

BRUCE D. CULLEY, C.P.A., P.C.

3000 BROOKTREE LANE, SUITE 210
GLADSTONE, MISSOURI 64119
816-453-1040 FAX: 816-453-0721
bruceculley@sbcglobal.net

Member American Institute of
Certified Public Accountants

Member Missouri Society of
Certified Public Accountants

CITY OF KEARNEY, MISSOURI

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

CITY OF KEARNEY, MISSOURI

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CITY OF KEARNEY, MISSOURI
LIST OF PRINCIPAL OFFICIALS
MARCH 31, 2011

MAYOR AND BOARD OF ALDERMAN

Bill Dane	Mayor
Jeffrey Couchman	Alderman
Jenny Hayes	Alderwoman
Danial Holt.....	Alderman
Tom Patterson	Alderman

CITY ADMINISTRATOR

Jim Eldridge

CITY CLERK

Joan Updike

BRUCE D. CULLEY C.P.A., P.C.
3000 Brooktree Lane, Suite 210
Gladstone, MO. 64119
816-453-1040 Fax: 816-453-0721

Independent Auditor's Report

Honorable Mayor and Board of Aldermen
City of Kearney, Missouri

I have audited the basic financial statements of the City of Kearney, Missouri, as of and for the year ended March 31, 2011, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City of Kearney, Missouri's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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. I believe that my audit provides a reasonable basis for my opinion.

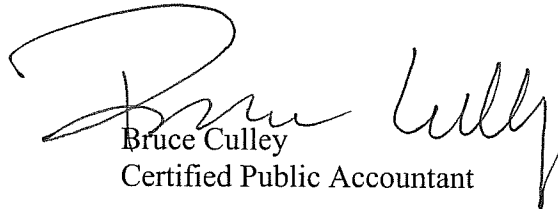
As described in Note 1, the basic financial statements for the Government Activities were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above for the proprietary fund (Water and Sewer) present fairly, in all material respects, the respective financial position of the business activities of the City as of March 31, 2011, 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.

In my opinion, the Government Fund statements referred to above present fairly, in all material respects, the City's assets, liabilities, net assets/fund equity and revenues and expenditures/expenses arising from modified cash basis transactions as of and for the year ended March 31, 2011, on the modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Kearney, Missouri. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the modified cash basis of accounting as described in Note 1.

The required supplementary information, as listed in the accompanying table of contents, including Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule and Notes, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.


Bruce Culley
Certified Public Accountant

Gladstone, Missouri
September 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

An objective and easily readable analysis of the City's financial activities. The Management's Discussion and Analysis presents an analytical overview of both short-term and long-term financial information.

CITY OF KEARNEY, MISSOURI

Kearney, Missouri 64150

Management's Discussion and Analysis

Our discussion and analysis of the City of Kearney's financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2011. Please read it in conjunction with the City's financial statements that begin on Page 16.

FINANCIAL HIGHLIGHTS

- The overall net assets of the Governmental Activities of the City increased by \$424,892. This was down from last year when net assets increased \$531,845.
- The Water and Sewer Fund showed an increase in net assets of \$341,088 an increase from \$251,603 in 2010.
- The City continued to pay down debt on general obligation bonds, revenue bonds, and capital lease obligations. The overall reduction in debt was \$904,803.
- The only new debt issued by the City was in connection with a capital lease of \$100,000 for a new pavilion and expansion of \$35,000 on the tax anticipation note.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report. City management has elected to implement the new model financial statement format and content using the City's modified cash basis of accounting.

GASB Statement No. 34 provides for a phased in implementation of the financial reporting model. Under the phased in approach, additional time has been provided for recording infrastructure assets. Infrastructure assets include streets, sidewalks, curbs and streetlights owned by the City. Smaller cities do not have to record retroactively infrastructure assets purchased prior to 2004. The City may elect not to record these infrastructure assets.

Report Components

This annual report consists of six parts as follows:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 16 and 17) provide information about the activities of the City government-wide statements (or “as a whole”) and present a longer-term view of the City’s finances.

Fund Financial Statements: Fund financial statements (on page 18 through 20) focus on the individual parts of the City government. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant (“major”) funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending.

Fiduciary Fund Statements: The fiduciary fund financial statements show the activities connected with the Tax Increment Financing Commission, Kearney Road District and the Community Improvement District (on pages 21 and 22). During the year two new fiduciary funds were added for the Kearney Road District and the Community Road District. The Kearney Road District receives funds from the county and reimburses the City for road district improvements. The Community Improvement District includes an area of the City for which special sales taxes are received and spent in that district. The City acts as the paying agent for these funds.

