	8,195	-	-	-	11,662	779,282
Other accounts receivable	39,962	-	8,395	-	-	-	48,357
Court fines receivable, net	16,243	-	-	-	-	-	16,243
Intergovernmental receivable	72,731	-	-	-	-	4,926	77,657
Inventory	45,007	-	-	-	-	-	45,007
Due from other funds	971,488	-	84	-	-	-	971,572
Prepaid expenses	72,397	-	6,710	-	-	-	79,107
Restricted cash and cash equivalents	17,922	-	-	47,638	-	812,012	877,572
Restricted investments	-	-	-	559,715	3,568,053	93,619	4,221,387
TOTAL ASSETS	\$ 2,785,042	\$ 149,693	\$ 34,633	\$ 607,353	\$ 3,724,592	\$ 940,831	\$ 8,242,144
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 1,762,362	\$ 2,336	\$ 15,412	\$ 177	\$ 700	\$ 261	\$ 1,781,248
Accrued expenses	183,483	-	-	-	-	-	183,483
Deferred revenue	62,358	-	-	-	-	-	62,358
Due to other funds	84	-	-	-	971,488	-	971,572
TOTAL LIABILITIES	2,008,287	2,336	15,412	177	972,188	261	2,998,661
Fund Balances							
Reserved for:							
Permanent funds:							
Nonexpendable							
Parks	-	-	-	-	-	32,610	32,610
Debt service funds:							
Principal and interest	-	-	-	607,176	2,752,404	883,232	4,242,812
Unreserved, reported in:							
General Fund	776,755	-	-	-	-	-	776,755
Special Revenue Fund	-	147,357	19,221	-	-	4,926	171,504
Capital Projects Fund	-	-	-	-	-	19,802	19,802
TOTAL FUND BALANCES	776,755	147,357	19,221	607,176	2,752,404	940,570	5,243,483
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,785,042	\$ 149,693	\$ 34,633	\$ 607,353	\$ 3,724,592	\$ 940,831	\$ 8,242,144

See accompanying notes.

CITY OF NEOSHO, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF
 NET ASSETS
 September 30, 2008

Fund balance - total governmental funds	\$ 5,243,483
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	48,488,312
Less accumulated depreciation	<u>(22,130,102)</u>
	26,358,210
Internal Service Funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets	28,405
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due	(330,997)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(16,621,985)
Deferred loss on debt refunding	147,522
Unamortized debt issuance costs	<u>420,856</u>
Net assets of governmental activities	<u><u>\$ 15,245,494</u></u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended September 30, 2008

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 6,829,675	\$ 97,854	\$ -	\$ -	\$ -	\$ 109,553	\$ 7,037,082
Licenses and permits	108,245	-	-	-	-	-	108,245
Intergovernmental revenues	1,182,530	-	-	-	-	48,830	1,231,360
Charges for services	463,484	-	475,957	-	-	-	939,441
Fines and forfeitures	304,187	-	-	-	-	-	304,187
Miscellaneous	637,039	2,085	5,498	10,655	106,058	14,325	775,660
TOTAL REVENUES	9,525,160	99,939	481,455	10,655	106,058	172,708	10,395,975
EXPENDITURES							
Current							
Administrative	721,306	-	-	-	-	-	721,306
Clerk/Council	105,089	-	-	-	-	-	105,089
City hall building	169,636	-	-	-	-	-	169,636
Auditorium	3,858,388	-	-	-	-	-	3,858,388
Building inspection	230,855	-	-	-	-	-	230,855
Animal control	50,876	-	-	-	-	-	50,876
Police	1,917,789	-	-	-	-	-	1,917,789
Fire	2,074,710	-	-	-	-	-	2,074,710
Emergency management	16,778	-	-	-	-	-	16,778
Court	92,204	-	-	-	-	-	92,204
Airport	373,909	-	-	-	-	-	373,909
Drainage	34,876	-	-	-	-	-	34,876
Street	3,432,986	-	-	-	-	-	3,432,986
Economic development	694,709	-	-	-	-	-	694,709
Parks	494,344	-	-	-	-	-	494,344
Recreation	511,526	-	-	-	-	-	511,526
Senior center	594,479	-	-	-	-	-	594,479
Recycling center	133,881	-	-	-	-	-	133,881
Communications	45,360	-	-	-	-	-	45,360
Information technology	53,443	-	-	-	-	-	53,443
Concessions	89,121	-	-	-	-	-	89,121
Property control	14,102	-	-	-	-	-	14,102
Golf course	-	-	452,704	-	-	-	452,704
Tourism development	-	33,471	-	-	-	-	33,471
Disaster recovery	-	-	-	-	-	26,258	26,258
Other	-	-	-	-	-	174	174
Debt Service							
Principal and interest	-	-	7,739	392,875	536,710	253,373	1,190,697
TOTAL EXPENDITURES	15,710,367	33,471	460,443	392,875	536,710	279,805	17,413,671

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)
Year Ended September 30, 2008

