

CITY OF NEOSHO, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2009

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neosho, Missouri, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Neosho, Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neosho, Missouri, as of September 30, 2009, 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 July 7, 2010, 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.

The Budgetary Comparison Schedules and Schedule of Funding Progress are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that 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. The City of Neosho, Missouri, has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement although not required to be a part of, the basic financial statements.

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 data contained under other financial information, although not considered necessary for a fair presentation of the basic financial statements, is presented for purposes of additional analysis. 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, 2009, and in our opinion, is fairly stated in all material respects, in relation to the respective basic financial statements taken as a whole.

Davis, Lynn & Moots, PC

DAVIS, LYNN & MOOTS, P.C.
July 7, 2010

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS
September 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 2,242	\$ 74,483	\$ 76,725
Sales tax receivable	754,779	-	754,779
Utilities receivable, net	-	394,416	394,416
Other accounts receivable	35,412	13,450	48,862
Court fines receivable, net	19,060	-	19,060
Intergovernmental receivable	363,815	-	363,815
Inventory	34,504	-	34,504
Internal balances	(397,473)	397,473	-
Prepaid expenses	105,306	45,669	150,975
Noncurrent			
Restricted cash and cash equivalents	285,783	1,195,988	1,481,771
Restricted investments	1,410,044	58,341	1,468,385
Deferred debt issuance costs	398,966	18,112	417,078
Capital Assets:			
Non-depreciable	14,289,821	766,859	15,056,680
Depreciable, net	15,483,030	6,974,983	22,458,013
TOTAL ASSETS	32,785,289	9,939,774	42,725,063
LIABILITIES			
Current			
Accounts payable	690,509	218,174	908,683
Accrued expenses	196,624	66,491	263,115
Deferred revenue	59,707	-	59,707
Meter deposits payable	-	59,749	59,749
Accrued interest payable	330,616	47,111	377,727
Current maturities of long-term debt	616,766	1,745,755	2,362,521
	1,894,222	2,137,280	4,031,502
Noncurrent			
Capital leases payable	186,235	42,676	228,911
Loans payable	960,748	112,500	1,073,248
Certificates of participation payable	13,379,184	335,000	13,714,184
Revenue bonds payable	-	70,000	70,000
Compensated absences payable	687,270	93,615	780,885
	15,213,437	653,791	15,867,228
TOTAL LIABILITIES	17,107,659	2,791,071	19,898,730
NET ASSETS			
Invested in capital assets, net of related debt	14,629,918	6,517,461	21,147,379
Restricted for:			
Non-expendable			
Parks	32,018	-	32,018
Debt service	1,799,099	113,030	1,912,129
Airport	739,200	-	739,200
Unrestricted	(1,522,605)	518,212	(1,004,393)
TOTAL NET ASSETS	\$ 15,677,630	\$ 7,148,703	\$ 22,826,333

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended September 30, 2009

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	\$ (605,013)	\$ 61,704	\$ -	\$ -	\$ (543,309)	\$ -	\$ (543,309)
Clerk/Council	(86,618)	-	-	-	(86,618)	-	(86,618)
City hall building	(93,964)	-	-	-	(93,964)	-	(93,964)
Auditorium	(353,895)	47,010	-	-	(306,885)	-	(306,885)
Building inspection	(124,119)	62,311	-	-	(61,808)	-	(61,808)
Animal control	(46,316)	6,642	50	-	(39,624)	-	(39,624)
Police	(1,657,228)	311,165	73,017	25,809	(1,247,237)	-	(1,247,237)
Fire	(1,714,942)	75,580	-	12,598	(1,626,764)	-	(1,626,764)
Emergency management	(59,055)	-	-	-	(59,055)	-	(59,055)
Court	(95,198)	-	-	-	(95,198)	-	(95,198)
Airport	(296,541)	234,057	-	-	(62,484)	-	(62,484)
Drainage	(19,496)	-	-	-	(19,496)	-	(19,496)
Street	(1,223,710)	-	-	1,473,205	249,495	-	249,495
Economic development	(349,962)	-	-	151,801	(198,161)	-	(198,161)
Parks	(355,125)	10,092	8,598	-	(336,435)	-	(336,435)
Recreation	(442,465)	85,178	-	-	(357,287)	-	(357,287)
Senior center	(120,720)	-	-	-	(120,720)	-	(120,720)
Recycling center	(87,577)	17,398	39,892	-	(30,287)	-	(30,287)
Communications	(49,739)	-	-	-	(49,739)	-	(49,739)
Information technology	(75,759)	-	-	-	(75,759)	-	(75,759)
Concessions	(91,351)	66,610	-	-	(24,741)	-	(24,741)
Property control	(47,588)	-	-	-	(47,588)	-	(47,588)
Golf course	(639,940)	502,608	-	-	(137,332)	-	(137,332)
Tourism development	(11,968)	-	-	-	(11,968)	-	(11,968)
Disaster recovery	(121,588)	-	-	2,492	(119,096)	-	(119,096)
Other	(35,848)	360	-	-	(35,488)	-	(35,488)
Debt service	(552,138)	-	-	-	(552,138)	-	(552,138)
TOTAL GOVERNMENTAL ACTIVITIES	(9,357,863)	1,480,715	121,557	1,665,905	(6,089,686)	-	(6,089,686)

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF ACTIVITIES (CONTINUED)
Year Ended September 30, 2009

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	(3,496,471)	3,584,771	-	50,000	-	138,300	138,300
TOTAL BUSINESS-TYPE ACTIVITIES	(3,496,471)	3,584,771	-	50,000	-	138,300	138,300
TOTAL GOVERNMENT	<u>\$ (12,854,334)</u>	<u>\$ 5,065,486</u>	<u>\$ 121,557</u>	<u>\$ 1,715,905</u>	(6,089,686)	138,300	(5,951,386)
		General Revenues:					
					5,092,397	-	5,092,397
					391,397	-	391,397
					233,982	-	233,982
					782,945	-	782,945
					11,711	5,644	17,355
					111,040	79,040	190,080
					(101,650)	101,650	-
				Total General Revenues and Transfers	<u>6,521,822</u>	<u>186,334</u>	<u>6,708,156</u>
				Changes in Net Assets	432,136	324,634	756,770
				Net Assets, Beginning of year	<u>15,245,494</u>	<u>6,824,069</u>	<u>22,069,563</u>
				Net Assets, End of year	<u>\$ 15,677,630</u>	<u>\$ 7,148,703</u>	<u>\$ 22,826,333</u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2009