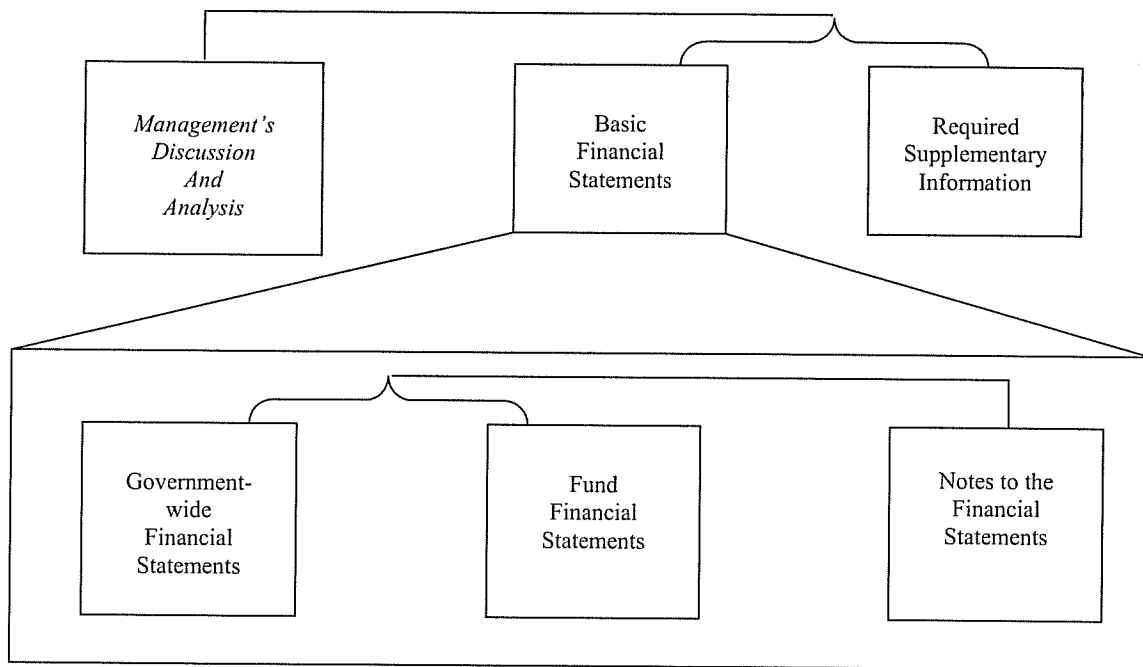
Proprietary Fund Financial Statements: The proprietary fund financial statements show how the Water and Sewer Fund performed during the year (on page 23 to 25).

Notes to Basic Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: The Budgetary Discussion (starting on page 54) and the General Fund Budgetary Comparison Schedules represent financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as “the basic financial statements”). These reports show general comparisons of actual to budget for various funds.

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the financial statements.

Figure A-1



Basis of Accounting

Government Activities

The City has elected to present the Government Activities financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Business Type Activities – Water and Sewer Fund

The City uses the accrual method of accounting for the Water and Sewer Fund. The accrual method of accounting is in accordance with the accounting principles generally accepted in the United States of America. Under the accrual method of accounting revenue is recorded when earned and expenses when incurred.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the Kearney Board of Aldermen is fiscally responsible.

The primary government includes the City of Kearney, as there are no component units.

The Government-wide Statement of Net Assets and the Statement of Activities

The government-wide financial statements are presented on pages 16 and 17. One of the most important questions about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets and liabilities resulting from the use of the modified cash basis of accounting.

The Statement of Net Assets and Statement of Activities are broken down between government activities and business type activities. The business activities include the operations of the water and sewer plant. The Water and Sewer Fund operates as a business since revenues are recorded from the sale of services to the City's customers. The operating expenses are then deducted to show the overall profit or loss. Most of the City's basic services are reported in the Government Activity section of the statement to include police, fire, general administration, streets, parks and general community activities. Sales taxes, property taxes, franchise fees, fines and other general revenue finance these activities.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base and the condition of the City's roads, to assess the overall health of the City.

The Fund Financial Statements

The fund financial statements provide more detailed information about the City's significant funds. Funds are groupings of related accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. The City has three kinds of funds: government funds, proprietary funds, and fiduciary funds. Our analysis of the City's major funds begins on page 18 and provides detailed information about the most significant funds – not the City as a whole.

Governmental Funds – All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances

left at year end that are available for spending. These funds are reported using the acquisition of capital assets as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – The only proprietary fund operated by the City is the Water and Sewer Fund. The City charges customers a fee for their water and sewer usage and all the expenses from the operations of the water and sewer plant are deducted.

Fiduciary Funds – The City is trustee or fiduciary for the Tax Increment and Finance Commission. The City collects taxes and pays the debt associated with the TIF offerings. The City established two new agency funds during the year: Kearney Road District and the Community Improvement District.

GOVERNMENT WIDE FINANCIAL STATEMENTS

The net assets of the City increased \$829,265 from \$12,742,548 to \$13,571,813. This includes a prior period adjustment for debt that had been recorded on the books but was paid from an escrow account for bonds that had been defeased. The increase comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. Program expenses are recorded by classification, general revenue, by major source.