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(6,185,207)	66,468	21,012	(382,220)	(430,652)	(107,097)	(7,017,696)
OTHER FINANCING SOURCES (USES)							
Operating transfers in (out)	3,357,270	-	(181,325)	387,419	(3,871,949)	282,826	(25,759)
Insurance proceeds	430,361	-	-	-	-	-	430,361
Loan proceeds	333,333	-	-	-	-	-	333,333
Capital lease proceeds	1,057,776	-	20,463	-	-	-	1,078,239
TOTAL OTHER FINANCING SOURCES (USES)	5,178,740	-	(160,862)	387,419	(3,871,949)	282,826	1,816,174
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(1,006,467)	66,468	(139,850)	5,199	(4,302,601)	175,729	(5,201,522)
FUND BALANCE, October 1, as restated	1,188,181	477,855	159,071	601,977	7,055,005	962,916	10,445,005
RESIDUAL EQUITY TRANSFER	595,041	(396,966)	-	-	-	(198,075)	-
FUND BALANCE, September 30	<u>\$ 776,755</u>	<u>\$ 147,357</u>	<u>\$ 19,221</u>	<u>\$ 607,176</u>	<u>\$ 2,752,404</u>	<u>\$ 940,570</u>	<u>\$ 5,243,483</u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2008

Net change in fund balances - total governmental funds \$ (5,201,522)

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

Internal Service Fund receipts and disbursements are included in the statement of activities 28,405

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	8,533,560
Disposal of capital assets, net	(738,164)
Depreciation	(1,031,810)
	<u>6,763,586</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 debt whereas
in the governmental funds, an interest expenditure is reported when due.
The following is the detail of the net affect of these differences.

Capital lease and loan proceeds	(1,411,572)
Repayment of principal on bonds, leases and loans	597,666
Issuance cost amortization	(19,790)
Deferred loss on refunding	(6,705)
Change in accrued interest payable	(81,632)
	<u>(922,033)</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. (112,078)

Change in net assets of governmental activities \$ 556,358

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
September 30, 2008

	<u>Water and Sewer Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 28,386	\$ 185,909
Utilities receivable, net	308,231	-
Other accounts receivable	11,707	19,243
Prepaid expenses	45,669	-
TOTAL CURRENT ASSETS	393,993	205,152
Restricted Assets		
Cash and cash equivalents	160,448	-
Investments	60,152	-
TOTAL RESTRICTED ASSETS	220,600	-
Deferred Bond Issuance Costs	2,126	-
Property, Plant and Equipment		
Land	251,578	-
Work in progress	2,202	-
Water plant and equipment	12,994,089	-
Buildings and improvements	35,591	-
Sewer plant and equipment	11,030,375	-
	24,313,835	-
Less accumulated depreciation	(16,769,057)	-
TOTAL PROPERTY, PLANT AND EQUIPMENT	7,544,778	-
TOTAL ASSETS	8,161,497	205,152
LIABILITIES		
Current Liabilities		
Accounts payable	318,451	176,747
Accrued expenses	64,620	-
Accrued interest payable	13,596	-
Meter deposits payable	64,729	-
Current maturities of long-term debt	88,921	-
TOTAL CURRENT LIABILITIES	550,317	176,747
Long-Term Liabilities		
Capital leases payable	83,431	-
Loan payable	166,667	-
Revenue bonds payable	100,000	-
Certificates of participation	355,000	-
Compensated absences payable	82,013	-
TOTAL LONG-TERM LIABILITES	787,111	-
TOTAL LIABILITIES	1,337,428	176,747
NET ASSETS		
Invested in capital assets, net of related debt	6,750,759	-
Restricted for debt service	155,871	-
Restricted for employee benefits	-	28,405
Unrestricted	(82,561)	-
TOTAL NET ASSETS	\$ 6,824,069	\$ 28,405

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
Year Ended September 30, 2008

	Water and Sewer Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services		
Water	\$ 2,935,298	\$ -
Insurance contributions	-	704,990
TOTAL OPERATING REVENUES	2,935,298	704,990
OPERATING EXPENSES		
Personnel services	1,446,445	-
Contractual services	481,547	-
Repairs and maintenance	384,084	-
Supplies	284,299	-
Utilities	459,672	-
Insurance	62,381	-
Depreciation	486,348	-
Miscellaneous	23,316	-
Insurance claims	-	229,081
Insurance premiums	-	288,945
Administrative fees	-	158,559
TOTAL OPERATING EXPENSES	3,628,092	676,585
OPERATING INCOME (LOSS)	(692,794)	28,405
NONOPERATING REVENUES (EXPENSES)		
Interest income	14,438	-
Other revenue	38,690	-
Capital contributions	72,403	-
Interest expense	(36,157)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	89,374	-
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(603,420)	28,405
OPERATING TRANSFERS IN	25,759	-
NET INCOME (LOSS)	(577,661)	28,405
NET ASSETS, October 1	7,401,730	-
NET ASSETS, September 30	\$ 6,824,069	\$ 28,405