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	Star Loan Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 1,892	\$ -	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ 2,242
Taxes receivable	743,686	-	-	-	-	-	11,093	754,779
Other accounts receivable	27,077	-	8,335	-	-	-	-	35,412
Court fines receivable, net	19,060	-	-	-	-	-	-	19,060
Intergovernmental receivable	363,815	-	-	-	-	-	-	363,815
Inventory	34,504	-	-	-	-	-	-	34,504
Due from other funds	-	204,367	-	739,200	-	-	139,027	1,082,594
Prepaid expenses	98,596	-	6,710	-	-	-	-	105,306
Restricted cash and cash equivalents	12,266	-	-	-	-	-	273,517	285,783
Restricted investments	-	-	-	-	558,161	759,079	92,804	1,410,044
TOTAL ASSETS	\$ 1,300,896	\$ 204,367	\$ 15,395	\$ 739,200	\$ 558,161	\$ 759,079	\$ 516,441	\$ 4,093,539
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 676,428	\$ 2,685	\$ 11,396	\$ -	\$ -	\$ -	\$ -	\$ 690,509
Accrued expenses	196,624	-	-	-	-	-	-	196,624
Deferred revenue	59,707	-	-	-	-	-	-	59,707
Due to other funds	1,410,793	-	66,710	-	2,564	-	-	1,480,067
TOTAL LIABILITIES	2,343,552	2,685	78,106	-	2,564	-	-	2,426,907
Fund Balances (Deficit)								
Reserved for:								
Permanent funds:								
Nonexpendable								
Parks	-	-	-	-	-	-	32,018	32,018
Debt service funds:								
Principal and interest	-	-	-	-	555,597	759,079	484,423	1,799,099
Airport	-	-	-	739,200	-	-	-	739,200
Unreserved, reported in:								
General Fund	(1,042,656)	-	-	-	-	-	-	(1,042,656)
Special Revenue Fund	-	201,682	(62,711)	-	-	-	-	138,971
TOTAL FUND BALANCES (DEFICIT)	(1,042,656)	201,682	(62,711)	739,200	555,597	759,079	516,441	1,666,632
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,300,896	\$ 204,367	\$ 15,395	\$ 739,200	\$ 558,161	\$ 759,079	\$ 516,441	\$ 4,093,539

See accompanying notes.

CITY OF NEOSHO, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF
 NET ASSETS
 September 30, 2009

Fund balance - total governmental funds	\$ 1,666,632
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	53,111,654
Less accumulated depreciation	<u>(23,338,803)</u>
	29,772,851
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	-
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due	(330,616)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(15,971,019)
Deferred loss on debt refunding	140,816
Unamortized debt issuance costs	<u>398,966</u>
Net assets of governmental activities	<u><u>\$ 15,677,630</u></u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended September 30, 2009

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	Star Loan Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 6,255,413	\$ 66,123	\$ -	\$ -	\$ -	\$ -	\$ 176,185	\$ 6,497,721
Licenses and permits	104,512	-	-	-	-	-	-	104,512
Intergovernmental revenues	1,807,770	-	-	-	-	-	2,492	1,810,262
Charges for services	404,399	-	502,277	-	-	-	-	906,676
Fines and forfeitures	311,164	-	-	-	-	-	-	311,164
Miscellaneous	254,987	170	-	-	898	4,681	578	261,314
TOTAL REVENUES	9,138,245	66,293	502,277	-	898	4,681	179,255	9,891,649
EXPENDITURES								
Current								
Administrative	545,862	-	-	-	-	-	-	545,862
Clerk/Council	84,886	-	-	-	-	-	-	84,886
City hall building	356,828	-	-	-	-	-	-	356,828
Auditorium	349,302	-	-	-	-	-	-	349,302
Building inspection	115,672	-	-	-	-	-	-	115,672
Animal control	45,403	-	-	-	-	-	-	45,403
Police	1,532,045	-	-	-	-	-	-	1,532,045
Fire	1,591,264	-	-	-	-	-	-	1,591,264
Emergency management	58,753	-	-	-	-	-	-	58,753
Court	93,899	-	-	-	-	-	-	93,899
Airport	409,727	-	-	-	-	-	-	409,727
Drainage	15,460	-	-	-	-	-	-	15,460
Street	5,167,523	-	-	-	-	-	-	5,167,523
Economic development	343,629	-	-	-	-	-	-	343,629
Parks	290,620	-	-	-	-	-	-	290,620
Recreation	427,737	-	-	-	-	-	-	427,737
Senior center	99,427	-	-	-	-	-	-	99,427
Recycling center	83,633	-	-	-	-	-	-	83,633
Communications	49,739	-	-	-	-	-	-	49,739
Information technology	75,759	-	-	-	-	-	-	75,759
Concessions	91,351	-	-	-	-	-	-	91,351
Property control	47,588	-	-	-	-	-	-	47,588
Human resources	121,588	-	-	-	-	-	-	121,588
Golf course	-	-	416,836	-	-	-	-	416,836
Tourism development	-	11,968	-	-	-	-	-	11,968
Other	3,347	-	-	-	-	-	32,501	35,848
Debt Service								
Principal and interest	-	-	18,572	-	397,955	547,250	237,030	1,200,807
TOTAL EXPENDITURES	12,001,042	11,968	435,408	-	397,955	547,250	269,531	13,663,154

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)
Year Ended September 30, 2009

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	Star Loan Fund	2006 COP Fund	2007 COP Fund	Nonmajor Governmental Funds	Total Governmental Funds
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,862,797)	54,325	66,869	-	(397,057)	(542,569)	(90,276)	(3,771,505)
OTHER FINANCING SOURCES (USES)								
Operating transfers in (out)	747,084	-	(148,802)	739,200	345,477	(1,450,756)	(333,853)	(101,650)
Insurance proceeds	296,302	-	-	-	-	-	-	296,302
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,043,386</u>	<u>-</u>	<u>(148,802)</u>	<u>739,200</u>	<u>345,477</u>	<u>(1,450,756)</u>	<u>(333,853)</u>	<u>194,652</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(1,819,411)	54,325	(81,933)	739,200	(51,580)	(1,993,325)	(424,129)	(3,576,853)
FUND BALANCE, October 1	<u>776,755</u>	<u>147,357</u>	<u>19,222</u>	<u>-</u>	<u>607,177</u>	<u>2,752,404</u>	<u>940,570</u>	<u>5,243,485</u>
FUND BALANCE (DEFICIT), September 30	<u><u>\$ (1,042,656)</u></u>	<u><u>\$ 201,682</u></u>	<u><u>\$ (62,711)</u></u>	<u><u>\$ 739,200</u></u>	<u><u>\$ 555,597</u></u>	<u><u>\$ 759,079</u></u>	<u><u>\$ 516,441</u></u>	<u><u>\$ 1,666,632</u></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, 2009

Net change in fund balances - total governmental funds \$ (3,576,853)

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	4,623,342
Depreciation	(1,208,701)
	<u>3,414,641</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.

Repayment of principal on bonds, leases and loans	758,668
Issuance cost amortization	(21,888)
Deferred loss on refunding	(6,706)
Change in accrued interest payable	381
	<u>730,455</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. (107,702)

Change in net assets of governmental activities \$ 432,136

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
September 30, 2009

	Water and Sewer Fund	Internal Service Fund
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 74,483	\$ -
Utilities receivable, net	394,416	-
Due from other funds	397,473	-
Other accounts receivable	13,450	-
Prepaid expenses	45,669	-
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	925,491	-
Restricted Assets		
Cash and cash equivalents	1,195,988	-
Investments	58,341	-
	<hr/>	<hr/>
TOTAL RESTRICTED ASSETS	1,254,329	-
Deferred Bond Issuance Costs	18,112	-
Property, Plant and Equipment		
Land	251,578	-
Work in progress	515,281	-
Water plant and equipment	13,006,834	-
Buildings and improvements	35,591	-
Sewer plant and equipment	11,172,533	-
	<hr/>	<hr/>
	24,981,817	-
Less accumulated depreciation	(17,239,975)	-
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	7,741,842	-
	<hr/>	<hr/>
TOTAL ASSETS	9,939,774	-
LIABILITIES		
Current Liabilities		
Accounts payable	218,174	-
Accrued expenses	66,491	-
Accrued interest payable	47,111	-
Meter deposits payable	59,749	-
Current maturities of long-term debt	1,745,755	-
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	2,137,280	-
Long-Term Liabilities		
Capital leases payable	42,676	-
Loan payable	112,500	-
Revenue bonds payable	70,000	-
Certificates of participation	335,000	-
Compensated absences payable	93,615	-
	<hr/>	<hr/>
TOTAL LONG-TERM LIABILITIES	653,791	-
	<hr/>	<hr/>
TOTAL LIABILITIES	2,791,071	-
NET ASSETS		
Invested in capital assets, net of related debt	6,517,461	-
Restricted for debt service	113,030	-
Unrestricted	518,212	-
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 7,148,703	\$ -
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
Year Ended September 30, 2009

	Water and Sewer Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services		
Water and sewer	\$ 3,584,771	\$ -
Insurance contributions	-	923,227
	<u>3,584,771</u>	<u>923,227</u>
TOTAL OPERATING REVENUES	3,584,771	923,227
OPERATING EXPENSES		
Personnel services	1,378,251	-
Contractual services	509,743	-
Repairs and maintenance	327,540	-
Supplies	200,233	-
Utilities	445,824	-
Insurance	60,401	-
Depreciation	470,918	-
Miscellaneous	20,494	-
Insurance claims	-	504,128
Insurance premiums	-	288,945
Administrative fees	-	158,559
	<u>3,413,404</u>	<u>951,632</u>
TOTAL OPERATING EXPENSES	3,413,404	951,632
OPERATING INCOME (LOSS)	171,367	(28,405)
NONOPERATING REVENUES (EXPENSES)		
Interest income	5,644	-
Other revenue	79,040	-
Capital contributions	50,000	-
Interest expense	(83,067)	-
	<u>51,617</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	51,617	-
INCOME (LOSS) BEFORE OPERATING TRANSFERS	222,984	(28,405)
OPERATING TRANSFERS IN	101,650	-
	<u>324,634</u>	<u>(28,405)</u>
NET INCOME (LOSS)	324,634	(28,405)
NET ASSETS, October 1	6,824,069	28,405
NET ASSETS, September 30	<u>\$ 7,148,703</u>	<u>\$ -</u>

See accompanying notes.

CITY OF NEOSHO, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended September 30, 2009

	Water and Sewer Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,491,862	\$ 923,227
Cash paid to suppliers	(1,664,512)	(951,632)
Cash paid to employees	(1,364,778)	-
Other cash received for nonoperating revenues	79,040	-
	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(28,405)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	101,650	-
Loans to other funds	(397,473)	-
	NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of principal on capital leases	(38,921)	-
Purchase of fixed assets	(667,982)	-
Payment of principal on certificates of participation	(20,000)	-
Payment of principal on bonds	(30,000)	-
Payment of principal on loans	(54,167)	-
Bond proceeds	1,655,000	-
Capital contributions	50,000	-
Payment of interest expense	(65,538)	-
	NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	5,644	-
Maturity of investments	1,812	-
	NET CASH PROVIDED BY INVESTING ACTIVITIES	-
	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,405)
CASH AND CASH EQUIVALENTS, Beginning of year	188,834	28,405
CASH AND CASH EQUIVALENTS, End of year	1,270,471	-
LESS RESTRICTED CASH AND CASH EQUIVALENTS	(1,195,988)	-
UNRESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 74,483</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 171,367	\$ (28,405)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	470,918	-
(Increase) decrease in:		
Utilities receivable	(86,186)	-
Other accounts receivable	(1,743)	-
Increase (decrease) in:		
Accounts payable	(100,277)	-
Accrued expenses	1,871	-
Meter deposits payable	(4,980)	-
Compensated absences	11,602	-
Other cash received for nonoperating revenues	79,040	-
	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(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 Section 1600.131 (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, 2009

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.

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, 2009

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, 2009, all bank balances on deposit are entirely insured or collateralized.

NOTE C – INVESTMENTS

Investments of the City as of September 30, 2009, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Goldman Sachs Treasury	N/A	\$ 1,317,240
AIGFMC Fixed Income Securities	7/1/2014	15,000
Trinity Plus Funding	1/1/2019	3,341
Fidelity Treasury Fund	N/A	<u>132,804</u>
		<u>\$ 1,468,385</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 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 Waterworks and Sewerage System Revenue bonds reserve account.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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	\$ 743,686	\$ -	\$ 743,686
2000A Bond Fund	11,093	-	11,093
	<u>\$ 754,779</u>	<u>\$ -</u>	<u>\$ 754,779</u>
UTILITIES RECEIVABLE			
Water and Sewer Fund	<u>\$ 403,119</u>	<u>\$ 8,703</u>	<u>\$ 394,416</u>
OTHER ACCOUNTS RECEIVABLE			
General Fund	\$ 27,077	\$ -	\$ 27,077
Golf Fund	8,335	-	8,335
Water and Sewer Fund	13,450	-	13,450
	<u>\$ 48,862</u>	<u>\$ -</u>	<u>\$ 48,862</u>
COURT FINES RECEIVABLE			
General Fund	<u>\$ 131,005</u>	<u>\$ 111,945</u>	<u>\$ 19,060</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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

The business-type activities long-term debt at September 30, 2009, consists of the 1992B and 2009A Revenue Bond issues, 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. \$ 100,000

\$1,655,000 in sewerage system revenue bonds series 2009A, issued May 2009, due on June 1, 2010; interest at 3.0% \$ 1,655,000

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>
2010	\$ 1,685,000	\$ 61,338	\$ 1,746,338
2011	35,000	5,285	40,285
2012	35,000	2,643	37,643
	<u><u>\$ 1,755,000</u></u>	<u><u>\$ 69,266</u></u>	<u><u>\$ 1,824,266</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, 2009, are due as follows:

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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

Year Ended September 30,	Principal	Interest	Total
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>\$ 1,010,000</u>	<u>\$ 319,583</u>	<u>\$ 1,329,583</u>

Amount recorded in:

Water and Sewer Fund	\$ 355,000
Governmental Activities	<u>655,000</u>
TOTAL	<u>\$ 1,010,000</u>

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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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

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, 2009, are as follows:

Year Ended September 30,		
2010		\$ 44,687
2011		44,687
	TOTAL MINIMUM LEASE PAYMENTS	89,374
	LESS AMOUNT REPRESENTING INTEREST	(5,943)
	NET LEASE PAYMENTS	<u>\$ 83,431</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, 2009, the total outstanding balance on the Lowe’s Development Loan is \$337,500, with \$112,500 recorded as long-term debt within the business-type activities and \$225,000 recorded in the governmental activities of the City.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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, 2009, is as follows:

	Balance September 30, 2008	Additions	Retirements	Balance September 30, 2009
Capital Lease Obligations				
UV treatment system lease	\$ 122,352	\$ -	\$ 38,921	\$ 83,431
	122,352	-	38,921	83,431
Loan Obligation				
Lowe's development project	166,667	-	54,167	112,500
Revenue Bonds				
1992B Revenue Bonds	130,000	-	30,000	100,000
2009A Revenue Bonds	-	1,655,000	-	1,655,000
Certificates of Participation				
2003 Certificate of Participation	375,000	-	20,000	355,000
Compensated Absences Payable	82,013	11,602	-	93,615
TOTAL	<u>\$ 876,032</u>	<u>\$ 1,666,602</u>	<u>\$ 143,088</u>	<u>\$ 2,399,546</u>

NOTE F – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt for governmental activities at September 30, 2009, consists of four capital lease obligations, 2003, 2006A, 2006B, 2007A, and 2007B certificates of participation, compensated absences payable, and two loan obligations.