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended September 30, 2008

	Water and Sewer Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,890,096	\$ 704,990
Cash paid to suppliers	(1,656,051)	(676,585)
Cash paid to employees	(1,444,582)	-
Other cash received for nonoperating revenues	38,690	-
	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	28,405
	(171,847)	28,405
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to other funds	40,009	-
	NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-
	40,009	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on capital leases	(42,530)	-
Purchase of fixed assets	(536,368)	-
Payment of principal on certificates of participation	(20,000)	-
Payment of principal on bonds	(25,000)	-
Loan proceeds	166,667	-
Capital contributions	72,403	-
Payment of interest expense	(37,204)	-
	NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-
	(422,032)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	14,438	-
Maturity (purchase) of investments	(2,004)	-
	NET CASH PROVIDED BY INVESTING ACTIVITIES	-
	12,434	-
	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,405
	(541,436)	28,405
CASH AND CASH EQUIVALENTS, Beginning of year	730,270	157,504
CASH AND CASH EQUIVALENTS, End of year	188,834	185,909
LESS RESTRICTED CASH AND CASH EQUIVALENTS	(160,448)	-
UNRESTRICTED CASH AND CASH EQUIVALENTS	\$ 28,386	\$ 185,909
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (692,794)	\$ 28,405
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	486,348	-
(Increase) decrease in:		
Utilities receivable	(45,379)	-
Other accounts receivable	(1,372)	-
Prepaid expenses	(23,187)	-
Increase (decrease) in:		
Accounts payable	62,435	-
Accrued expenses	(250)	-
Meter deposits payable	1,549	-
Compensated absences	2,113	-
Other cash received for nonoperating revenues	38,690	-
	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 28,405
	\$ (171,847)	\$ 28,405

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.

Hotel/Motel Tax Fund: The Hotel/Motel Tax Fund of the City is used to account for resources related to tourism development within the City.

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

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.

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.

Internal Service Fund: The Internal Service Fund accounts for the costs of self-insurance funds on a cost-reimbursement basis.

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.

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:

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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, 2008, all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of September 30, 2008, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Goldman Sachs Treasury	N/A	\$ 4,127,768
AIGFMC Fixed Income Securities	7/1/2014	16,560
Trinity Plus Funding	1/1/2019	3,592
Fidelity Treasury Fund	N/A	133,619
		<u>\$ 4,281,539</u>

The City has Goldman, Sachs & Co., Treasury instruments on deposit with The Bank of New York, which are rated AAAM-G 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 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 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 AA+ 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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE C – INVESTMENTS (continued)

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	\$ 759,425	\$ -	\$ 759,425
Hotel/Motel Tax Fund	8,195	-	8,195
2000A Bond Fund	11,662	-	11,662
	<u>\$ 779,282</u>	<u>\$ -</u>	<u>\$ 779,282</u>
UTILITIES RECEIVABLE			
Water and Sewer Fund	<u>\$ 316,934</u>	<u>\$ 8,703</u>	<u>\$ 308,231</u>
OTHER ACCOUNTS RECEIVABLE			
General Fund	\$ 39,962	\$ -	\$ 39,962
Golf Fund	8,395	-	8,395
Water and Sewer Fund	11,707	-	11,707
	<u>\$ 20,102</u>	<u>\$ -</u>	<u>\$ 20,102</u>
COURT FINES RECEIVABLE			
General Fund	<u>\$ 123,615</u>	<u>\$ 107,372</u>	<u>\$ 16,243</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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

The business-type activities long-term debt at September 30, 2008, consists of the 1992B Revenue Bond issue, the 2003 Certificates of Participation, one capital lease obligation, one loan obligation 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 July 1, 2012; interest at 3.75% to 6.55% plus administrative fees of 1%, current maturities of \$30,000. \$ 130,000

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

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest and</u> <u>Admin. Fees</u>	<u>Total</u>
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><u>\$ 130,000</u></u>	<u><u>\$ 25,293</u></u>	<u><u>\$ 155,293</u></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, 2008, are due as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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

Year Ended September 30,	Principal	Interest	Total
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>\$ 1,100,000</u>	<u>\$ 366,028</u>	<u>\$ 1,466,028</u>

Amount recorded in:

Water and Sewer Fund	\$ 375,000
Governmental Activities	725,000
TOTAL	<u>\$ 1,100,000</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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

Capital Lease

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

Although the lease agreement provides for the cancellation of the lease if the City should fail to appropriate funds at the annual renewal dates, the City does not foresee exercising its option to cancel. Therefore, this lease is accounted for as a noncancellable capital lease in accordance with Statement of Financial Accounting Standards 13, “Accounting for Leases”.

The total annual minimum lease payments required at September 30, 2008, are as follows:

Year Ended September 30,	
2009	\$ 44,687
2010	44,687
2011	<u>44,687</u>
	TOTAL MINIMUM LEASE PAYMENTS 134,061
	LESS AMOUNT REPRESENTING INTEREST <u>(11,709)</u>
	NET LEASE PAYMENTS <u>\$ 122,352</u>

Loan Obligation

During 2007, the City entered into a Development Agreement with Lowe’s Home Centers, Inc. (the “Developer”) to finance the cost of site development and certain infrastructure improvements to an existing tract of land and real property located in the Neosho TIF District, owned by the Developer, up to the amount of \$500,000. Revenues generated by the incremental increase in assessed valuation of the newly developed property will be collected by the City to provide for retirement of the debt. The City anticipates that the tax increments projected shall be sufficient to repay the Developer within five years with interest of 5% annually. Five year maturities for principal and interest are not presented since the future revenue from the incremental increase in assessed valuation and repayment of principal will vary year to year. As of September 30, 2008, the total outstanding balance on the Lowe’s Development Loan is \$500,000, with \$166,667 recorded as long-term debt within the business-type activities and \$333,333 recorded in the governmental activities of the City.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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, 2008, is as follows:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008
Capital Lease Obligations				
Land lease	\$ 5,380	\$ -	\$ 5,380	\$ -
UV treatment system lease	159,502	-	37,150	122,352
	164,882	-	42,530	122,352
Loan Obligation				
Lowe's development project	-	166,667	-	166,667
Revenue Bonds				
1992B Revenue Bonds	155,000	-	25,000	130,000
Certificates of Participation				
2003 Certificate of Participation	395,000	-	20,000	375,000
Compensated Absences Payable	79,900	2,113	-	82,013
TOTAL	<u>\$ 794,782</u>	<u>\$ 168,780</u>	<u>\$ 87,530</u>	<u>\$ 876,032</u>

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt for governmental activities at September 30, 2008, consists of six capital lease obligations, 1998 special obligation bonds, 2006A, 2006B, 2007A, and 2007B certificates of participation, and compensated absences payable.