Capital Lease Obligations

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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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

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 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".

The total annual minimum lease payments required at September 30, 2009, are as follows:

Year Ended September 30,	Land Lease	Yamaha Golf Carts	2008 Toro Mower	2008 Fire Rescue Truck	Total
2010	\$ 2,100	\$ 18,572	\$ 4,693	\$ 35,987	\$ 61,352
2011	-	18,572	4,693	35,987	59,252
2012	-	92,228	4,693	35,987	132,908
2013	-	-	4,693	-	4,693
2014	-	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018	-	-	-	-	-
TOTAL MINIMUM LEASE PAYMENTS	2,100	129,372	18,772	107,961	258,205
LESS AMOUNT REPRESENTING INTEREST	(100)	(9,367)	(2,056)	(9,484)	(21,007)
PRINCIPAL BALANCE, SEPTEMBER 30, 2009	<u>\$ 2,000</u>	<u>\$ 120,005</u>	<u>\$ 16,716</u>	<u>\$ 98,477</u>	<u>\$ 237,198</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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, 2009, are due as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 6,280,000</u>	<u>\$ 3,657,741</u>	<u>\$ 9,937,741</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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, 2009, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,475,000</u>	<u>\$ 1,911,727</u>	<u>\$ 5,386,727</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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, 2009, are due as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,595,000</u>	<u>\$ 1,893,828</u>	<u>\$ 5,488,828</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

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

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 agreement requires annual payments of \$104,238 through 2018, including interest at 2.87%.

The annual loan payments required at September 30, 2009, are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 80,803	\$ 23,435	\$ 104,238
2011	83,122	21,116	104,238
2012	85,508	18,730	104,238
2013	87,962	16,276	104,238
2014	90,486	13,752	104,238
2015	93,083	11,155	104,238
2016	95,755	8,483	104,238
2017	98,503	5,735	104,238
2018	101,330	2,908	104,238
	<u>\$ 816,552</u>	<u>\$ 121,590</u>	<u>\$ 938,142</u>

A summary of the changes in long-term debt – governmental activities for the year ended September 30, 2009, is as follows:

	<u>Balance September 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2009</u>
Capital Lease Obligations				
2000 Spartan fire truck	\$ 32,952	\$ -	\$ 32,952	\$ -
Land lease	4,000	-	2,000	2,000
Yamaha golf carts	133,190	-	13,185	120,005
2008 Toro mower	20,463	-	3,747	16,716
2008 fire truck	128,379	-	29,902	98,477
	<u>318,984</u>	<u>-</u>	<u>81,786</u>	<u>237,198</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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

	Balance September 30, 2008	Additions	Retirements	Balance September 30, 2009
	<u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>2009</u>
Loan Obligation				
2008 STAR loan	895,100	-	78,548	816,552
Lowe's development project	333,333	-	108,333	225,000
	<u>1,228,433</u>	<u>-</u>	<u>186,881</u>	<u>1,041,552</u>
Special Obligation Bonds				
1998	135,000	-	135,000	-
Certificates of Participation				
2003	725,000	-	70,000	655,000
2006A	5,990,000	-	75,000	5,915,000
2006B	365,000	-	-	365,000
2007A	3,565,000	-	90,000	3,475,000
2007B	3,715,000	-	120,000	3,595,000
	<u>14,360,000</u>	<u>-</u>	<u>355,000</u>	<u>14,005,000</u>
Less: Deferred loss on debt refunding	<u>(147,522)</u>	<u>-</u>	<u>(6,705)</u>	<u>(140,817)</u>
	14,212,478	-	348,295	13,864,183
Compensated absences payable	<u>579,568</u>	<u>107,702</u>	<u>-</u>	<u>687,270</u>
TOTAL	<u>\$ 16,474,463</u>	<u>\$ 107,702</u>	<u>\$ 751,962</u>	<u>\$ 15,830,203</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, was as follows:

	Balance September 30, 2008	Additions	Deletions	Balance September 30, 2009
Governmental Activities				
Non-Depreciable Capital Assets:				
Land	\$ 9,515,266	\$ -	\$ -	\$ 9,515,266
Work in progress	1,609,856	3,164,699	-	4,774,555
Total Non-Depreciable Capital Assets	<u>11,125,122</u>	<u>3,164,699</u>	<u>-</u>	<u>14,289,821</u>
Depreciable Capital Assets:				
Land improvements	384,785	-	-	384,785
Building and improvements	9,078,707	412,025	-	9,490,732
Machinery and equipment	5,805,602	55,134	18,993	5,841,743
Golf course	3,291,243	5,522	-	3,296,765
Infrastructure	18,802,853	1,004,955	-	19,807,808
Total Depreciable Capital Assets	37,363,190	<u>\$ 1,477,636</u>	<u>\$ 18,993</u>	38,821,833
Less Accumulated Depreciation	<u>22,130,102</u>	<u>\$ 1,227,694</u>	<u>\$ 18,993</u>	<u>23,338,803</u>
Total Depreciable Capital Assets, Net	<u>15,233,088</u>			<u>15,483,030</u>
Total Capital Assets - Governmental Activities, Net	<u>\$ 26,358,210</u>			<u>\$ 29,772,851</u>

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE G – CAPITAL ASSETS (continued)

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

Administration	\$ 49,436
Auditorium	134,762
Economic development	8,333
Building inspection	8,448
Police	97,414
Fire	118,893
Emergency management	302
Recycling	3,944
Senior center	20,903
Golf course	241,811
Court	1,299
Airport	250,002
Parks	64,505
Recreation	14,728
Drainage	4,036
Street	208,878
	<u>\$ 1,227,694</u>

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

NOTE G – CAPITAL ASSETS (continued)

	Balance September 30, 2008	Additions	Deletions	Balance September 30, 2009
Business-Type Activities				
Water and Sewer				
Non-Depreciable Capital Assets:				
Land	\$ 251,578	\$ -	\$ -	\$ 251,578
Work in progress	2,202	513,079	-	515,281
Total Non-Depreciable Capital Assets	<u>253,780</u>	<u>\$ 513,079</u>	<u>\$ -</u>	<u>766,859</u>
Depreciable Capital Assets:				
Buildings	35,591	\$ -	\$ -	35,591
Water plant and equipment	12,994,089	12,745	-	13,006,834
Sewer plant and equipment	11,030,375	142,158	-	11,172,533
Total Depreciable Capital Assets	24,060,055	<u>\$ 154,903</u>	<u>\$ -</u>	24,214,958
Less Accumulated Depreciation	16,769,057	<u>\$ 470,918</u>	<u>\$ -</u>	17,239,975
Total Depreciable Capital Assets, Net	<u>7,290,998</u>			<u>6,974,983</u>
Total Capital Assets - Business-Type Activities, Net	<u>\$ 7,544,778</u>			<u>\$ 7,741,842</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, 2009

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 10.7% (general), 6.9% (police) and 12.3% (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 2009, the political subdivision's annual pension cost of \$407,320 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2007 and/or February 29, 2008, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2009, included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2009, was 15 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/07	\$ 342,708	100%	\$ -
06/30/08	395,035	100%	-
06/30/09	407,320	100%	-

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

NOTE H – EMPLOYEE PENSION PLAN (continued)

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

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
02/28/09	\$ 5,175,153	\$ 5,872,297	\$ 697,144	88%	\$ 3,915,556	18%

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, 2009

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, 2008	Current Amortization	Net Debt Issue Costs
Water and Sewer Fund	<u>\$ 36,973</u>	<u>\$ 9,934</u>	<u>\$ 8,927</u>	<u>\$ 18,112</u>
Governmental Activities	<u>\$ 503,500</u>	<u>\$ 82,644</u>	<u>\$ 21,890</u>	<u>\$ 398,966</u>

NOTE K – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2009, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 747,084	\$ -
Star Loan Fund	739,200	-
Golf Fund	-	148,802
2006 COP Fund	345,477	-
2007 COP Fund	-	1,450,756
Nonmajor governmental funds	-	333,853
Water and Sewer Fund	<u>101,650</u>	<u>-</u>
	<u>\$ 1,933,411</u>	<u>\$ 1,933,411</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, 2009

NOTE L – INTERNAL BALANCES

Internal balances as of September 30, 2009, consisted of the following:

	General Fund	Hotel/ Motel Tax Fund	Golf Fund	Star Loan Fund	2007 COP Fund	Non-Major Funds	Water and Sewer Fund
Internal balances	<u>\$ (1,410,793)</u>	<u>\$ 204,367</u>	<u>\$ (66,710)</u>	<u>\$ 739,200</u>	<u>\$ (2,564)</u>	<u>\$ 139,027</u>	<u>\$ 397,473</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, 2009, 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, 2009, 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.

CITY OF NEOSHO, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

NOTE N – SELF-INSURANCE FUND (continued)

The cash transactions of the health care plan are accounted for in the Self-Insurance Health Fund, an internal service fund. At September 30, 2009, 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 \$51,506. Changes in the estimated benefit obligation during the past year is as follows:

Estimated Benefit Obligation, beginning of year	\$ 79,821
Claims incurred	475,813
Claims paid	<u>(504,128)</u>
Estimated Benefit Obligation, end of year	<u><u>\$ 51,506</u></u>

NOTE O – DEBT LOSS 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 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, 2008	Additions	Current Amortization	Balance September 30, 2009
Governmental Activities	<u>\$ 147,522</u>	<u>\$ -</u>	<u>\$ (6,705)</u>	<u>\$ 140,817</u>

NOTE P – COMMITMENTS

At September 30, 2009, the City had the following commitments:

1. Purchase of property in the amount of \$37,525.
2. West Plains Bridge for the South Street Bridge project in the amount of \$409,721.
3. Justin S. Beck for a golf course management contract through April 2009, in the amount of \$109,271.

NOTE Q – SUBSEQUENT EVENTS

On November 3, 2009, the City of Neosho passed a \$5,488,800 bond issue for the purpose of extending and improving the City's sewerage system and refunding the 2009A bonds in the amount of \$1,655,000. The Series 2009B bonds were issued on November 10, 2009. On January 5, 2010, the City approved the issuance of \$825,000 bond issue, Series 2010A, for improvements to the City waterworks system. On March 23, 2010, the City approved the issuance of Certificates of Participation in the amount of \$1.3 million to repay the City's General Fund for auditorium renovations.

NOTE R – FINANCIAL STRESS

The City of Neosho has experienced a prolonged decline in sales tax revenues associated with the downturn of the economy, as well as low cash reserves resulting from cost overruns on several capital projects. These issues, coupled with improper borrowing from restricted funds, have created cash-flow concerns which could impact the City's ability to meet future debt obligations unless a plan of action is implemented. In the short term, the Council approved the borrowing of \$1.3 million in Certificates of Participation to repay the General Fund for cost overruns to assist in the continued operations of the City through the remainder of the current fiscal year. Acknowledging the serious nature of these concerns, the City of Neosho has developed this Financial Plan to address current and future cash flow issues to assist in meeting financial obligations and the repayment of restricted funds.

The Financial Plan presented to and approved by council is as follows:

1. On August 3, 2010, the City Council will seek voter approval of a property tax increase which would levy up to \$1.00 per \$100 of assessed valuation on both real and personal property. Approval of this ballot initiative would create an additional \$1.15 million in net revenues annually to assist in meeting financial obligations and addressing cash flow issues. The Council realizes that additional budget reductions of up to \$350,000 may be necessary even with the \$1.00 levy. The Council agrees to direct City Management to identify budget reductions necessary to balance the budget and to present them to Council for approval.

CITY OF NEOSHO, MISSOURI
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE R – FINANCIAL STRESS (continued)

2. Since the City cannot predict with certainty the outcome of the August 3, 2010, election, the Council realizes the possibility that the levy proposal could be unsuccessful. In that event, the Council is authorized to levy a property tax only up to the current ceiling of \$0.4224 on real property. At that point, the Council will direct additional and necessary cuts from various city departments, as well as consider other arrangements, including the restructuring of long-term debt. These measures will cover the estimated \$1.1 million additional shortfall.
3. Repayment of interfund borrowings to the Hotel/Motel Tax Fund, the TIF fund, and the Water/Wastewater Fund will be budgeted annually for the next 5 years, starting with Fiscal Year 2010-2011.
4. The City is committed to the completion of capital projects funded by the STAR loan. To facilitate this, taxiway capital improvements, which are currently underway, will be completed by October 2010. The STAR-funded hangar construction will then commence, no sooner than October 2010, and no later than October 2011. That time commitment has been accepted by the oversight agency, Missouri Department of Transportation.
5. Finally, City Management will present for Council approval, a mid-year budget adjustment reflecting necessary budget reductions to Fiscal Year 2009-2010 for budget shortfalls, which have occurred during the current depressed economy. Additionally, Management is reviewing current operational and internal control policies to improve control structures and efficiencies which have not been realized but could have a positive impact on the long-term financial condition of the City.