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

Capital Lease Obligations

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

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

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%.

On March 1, 2008, the City entered into a loan agreement with the Missouri State Transportation Assistance Revolving (STAR) Fund to finance the construction of a two-phase hangar project in the amount of \$895,000. The lease agreement requires annual payments of \$104,238 through 2018 including interest at 2.87%.

On July 15, 2008, the City entered into a lease purchase agreement with Southwest Missouri Bank to finance the purchase of a 2008 Toro mower for \$20,463. The lease requires annual payments on July 1 of each year of \$4,693, which includes interest at 4.74%.

On December 12, 2007, the City entered into a lease purchase agreement with Southwest Missouri Bank to finance the purchase of a fire rescue truck for \$162,676. The lease requires annual payments on March 1 of each year of \$35,987, which includes interest at 4.74%.

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".

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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

The total annual minimum lease payments required at September 30, 2008, are as follows:

Year Ended September 30,	2000 Spartan Fire Truck	Land Lease	Yamaha Golf Carts	2008 STAR Loan	2008 Toro Mower	2008 Fire Rescue Truck	Total
2009	\$ 34,913	\$ 2,200	\$ 18,572	\$ 104,238	\$ 4,693	\$ 35,987	\$ 200,603
2010	-	2,100	18,572	104,238	4,693	35,987	165,590
2011	-	-	18,572	104,238	4,693	35,987	163,490
2012	-	-	92,228	104,238	4,693	35,987	237,146
2013	-	-	-	104,238	4,693	-	108,931
2014	-	-	-	104,238	-	-	104,238
2015	-	-	-	104,238	-	-	104,238
2016	-	-	-	104,238	-	-	104,238
2017	-	-	-	104,238	-	-	104,238
2018	-	-	-	104,238	-	-	104,238
TOTAL MINIMUM LEASE PAYMENTS	34,913	4,300	147,944	1,042,380	23,465	143,948	1,396,950
LESS AMOUNT REPRESENTING INTEREST	(1,961)	(300)	(14,754)	(147,280)	(3,002)	(15,569)	(182,866)
PRINCIPAL BALANCE, SEPTEMBER 30, 2008	<u>\$ 32,952</u>	<u>\$ 4,000</u>	<u>\$ 133,190</u>	<u>\$ 895,100</u>	<u>\$ 20,463</u>	<u>\$ 128,379</u>	<u>\$ 1,214,084</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
2009	<u>\$ 135,000</u>	<u>\$ 3,038</u>	<u>\$ 138,038</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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

Certificates of Participation

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. 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, 2008, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 6,355,000</u>	<u>\$ 3,977,235</u>	<u>\$ 10,332,235</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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

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, 2008, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,565,000</u>	<u>\$ 2,075,168</u>	<u>\$ 5,640,168</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

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, 2008, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,715,000</u>	<u>\$ 2,061,505</u>	<u>\$ 5,776,505</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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

A summary of the changes in long-term debt – governmental activities for the year ended September 30, 2008, is as follows:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008
Capital Lease Obligations				
2000 Spartan fire truck	\$ 62,365	\$ -	\$ 29,413	\$ 32,952
Land lease	6,000	-	2,000	4,000
Yamaha golf carts	135,146	-	1,956	133,190
2008 STAR loan	-	895,100	-	895,100
2008 Toro mower	-	20,463	-	20,463
2008 fire truck	-	162,676	34,297	128,379
	<u>203,511</u>	<u>1,078,239</u>	<u>67,666</u>	<u>1,214,084</u>
Loan Obligation				
Lowe's development project	-	333,333	-	333,333
Special Obligation Bonds				
1998	280,000	-	145,000	135,000
Certificates of Participation				
2003	790,000	-	65,000	725,000
2006A	6,055,000	-	65,000	5,990,000
2006B	365,000	-	-	365,000
2007A	3,625,000	-	60,000	3,565,000
2007B	3,910,000	-	195,000	3,715,000
	<u>14,745,000</u>	<u>-</u>	<u>385,000</u>	<u>14,360,000</u>
Less: Deferred loss on debt refunding	<u>(154,227)</u>	<u>-</u>	<u>(6,705)</u>	<u>(147,522)</u>
	<u>14,590,773</u>	<u>-</u>	<u>378,295</u>	<u>14,212,478</u>
Compensated absences payable	<u>467,490</u>	<u>112,078</u>	<u>-</u>	<u>579,568</u>
TOTAL	<u>\$ 15,541,774</u>	<u>\$ 1,523,650</u>	<u>\$ 590,961</u>	<u>\$ 16,474,463</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Governmental Activities				
Non-Depreciable Capital Assets:				
Land	\$ 9,076,224	\$ 439,042	\$ -	\$ 9,515,266
Work in progress	1,038,343	1,290,180	718,667	1,609,856
Total Non-Depreciable Capital Assets	<u>10,114,567</u>	<u>1,729,222</u>	<u>718,667</u>	<u>11,125,122</u>
Depreciable Capital Assets:				
Land improvements	343,177	41,608	-	384,785
Building and improvements	4,567,517	4,511,190	-	9,078,707
Machinery and equipment	5,060,353	1,038,432	293,183	5,805,602
Golf course	3,291,243	-	-	3,291,243
Infrastructure	17,589,745	1,213,108	-	18,802,853
Total Depreciable Capital Assets	30,852,035	<u>\$ 6,804,338</u>	<u>\$ 293,183</u>	37,363,190
Less Accumulated Depreciation	<u>21,371,978</u>	<u>\$ 1,031,810</u>	<u>\$ 273,686</u>	<u>22,130,102</u>
Total Depreciable Capital Assets, Net	<u>9,480,057</u>			<u>15,233,088</u>
Total Capital Assets - Governmental Activities, Net	<u>\$ 19,594,624</u>			<u>\$ 26,358,210</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE G – CAPITAL ASSETS (continued)