NOTE S – MISAPPROPRIATION OF FUNDS

During the year ended September 30, 2009, the City inappropriately borrowed monies in the amount of \$739,200 from the STAR Loan proceeds, \$204,367 from the Hotel/Motel Tax Fund, \$139,027 from the 2000A Bond Fund, \$157,044 from the Economic Development Sales Tax, \$13,652 from the Senior Center Sales Tax, and \$451,976 from monies designated for the Street Department in order to meet cash requirements of the City. The City plans on repaying these funds over the next five years. The City also plans on completing the STAR Loan project, which involves the construction of hangars at the airport, by October 2011

NOTE T – DEFICIT FUND BALANCE

As of September 30, 2009, the City had a deficit of \$1,042,656 and \$62,711 in the General Fund and Golf Fund, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended September 30, 2009

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
02/28/07	\$ 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%
02/28/09	5,175,153	5,872,297	697,144	88%	3,915,556	18%

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, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
City sales tax	\$ 5,371,879	\$ 5,371,879	\$ 5,017,772	\$ (354,107)
Utility franchise tax	800,000	800,000	782,945	(17,055)
Motor vehicle taxes	410,000	410,000	391,397	(18,603)
Cigarette tax	75,000	75,000	63,299	(11,701)
	<u>6,656,879</u>	<u>6,656,879</u>	<u>6,255,413</u>	<u>(401,466)</u>
Licenses and Permits				
Occupational licenses	30,000	30,000	31,894	1,894
Building permits	75,000	75,000	62,061	(12,939)
Animal licenses and fees	9,100	9,100	1,250	(7,850)
Other	6,500	6,500	9,307	2,807
	<u>120,600</u>	<u>120,600</u>	<u>104,512</u>	<u>(16,088)</u>
Intergovernmental Revenues				
Grants	2,723,648	2,723,648	1,680,000	(1,043,648)
Fire district	75,000	75,000	75,000	-
Other	49,575	49,575	52,770	3,195
	<u>2,848,223</u>	<u>2,848,223</u>	<u>1,807,770</u>	<u>(1,040,453)</u>
Charges for Services				
Sanitation	65,000	65,000	22,974	(42,026)
Airport fuel sales	175,500	175,500	182,221	6,721
Park fees	4,000	4,000	18,817	14,817
Recreational fees	274,700	274,700	95,804	(178,896)
Concessions	91,600	91,600	66,610	(24,990)
Recycling center fees	25,000	25,000	17,398	(7,602)
Other	250	250	575	325
	<u>636,050</u>	<u>636,050</u>	<u>404,399</u>	<u>(231,651)</u>
Fines and Forfeitures				
City court fines	415,150	415,150	305,708	(109,442)
Police training fees	-	-	5,456	5,456
	<u>415,150</u>	<u>415,150</u>	<u>311,164</u>	<u>(103,986)</u>
Miscellaneous				
Leases and rent income	66,220	66,220	89,934	23,714
Interest	28,250	28,250	5,346	(22,904)
Donations and other contributions	257,400	257,400	52,291	(205,109)
Other	173,558	173,558	107,416	(66,142)
	<u>525,428</u>	<u>525,428</u>	<u>254,987</u>	<u>(270,441)</u>
TOTAL REVENUES	11,202,330	11,202,330	9,138,245	(2,064,085)

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
 Year Ended September 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	759,775	759,775	545,862	213,913
Clerk/Council	129,198	129,198	84,886	44,312
City hall building	93,250	93,250	356,828	(263,578)
Auditorium	513,146	513,146	349,302	163,844
Building inspection	147,738	147,738	115,672	32,066
Animal control	68,043	68,043	45,403	22,640
Police	1,800,075	1,800,075	1,532,045	268,030
Fire	1,752,808	1,752,808	1,591,264	161,544
Emergency management	29,655	29,655	58,753	(29,098)
Court	103,620	103,620	93,899	9,721
Airport	1,208,687	1,208,687	409,727	798,960
Drainage	204,755	204,755	15,460	189,295
Street	7,747,470	7,747,470	5,167,523	2,579,947
Economic development	322,127	322,127	343,629	(21,502)
Parks	342,658	342,658	290,620	52,038
Recreation	343,624	343,624	427,737	(84,113)
Senior Center	197,672	197,672	99,427	98,245
Recycling Center	129,779	129,779	83,633	46,146
Communications	45,901	45,901	49,739	(3,838)
Information technology	102,441	102,441	75,759	26,682
Concessions	86,352	86,352	91,351	(4,999)
Property control	57,374	57,374	47,588	9,786
Human Resources	128,075	128,075	121,588	6,487
Other	-	-	3,347	(3,347)
TOTAL EXPENDITURES	16,314,223	16,314,223	12,001,042	4,313,181
(DEFICIT) OF REVENUES OVER EXPENDITURES	(5,111,893)	(5,111,893)	(2,862,797)	2,249,096
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,887,227	2,887,227	1,565,832	(1,321,395)
Operating transfers (out)	-	-	(818,748)	(818,748)
Insurance proceeds	650,000	650,000	296,302	(353,698)
TOTAL OTHER FINANCING SOURCES (USES)	3,537,227	3,537,227	1,043,386	(2,493,841)
(DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(1,574,666)	(1,574,666)	(1,819,411)	(244,745)
FUND BALANCE, October 1	776,755	776,755	776,755	-
FUND BALANCE (DEFICIT) September 30	\$ (797,911)	\$ (797,911)	\$ (1,042,656)	\$ (244,745)

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – HOTEL/MOTEL TAX FUND
 Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES				
Motel taxes	\$ 72,500	\$ 72,500	\$ 66,123	\$ (6,377)
Miscellaneous	1,500	1,500	170	(1,330)
TOTAL REVENUES	<u>74,000</u>	<u>74,000</u>	<u>66,293</u>	<u>(7,707)</u>
EXPENDITURES				
Current				
Tourism development	<u>74,000</u>	<u>74,000</u>	<u>11,968</u>	<u>62,032</u>
TOTAL EXPENDITURES	<u>74,000</u>	<u>74,000</u>	<u>11,968</u>	<u>62,032</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	54,325	54,325
FUND BALANCE, October 1	<u>147,357</u>	<u>147,357</u>	<u>147,357</u>	<u>-</u>
FUND BALANCE, September 30	<u>\$ 147,357</u>	<u>\$ 147,357</u>	<u>\$ 201,682</u>	<u>\$ 54,325</u>

CITY OF NEOSHO, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GOLF FUND
 Year Ended September 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Charges for services	\$ 492,000	\$ 492,000	\$ 502,277	\$ 10,277
Miscellaneous	1,200	1,200	-	(1,200)
TOTAL REVENUES	493,200	493,200	502,277	9,077
EXPENDITURES				
Current				
Golf course	420,866	420,866	416,836	4,030
Debt Service				
Principal and interest	35,000	34,300	18,572	15,728
TOTAL EXPENDITURES	455,866	455,166	435,408	19,758
EXCESS OF REVENUES OVER EXPENDITURES	37,334	38,034	66,869	28,835
OTHER FINANCING (USES)				
Operating transfers (out)	(152,409)	(152,409)	(148,802)	3,607
TOTAL OTHER FINANCING (USES)	(152,409)	(152,409)	(148,802)	3,607
(DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER (USES)	(115,075)	(114,375)	(81,933)	32,442
FUND BALANCE, October 1	19,222	19,222	19,222	-
FUND (DEFICIT), September 30	\$ (95,853)	\$ (95,153)	\$ (62,711)	\$ 32,442