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

Administration	\$ 47,751
Clerk/Council	53
Auditorium	11,312
Economic development	8,333
Building inspection	5,326
Animal control	281
Police	78,192
Fire	85,104
Recycling	2,113
Senior center	15,677
Golf course	247,392
Court	1,295
Airport	259,426
Parks	61,515
Recreation	25,479
Drainage	3,747
Street	178,814
	<u>178,814</u>
	<u>\$ 1,031,810</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE G – CAPITAL ASSETS (continued)

Business-Type Activities	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Water and Sewer				
Non-Depreciable Capital Assets:				
Land	\$ 251,578	\$ -	\$ -	\$ 251,578
Work in progress	62,838	2,202	62,838	2,202
Total Non-Depreciable Capital Assets	<u>314,416</u>	<u>\$ 2,202</u>	<u>\$ 62,838</u>	<u>253,780</u>
Depreciable Capital Assets:				
Buildings	85,591	\$ -	\$ 50,000	35,591
Water plant and equipment	12,914,534	96,203	16,648	12,994,089
Sewer plant and equipment	10,451,477	580,398	1,500	11,030,375
Total Depreciable Capital Assets	23,451,602	<u>\$ 676,601</u>	<u>\$ 68,148</u>	24,060,055
Less Accumulated Depreciation	16,336,607	<u>\$ 486,348</u>	<u>\$ 53,898</u>	16,769,057
Total Depreciable Capital Assets, Net	<u>7,114,995</u>			<u>7,290,998</u>
Total Capital Assets - Business-Type Activities, Net	<u>\$ 7,429,411</u>			<u>\$ 7,544,778</u>

NOTE H – 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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE H – EMPLOYEE PENSION PLAN (continued)

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 11.3% (general), 7.7% (police) and 12.6% (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 2008, the political subdivision's annual pension cost of \$395,035 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2006 and/or February 28, 2007, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2008, 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 29, 2008, was 15 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/06	\$ 253,185	100%	\$ -
06/30/07	342,708	100%	-
06/30/08	395,035	100%	-

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE H – EMPLOYEE PENSION PLAN (continued)

The actuarial valuation revealed the following relating to the financial position of the Plan:

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Liability	(Excess) Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll
02/29/08	\$ 6,342,381	\$ 5,752,842	\$ (589,539)	110%	\$ 3,655,751	0%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

NOTE I – 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 J – 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, 2008

NOTE J – 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, 2007	Current Amortization	Net Debt Issue Costs
Water and Sewer Fund	\$ 12,060	\$ 9,312	\$ 622	\$ 2,126
Governmental Activities	\$ 503,500	\$ 57,714	\$ 24,930	\$ 420,856

NOTE K – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2008, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 5,185,465	\$ 1,233,154
Hotel/Motel Tax Fund	-	396,966
Golf Fund	-	181,325
2006 COP Fund	387,419	-
2007 COP Fund	509,918	4,381,867
Nonmajor governmental funds	526,392	441,641
Water and Sewer Fund	40,009	14,250
	<u>\$ 6,649,203</u>	<u>\$ 6,649,203</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, 2008

NOTE L – INTERNAL BALANCES

Internal balances as of September 30, 2008, consisted of the following:

	General Fund	Golf Fund	2007 COP Fund
Internal balances	<u>\$ 971,404</u>	<u>\$ 84</u>	<u>\$ (971,488)</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, 2008, balances of interfund amounts receivable or payable have been recorded within the fund financial statements.

NOTE M – 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, 2008, 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 N – SELF-INSURANCE FUND

The City has established a self-funded health benefit plan for substantially all City employees to minimize the total cost of medical health insurance to the City. This program is for the benefit of all regular, full-time City employees. Medical claims exceeding an individual participant limit of \$50,000 are covered through a private insurance carrier.

The cash transactions of the health care plan are accounted for in the Self-Insurance Health Fund, an internal service fund. At September 30, 2008, the estimated obligation of health claims based on claims filed prior to, but not yet paid, as of year-end, claims incurred during the year but filed subsequent to year-end, and an additional amount for incurred but not reported claims based on prior experience was \$79,821. Changes in the estimated benefit obligation during the past year is as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE N – SELF-INSURANCE FUND (continued)

Estimated Benefit Obligation, beginning of year	\$ -
Claims incurred	308,902
Claims paid	<u>(229,081)</u>
Estimated Benefit Obligation, end of year	<u><u>\$ 79,821</u></u>

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 were 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, 2008. \$2,910,000 of these defeased bonds and certificates are still outstanding and the cash and investment balance in the irrevocable trust account on September 30, 2008, was \$2,713,638.