CITY OF NEOSHO, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended September 30, 2009

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, 2009

	Special Revenue Fund	Debt Service Funds			Capital Project Funds		Permanent Funds		Total Nonmajor Governmental Funds
	FEMA Fund	98 Floodway Buyout Bond Fund	2000A Bond Fund	2003 Bond Fund	NRCS Demolition Fund	Drainage Project Fund	Abbot Brothers Fund	Morse Park Fund	
ASSETS									
Sales tax receivable	\$ -	\$ -	\$ 11,093	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,093
Due from other funds	-	-	139,027	-	-	-	-	-	139,027
Cash and cash equivalents - restricted	-	-	217,088	24,411	-	-	28,479	3,539	273,517
Investments - restricted	-	-	-	92,804	-	-	-	-	92,804
TOTAL ASSETS	\$ -	\$ -	\$ 367,208	\$ 117,215	\$ -	\$ -	\$ 28,479	\$ 3,539	\$ 516,441
FUND BALANCES									
Fund Balance									
Reserved	\$ -	\$ -	\$ 367,208	\$ 117,215	\$ -	\$ -	\$ 28,479	\$ 3,539	\$ 516,441
TOTAL FUND BALANCES	\$ -	\$ -	\$ 367,208	\$ 117,215	\$ -	\$ -	\$ 28,479	\$ 3,539	\$ 516,441

CITY OF NEOSHO, MISSOURI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS
 Year Ended September 30, 2009

	Special Revenue Fund	Debt Service Funds			Capital Project Funds		Permanent Funds		Total Nonmajor Governmental Funds
	FEMA 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	\$ -	\$ -	\$ 176,185	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,185
Intergovernmental revenues	2,492	-	-	-	-	-	-	-	2,492
Miscellaneous	-	129	185	224	-	-	34	6	578
TOTAL REVENUES	2,492	129	176,370	224	-	-	34	6	179,255
EXPENDITURES									
Current									
Other	-	-	31,869	-	-	-	632	-	32,501
Debt Service									
Principal and interest	-	138,038	-	98,992	-	-	-	-	237,030
TOTAL EXPENDITURES	-	138,038	31,869	98,992	-	-	632	-	269,531
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	2,492	(137,909)	144,501	(98,768)	-	-	(598)	6	(90,276)
OTHER FINANCING SOURCES (USES)									
Operating transfers in	-	1,038	33,673	71,519	-	-	-	-	106,230
Operating transfers (out)	(7,418)	(269,737)	(143,126)	-	(1,190)	(18,612)	-	-	(440,083)
TOTAL OTHER FINANCING SOURCES (USES)	(7,418)	(268,699)	(109,453)	71,519	(1,190)	(18,612)	-	-	(333,853)
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(4,926)	(406,608)	35,048	(27,249)	(1,190)	(18,612)	(598)	6	(424,129)
FUND BALANCE, October 1	4,926	406,608	332,160	144,464	1,190	18,612	29,077	3,533	940,570
FUND BALANCE, September 30	\$ -	\$ -	\$ 367,208	\$ 117,215	\$ -	\$ -	\$ 28,479	\$ 3,539	\$ 516,441



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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, 2009, and have issued our report thereon dated July 7, 2010. 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 09-3, 09-4 and 09-5 to be significant deficiencies 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 deficiencies described above are material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items 09-1 and 09-2.

We noted certain other matters that we have reported to management of the City of Neosho, Missouri in a separate letter dated July 7, 2010.

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.
July 7, 2010



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 programs for the year ended September 30, 2009. The City of Neosho, Missouri's major federal programs are 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 programs 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 programs for the year ended September 30, 2009.

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.
July 7, 2010

CITY OF NEOSHO, MISSOURI
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended September 30, 2009

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	\$ 12,598
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			12,598
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Missouri Department of Transportation State and Community Highway Safety Grant	20.600	09-PT-02-92	6,746
Alcohol Open Container Requirements	20.607	09-154-AL-14	1,596
Transportation Enhancement Funds	20.205	STP-4700(707) STP-4700(706)	20,768 <u>366,833</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			395,943
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Missouri Department of Economic Development Community Development Block Program	14.228	2004-ED-12 2006-PF-39 2008-DT-03 2007-PF-24	544,540 356,237 12,705 <u>64,411</u>
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>977,893</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,386,434</u>

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, 2009

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements.
2. Significant deficiencies disclosed during the audit of the financial statements are 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*. These deficiencies are reported as material weaknesses.
3. Instances of noncompliance material to the financial statements were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. There were no findings required to be reported in accordance with Section 510(a) of Circular A-133.
7. The programs tested as major programs were:

Community Development Block Grant	14.228
Transportation Enhancement Funds	20.205
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

COMPLIANCE

09-1 Misappropriation of Funds

Condition: Management utilized STAR Loan funds from the Missouri Department of Transportation, which was designated for the building of airport hangars, Hotel/Motel funds restricted for the promotion of tourism, and Tax Increment Financing funds designated for the retirement of debt, Economic Development Sales Tax designated for economic development, Senior Center Sales Tax designated for the Senior Center, and monies designated for the Street Department, to finance general government operations.

CITY OF NEOSHO, MISSOURI
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended September 30, 2009

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

09-1 Misappropriation of Funds (continued)

Criteria: The STAR Loan proceeds were to be utilized for the construction of new airport hangars per the loan agreement with the Missouri Department of Transportation. Hotel/Motel Tax funds, Economic Development Sales Tax, and Senior Center Sales Tax were approved by the voters to be used to promote tourism, economic development, and senior center improvements in the Neosho area. Tax Increment Financing funds were to be used to repay debt obligation as required by the Tax Increment Financing agreements.

Effect: The City did not comply with its STAR Loan agreement. The City did not utilize tax funds as authorized by voters. The City did not utilize Tax Increment Financing funds in accordance with the Tax Increment Financing agreement.

Cause: The City did not properly monitor its budget and cash balances and take necessary action to prevent utilizing monies from other funds. The City also did not prepare forecasts of cash requirements before entering into construction contracts. In addition, the City budgeted a deficit in the City's General Fund.

Recommendation: The City develop a plan to repay the STAR Loan fund to meet State requirements and to repay the sales tax and Tax Increment Financing funds.

Response: Management is developing a plan to repay these funds.

09-2 Budgetary Compliance

Condition: The City was not in compliance with budgetary statute, Chapter 67, RSMo in the current year as a deficit fund balance was budgeted in the General Fund and the Golf Fund. The budgetary statute prohibits budgeting a deficit fund balance for any fund maintained by the City.

Criteria: The City should budget its expenditures not to exceed anticipated revenues and beginning fund balance. Transfers to the General Fund from other funds of the City to cover any deficit should only be made in accordance with Missouri State law.

Effect: The City utilized Hotel/Motel, Economic Development, Senior Center taxes, Tax Increment Financing funds, and STAR Loan proceeds and monies designated for the Street Department to cover the deficit in the General Fund.

Cause: The City did not properly review its budget before adoption to ensure anticipated revenues and beginning fund balances were adequate to cover its expenditures.