The advanced refunding resulted in the recognition of a deferred loss on bond refunding of \$167,639 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, 2007	Additions	Current Amortization	Balance September 30, 2008
Governmental Activities	<u>\$ 154,227</u>	<u>\$ -</u>	<u>\$ (6,705)</u>	<u>\$ 147,522</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE P – RESTATEMENTS

On October 1, 2007, the City converted the Golf Fund from an Enterprise Fund to a Special Revenue Fund. Fund Balance/Net Assets have been restated for the conversion, as follows:

Golf Fund

Fund Balance, as previously stated, September 30, 2007	\$ (486,154)
Restricted investments	(569,224)
Fixed assets	(4,311,989)
Accumulated depreciation	2,043,337
Accrued interest payable	10,021
Capital leases payable	135,146
Certificates of participation payable	3,337,934
Fund Balance, as restated, October 1, 2007	<u>\$ 159,071</u>

2006 COP Fund

Fund Balance, as previously stated, September 30, 2007	\$ 32,753
Restricted investments	569,224
Fund Balance, as restated, October 1, 2007	<u>\$ 601,977</u>

Governmental Activities

Net Assets, as previously stated, September 30, 2007	\$ 15,175,290
Cash and cash equivalents	126,760
Prepaid expenses	3,642
Restricted cash and cash equivalents	35,071
Restricted investments	576,836
Fixed assets	4,311,989
Accumulated depreciation	(2,043,337)
Accounts payable	(14,014)
Accrued interest payable	(10,021)
Capital leases payable	(135,146)
Certificates of participation payable	(3,337,934)
Net Assets, as restated, October 1, 2007	<u>\$ 14,689,136</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2008

NOTE P – RESTATEMENTS (continued)

Business-Type Activities

Net Assets, as previously stated, September 30, 2007	\$ 6,915,576
Cash and cash equivalents	(126,760)
Prepaid expenses	(3,642)
Restricted cash and cash equivalents	(35,071)
Restricted investments	(576,836)
Fixed assets	(4,311,989)
Accumulated depreciation	2,043,337
Accounts payable	14,014
Accrued interest payable	10,021
Capital leases payable	135,146
Certificates of participation payable	3,337,934
Net Assets, as restated, October 1, 2007	<u>\$ 7,401,730</u>

NOTE Q – COMMITMENTS

At September 30, 2008, the City had the following commitments:

1. HDR Archer Corporation for engineering services in the amount of \$108,434.
2. Tri-State Engineering for the Howard Bush Extension project in the amount of \$25,430.
3. West Plains Bridge for the South Street Bridge project in the amount of \$1,886,904.
4. Allgeier, Martin and Associates for engineering services relating to street projects in the amount of \$48,739.
5. Justin S. Beck for a golf course management contract through April 2009, in the amount of \$109,271.
6. Swift Construction for street resurfacing in the amount of \$201,359.
7. Snyder Construction for the Howard Bush Extension project in the amount of \$430,626.
8. Roy Lee and Mary Jane Bradford for Lift Station Development in the amount of \$50,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended September 30, 2008

Missouri Local Government Employees Retirement System (LAGERS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) (Excess) Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
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%
02/29/08	6,342,381	5,752,842	(589,539)	110%	3,655,751	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, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
City sales tax	\$ 5,805,881	\$ 5,736,915	\$ 5,341,762	\$ (395,153)
Utility franchise tax	605,000	805,000	1,004,984	199,984
Motor vehicle taxes	454,500	454,500	413,022	(41,478)
Cigarette tax	77,000	77,000	69,907	(7,093)
	<u>6,942,381</u>	<u>7,073,415</u>	<u>6,829,675</u>	<u>(243,740)</u>
Licenses and Permits				
Occupational licenses	27,000	27,000	25,328	(1,672)
Building permits	73,500	73,500	69,232	(4,268)
Animal licenses and fees	6,500	6,500	8,862	2,362
Other	4,800	4,800	4,823	23
	<u>111,800</u>	<u>111,800</u>	<u>108,245</u>	<u>(3,555)</u>
Intergovernmental Revenues				
Grants	1,460,000	868,966	836,359	(32,607)
Fire district	75,000	75,000	75,000	-
Other	713,163	272,974	271,171	(1,803)
	<u>2,248,163</u>	<u>1,216,940</u>	<u>1,182,530</u>	<u>(34,410)</u>
Charges for Services				
Sanitation	60,000	60,000	45,072	(14,928)
Airport fuel sales	122,600	122,600	171,632	49,032
Park fees	10,900	13,285	16,900	3,615
Recreational fees	123,900	109,445	110,870	1,425
Concessions	80,000	80,000	81,151	1,151
Recycling center fees	26,000	26,000	37,154	11,154
Other	-	-	705	705
	<u>423,400</u>	<u>411,330</u>	<u>463,484</u>	<u>52,154</u>
Fines and Forfeitures				
City court fines	337,300	337,300	296,970	(40,330)
Police training fees	5,500	5,500	7,217	1,717
	<u>342,800</u>	<u>342,800</u>	<u>304,187</u>	<u>(38,613)</u>
Miscellaneous				
Leases and rent income	110,320	107,760	94,290	(13,470)
Interest	98,600	98,500	37,104	(61,396)
Donations and other contributions	252,000	263,621	424,059	160,438
Other	522,400	117,026	81,586	(35,440)
	<u>983,320</u>	<u>586,907</u>	<u>637,039</u>	<u>50,132</u>
TOTAL REVENUES	<u>11,051,864</u>	<u>9,743,192</u>	<u>9,525,160</u>	<u>(218,032)</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
 Year Ended September 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	784,476	821,102	721,306	99,796
Clerk/Council	104,046	105,701	105,089	612
City hall building	109,512	192,699	169,636	23,063
Auditorium	3,320,211	3,842,171	3,858,388	(16,217)
Building inspection	256,369	257,244	230,855	26,389
Animal control	56,645	57,212	50,876	6,336
Police	1,857,698	1,961,074	1,917,789	43,285
Fire	1,692,320	1,926,996	2,074,710	(147,714)
Emergency management	28,545	29,328	16,778	12,550
Court	96,213	96,213	92,204	4,009
Airport	989,557	1,198,907	373,909	824,998
Drainage	86,975	86,975	34,876	52,099
Street	8,227,510	3,063,250	3,432,986	(369,736)
Economic development	207,667	716,356	694,709	21,647
Parks	537,279	600,795	494,344	106,451
Recreation	381,623	513,730	511,526	2,204
Senior Center	654,004	658,554	594,479	64,075
Recycling Center	209,743	210,727	133,881	76,846
Communications	53,375	53,375	45,360	8,015
Information technology	132,955	132,955	53,443	79,512
Concessions	79,781	79,781	89,121	(9,340)
Property control	41,262	41,262	14,102	27,160
TOTAL EXPENDITURES	<u>19,907,766</u>	<u>16,646,407</u>	<u>15,710,367</u>	<u>936,040</u>
(DEFICIT) OF REVENUES OVER EXPENDITURES				
	(8,855,902)	(6,903,215)	(6,185,207)	718,008
OTHER FINANCING SOURCES (USES)				
Operating transfers in	4,016,243	4,394,357	4,590,424	196,067
Operating transfers (out)	(1,062,166)	(1,288,798)	(1,233,154)	55,644
Insurance proceeds	-	444,611	430,361	(14,250)
Loan proceeds	-	-	333,333	333,333
Capital lease proceeds	1,400,000	1,595,100	1,057,776	(537,324)
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,354,077</u>	<u>5,145,270</u>	<u>5,178,740</u>	<u>33,470</u>
(DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)				
	(4,501,825)	(1,757,945)	(1,006,467)	751,478
FUND BALANCE, October 1	1,188,181	1,188,181	1,188,181	-
RESIDUAL EQUITY TRANSFER	595,041	595,041	595,041	-
FUND BALANCE, September 30	<u>\$ (2,718,603)</u>	<u>\$ 25,277</u>	<u>\$ 776,755</u>	<u>\$ 751,478</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – HOTEL/MOTEL TAX FUND
 Year Ended September 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES				
Motel taxes	\$ 55,000	\$ 55,000	\$ 97,854	\$ 42,854
Miscellaneous	600	600	2,085	1,485
TOTAL REVENUES	<u>55,600</u>	<u>55,600</u>	<u>99,939</u>	<u>44,339</u>
EXPENDITURES				
Current				
Tourism development	<u>55,600</u>	<u>55,600</u>	<u>33,471</u>	<u>22,129</u>
TOTAL EXPENDITURES	<u>55,600</u>	<u>55,600</u>	<u>33,471</u>	<u>22,129</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	66,468	66,468
FUND BALANCE, October 1	477,855	477,855	477,855	-
RESIDUAL EQUITY TRANSFER	<u>(396,966)</u>	<u>(396,966)</u>	<u>(396,966)</u>	-
FUND BALANCE, September 30	<u>\$ 80,889</u>	<u>\$ 80,889</u>	<u>\$ 147,357</u>	<u>\$ 66,468</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GOLF FUND
 Year Ended September 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Charges for services	\$ 515,000	\$ 478,269	\$ 475,957	\$ (2,312)
Miscellaneous	10,000	10,000	5,498	(4,502)
TOTAL REVENUES	525,000	488,269	481,455	(6,814)
EXPENDITURES				
Current				
Golf course	382,000	457,554	452,704	4,850
Debt Service				
Principal and interest	9,300	9,300	7,739	1,561
TOTAL EXPENDITURES	391,300	466,854	460,443	6,411
EXCESS OF REVENUES OVER EXPENDITURES	133,700	21,415	21,012	(403)
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(206,326)	(206,326)	(181,325)	25,001
Capital lease proceeds	-	20,463	20,463	-
TOTAL OTHER FINANCING SOURCES (USES)	(206,326)	(185,863)	(160,862)	25,001
(DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(72,626)	(164,448)	(139,850)	24,598
FUND BALANCE, October 1, as restated	159,071	159,071	159,071	-
FUND BALANCE, September 30	<u>\$ 86,445</u>	<u>\$ (5,377)</u>	<u>\$ 19,221</u>	<u>\$ 24,598</u>

CITY OF NEOSHO, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended September 30, 2008