CITY OF NEOSHO, MISSOURI
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended September 30, 2009

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

09-2 Budgetary Compliance (continued)

Recommendation: The City review its budget to ensure anticipated revenues and beginning fund balances are adequate to cover its budgeted expenditures.

Response: The City Council and management will properly review all future budgets adopted by the City to ensure anticipated revenues and beginning fund balances are adequate to cover budgeted expenditures.

MATERIAL WEAKNESSES

09-3 Monitoring of City Budget and Cash Balances

Condition: Management does not have procedures in place to monitor on a regular basis its budget and cash balances sufficiently to enable management to take appropriate action to prevent the misappropriation of funds.

Criteria: Management should have procedures in place to monitor its budget and cash balances on a daily basis and take appropriate action to prevent the utilizing of monies from other funds to finance general government operations.

Effect: Management utilized monies from other funds to finance general government operations.

Cause: Management did not monitor its budget and cash balances on a regular basis.

Recommendation: Management adopt procedures to monitor its budget and cash balances daily.

Response: Management will adopt procedures to monitor its budget and cash balances daily.

09-4 Management's Communication with Council

Condition: The City does not have written policies and procedures in place to require management to provide adequate financial reports to City Council on a monthly basis.

Criteria: Management should have procedures in place to provide monthly financial statements to the City Council to include a balance sheet and statement of revenues and expenditures – budget vs. actual for each fund of the City.

Effect: Management utilized monies from other funds to finance general government operations.

Cause: Management did not communicate the financial condition to City Council effectively.

CITY OF NEOSHO, MISSOURI
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended September 30, 2009

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (continued)

09-4 Management's Communication with Council (continued)

Recommendation: Management provide monthly financial reports to City Council, which includes a balance sheet and a statement of revenues and expenditures – budget vs. actual for each fund of the City.

Response: The City has established a finance committee to help management present financial information to the Council on a monthly basis. The City will develop written policies and procedures to require financial statements, which include a balance sheet and a statement of revenues and expenditures – budget vs. actual for each fund of the City, be presented to Council on a monthly basis.

09-5 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.

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 programs.

CITY OF NEOSHO, MISSOURI
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2009

There were no prior audit findings.



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Honorable Mayor and City Council
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Neosho, Missouri

In planning and performing our audit of the basic financial statements of the City of Neosho, Missouri, for the year ended September 30, 2009, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control. 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 in the 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*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

In addition to the material weaknesses discussed in the 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*, we became aware of additional matters to bring to your attention. The following paragraphs summarize our comments and recommendations regarding these matters.

1. Bank Depository Agreements

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

We Recommend:

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

2. Court Fines Receivable Listing

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

We Recommend:

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

3. Collection of Court Fines

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

We Recommend:

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

4. Chamber of Commerce

During our audit, we noted that the City has provided monies to the Chamber of Commerce for promoting tourism and economic development for the City of Neosho. The City, however, does not require audited financial statements to be submitted by the Chamber of Commerce. This is a necessary internal control procedure to ensure public funds are properly accounted for.

We Recommend:

The City require the Chamber of Commerce to submit annual audited financial statements.

5. Budgetary Compliance

The City was not in compliance with the budgetary statute, Chapter 67 RSMo in the current year as a deficit fund balance was budgeted in the General Fund and Golf Fund. The budgetary statute prohibits budgeting a deficit fund balance for any fund maintained by the City.

We Recommend:

The City budget a surplus fund balance to ensure compliance with the budgetary statute (Chapter 67, RSMo).

6. Bank Reconciliations

During our audit, we noted bank reconciliations were not prepared on a timely basis during the year to ensure all revenues, expenditures and reconciling items had been properly recorded in the City's financial statements.

We Recommend:

The City perform monthly bank reconciliations on all of its accounts. A bank reconciliation is one of the most important internal control features that can be performed by City personnel. Reconciliations must be performed on a monthly basis. These reconciliations ensure that all accounting functions have been properly accomplished and that there are no errors or irregularities in the financial reports and statements. This procedure ensures that all City revenues have been properly deposited into City's bank accounts and that all expenditures have been accounted for and properly recorded in the City's financial statements.

7. Utility Complaints

During our audit, we noted that the Utility Department current does not maintain a complaint file for customer complaints. This is a control procedure that would allow management to review and investigate complaints as necessary.

We Recommend:

The City adopt a policy requiring the Utility department setup and maintain a complaint file for all formal complaints made by a patron. Management should review this file monthly to determine if further investigation of complaints is warranted.

8. Sale of Property

During our audit, we noted that the City sold property belonging to the City. The City, however, could not produce written documentation showing that bids were obtained for the property. The City should have policies and procedures in place requiring bids be obtained for the sale of all City property. Documentation of bids received should be kept on file in the City Clerk's office.

We Recommend:

The City adopt a policy requiring bids be obtained for all property sold by the City and a policy requiring documentation of bids received be on file in the City Clerk's office.

9. Contracts

During our audit, we noted that management entered into a verbal agreement for the rental of City property. The City should adopt a policy for all contracts to be written and approved by City Council.

We Recommend:

The City adopt a policy requiring all contracts to be written and approved by City Council.

10. Mileage Logs

During our audit, we noted that mileage logs were not being maintained for all City vehicles. The City should have a policy in place requiring mileage logs be maintained for all City vehicles. Mileage logs should note miles driven and purpose of use. This is a necessary control procedure to help prevent the personal use of City vehicles.

We Recommend:

The City adopt a policy requiring the use of mileage logs for all City vehicles to include miles driven and purpose of use.

11. Fixed Asset Inventory

During our audit, we noted that the City has not conducted a physical inventory of its fixed asset inventory for several years. This is a necessary control procedure to ensure the listing is kept current.

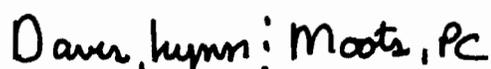
We Recommend:

The City conduct a physical inventory of its fixed asset listing and update its listing accordingly.

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

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

Respectfully submitted,

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



DAVIS, LYNN &
MOOTS, P.C.
Certified Public
Accountants

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Honorable Mayor and City Council
City of Neosho
Neosho, Missouri

We have audited the basic financial statements of the City of Neosho, Missouri for the year ended September 30, 2009, and have issued our report thereon dated July 7, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 16, 2006, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated October 16, 2006.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Neosho, Missouri are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008-2009.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

During our audit, we noted that funds were misappropriated from the Hotel/Motel Tax Fund and the Debt Service Fund to finance general government operations. We inquired of management if the City Council had been made of aware of this and were informed that the Council was not aware but would be informed. The next week the Council became aware of the issue through a press release. We subsequently interviewed several council members and confirmed that they were aware of the misappropriation.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements detected as a result of audit procedures were corrected by management for the following:

- Accounts Receivable
- Fixed Assets
- Accumulated Depreciation
- Debt Service Activity
- Transfer Activity

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 7, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

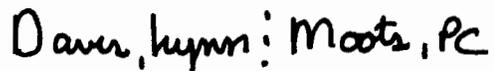
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Neosho, Missouri
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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Sincerely,

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

DAVIS, LYNN & MOOTS, P.C.
July 7, 2010