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, 2008

	Special Revenue Funds		Debt Service Funds			Capital Project Funds		Permanent Funds		Total
	FEMA Fund	Street Fund	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NRCS Demolition Fund	Drainage Project Fund	Abbot Brothers Fund	Morse Park Fund	Nonmajor Governmental Funds
ASSETS										
Cash and cash equivalents - unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,612	\$ -	\$ -	\$ 18,612
Sales tax receivable	-	-	-	11,662	-	-	-	-	-	11,662
Intergovernmental receivable	4,926	-	-	-	-	-	-	-	-	4,926
Cash and cash equivalents - restricted	-	-	406,869	320,498	50,845	1,190	-	29,077	3,533	812,012
Investments - restricted	-	-	-	-	93,619	-	-	-	-	93,619
TOTAL ASSETS	\$ 4,926	\$ -	\$ 406,869	\$ 332,160	\$ 144,464	\$ 1,190	\$ 18,612	\$ 29,077	\$ 3,533	\$ 940,831
LIABILITIES										
Accounts payable	\$ -	\$ -	261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261
TOTAL LIABILITIES	-	-	261	-	-	-	-	-	-	261
FUND BALANCES										
Fund Balance										
Reserved	-	-	406,608	332,160	144,464	-	-	29,077	3,533	915,842
Unreserved	4,926	-	-	-	-	1,190	18,612	-	-	24,728
TOTAL FUND BALANCES	4,926	-	406,608	332,160	144,464	1,190	18,612	29,077	3,533	940,570
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,926	\$ -	\$ 406,869	\$ 332,160	\$ 144,464	\$ 1,190	\$ 18,612	\$ 29,077	\$ 3,533	\$ 940,831

CITY OF NEOSHO, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS
 Year Ended September 30, 2008

	Special Revenue Funds		Debt Service Funds			Capital Project Funds		Permanent Funds		Total Nonmajor Governmental Funds
	FEMA Fund	Street Fund	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NRCS Demolition Fund	Drainage Project Fund	Abbot Brothers Fund	Morse Park Fund	
REVENUES										
Taxes	\$ -	\$ -	\$ -	\$ 109,553	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,553
Intergovernmental revenues	30,218	-	-	-	-	-	18,612	-	-	48,830
Miscellaneous	-	-	3,020	5,942	4,652	-	-	640	71	14,325
TOTAL REVENUES	30,218	-	3,020	115,495	4,652	-	18,612	640	71	172,708
EXPENDITURES										
Current										
Disaster recovery	26,258	-	-	-	-	-	-	-	-	26,258
Other	-	-	-	-	-	-	-	174	-	174
Debt Service										
Principal and interest	-	-	156,071	-	97,302	-	-	-	-	253,373
TOTAL EXPENDITURES	26,258	-	156,071	-	97,302	-	-	174	-	279,805
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	3,960	-	(153,051)	115,495	(92,650)	-	18,612	466	71	(107,097)
OTHER FINANCING SOURCES (USES)										
Operating transfers in	966	-	154,338	169,138	97,885	-	-	-	-	422,327
Operating transfers (out)	-	-	-	(132,936)	-	-	(6,565)	-	-	(139,501)
TOTAL OTHER FINANCING SOURCES (USES)	966	-	154,338	36,202	97,885	-	(6,565)	-	-	282,826
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENTURES AND OTHER (USES)	4,926	-	1,287	151,697	5,235	-	12,047	466	71	175,729
FUND BALANCE, October 1, as restated	-	302,140	405,321	180,463	35,164	1,190	6,565	28,611	3,462	962,916
RESIDUAL EQUITY TRANSFER	-	(302,140)	-	-	104,065	-	-	-	-	(198,075)
FUND BALANCE, September 30	\$ 4,926	\$ -	\$ 406,608	\$ 332,160	\$ 144,464	\$ 1,190	\$ 18,612	\$ 29,077	\$ 3,533	940,570



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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, 2008, and have issued our report thereon dated May 28, 2009. 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 a material weakness.

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

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

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 08-1 to be a significant deficiency in internal control over financial reporting.

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 May 28, 2009.

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.
May 28, 2009



DAVIS, LYNN &
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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, 2008. 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 the major federal program for the year ended September 30, 2008.

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.
May 28, 2009

CITY OF NEOSHO, MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2008

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>			
Passed Through State Emergency Management Agency			
State Homeland Security Program	97.073	SHSP TEAMHSRT	\$ 30,215
Assistance to Firefighters Grant	97.044	EMW-2006-FG-08072	<u>195,506</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			225,721
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Missouri Department of Transportation			
State and Community Highway Safety Grant	20.600	08-PT-02-82	4,960
		08-154-AL-25	600
Transportation Enhancement Funds	20.205	STP-4700(707)	<u>9,189</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			14,749
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Missouri Department of Economic Development			
Community Development Block Program	14.228	2007-EM-1	500,000
		2006-PF-39	<u>24,225</u>
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			524,225
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through Missouri Department of Public Safety			
Bulletproof Vest Partnership Program	16.607	N/A	<u>1,730</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>1,730</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 766,425</u></u>

N/A - Not applicable

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of 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, 2008

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 program.
5. The auditors' report on compliance for the major federal award program expresses an unqualified opinion.
6. There were no findings required to be reported in accordance with Section 510(a) of Circular A-133.
7. The program tested as a major program was:

Community Development Block Grant	14.228
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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

SIGNIFICANT DEFICIENCY

08-1. 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, 2008

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, 2008

There were no prior audit findings.