The City's combined net assets for the fiscal year ended March 31, 2011, are summarized as follows:

	Government <u>Activities</u>	Business <u>Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 4,727,865	\$ 1,795,321	\$ 6,523,186
Accounts Receivable	-	128,097	128,097
Capital Assets	<u>10,447,471</u>	<u>8,488,785</u>	<u>18,936,256</u>
Total Assets	15,175,336	10,412,203	25,587,539
Accounts Payable	-	37,486	37,486
Other Current Liabilities	770,877	321,477	1,092,354
Long Term Liabilities	<u>8,171,746</u>	<u>2,714,140</u>	<u>10,885,886</u>
Total Liabilities	8,942,623	3,073,103	12,015,726
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	1,504,848	5,453,168	6,958,016
Restricted	2,600,669	-	2,600,669
Unrestricted	<u>2,127,196</u>	<u>1,885,932</u>	<u>4,013,128</u>
Total Net Assets	<u>\$ 6,232,713</u>	<u>\$ 7,339,100</u>	<u>\$13,571,813</u>

The City's net assets from governmental activities increased \$424,892 compared to an increase of \$531,845 in 2010. The major reason for the increase in net assets was due to the increase in capital related projects. These major expenditures are shown in the Government Fund Statements as expenses. The net assets from business activities (Water and Sewer Fund) increased by \$404,373 compared to \$72,932 in 2010.

The cost of all government activities this year was \$4,430,477. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities was \$3,907,656 because \$522,821 in costs was paid by those who directly benefited from the program or from fines. Overall, the City's government program revenues totaled \$4,855,369.

FUND FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds

The only asset represented in the Government Fund Balance Sheet is cash. Cash and cash equivalents consist of checking accounts, savings accounts and certificates of deposit. Certain cash accounts are restricted for defined purposes. Cash and cash equivalents can be broken down as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted Cash and Cash Equivalents	\$ 1,518,830	\$ 1,746,014
Restricted Cash and Cash Equivalents	<u>3,209,035</u>	<u>3,660,829</u>
Total	<u>\$ 4,727,865</u>	<u>\$ 5,406,843</u>

The fund balance decreased by less than 1 percent.

Fund Balance, Beginning of Year	\$ 5,406,843	\$ 4,903,816
Net Change in Fund Balance	<u>(678,978)</u>	<u>503,027</u>
Fund Balance, End of Year	<u>\$ 4,727,865</u>	<u>\$ 5,406,843</u>

Government Fund Analysis: Revenue and Expenditures

The most important fund is the General Fund, which shows the major operations of the City. The General Fund showed a deficit of \$227,184 for the year. The Special Revenue Fund showed a deficit of \$76,888. The Special Revenue fund receives sales tax and transfers the money to other funds. The Debt Service Fund showed a deficit of \$72,035 after transfers. The Capital Project Fund showed a deficit of \$302,871. The deficit was caused by expenditures for the police station purchase and renovation. The following is a comparison of the operating deficits and surpluses for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
General Fund	\$ (227,184)	\$ 150,202
Special Revenue	\$ (76,888)	\$ 27,045
Debt Service	\$ (72,035)	\$ (4,371)
Capital Projects	\$ (302,871)	\$ 330,151

Proprietary Fund – Water and Sewer Fund

The City of Kearney operates a water and sewer plant, which is the City's only Proprietary Fund. The Water and Sewer Fund had a profit after transfers of \$341,088. Net transfers of \$77,083 were made to the Water and Sewer Fund providing a net addition to the fund balance. An adjustment of \$63,285 was made to the fund balance for bonds which were paid from an escrow account that had not been reported. Depreciation, which is a non-cash charge, amounted to \$263,846. The operations in 2011 compare unfavorably to 2010 when the addition to the net assets was \$251,603.

Agency Funds

Agency funds involve the money for other government entities for which the City has no ownership. The City has had two major TIF projects since inception of the Commission. One project is for downtown redevelopment and the other is for construction of a utility plant. The City held TIF funds amounting to \$53,071. These funds represent tax receipts and some interest income that are to be used to repay the debt on the TIF projects and repay some of the developers' cost based upon sales tax receipts. There was an overall deficit of \$1,295 from the operation of the TIF Commission. During the past few years, the TIF Commission has been able to retire bonds at a faster rate than originally proposed in the amortization schedule because the receipts have exceeded the planned debt retirement. Bonds totaling \$108,000 were retired during the year.

The Kearney Road District received no taxes from the county and spent \$82,000 on street improvements during the year. There was an unexpended balance of \$861 at year end. The Community Improvement District collected taxes of \$53,816 and no funds were expended for services in the district during the year. There was an unexpended balance at year-end of \$166,341. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

LONG-TERM DEBT (INCLUDING CAPITAL LEASES)

At year end the City had \$11,893,240 in outstanding bond and lease obligations. This represents a decrease of \$839,803. The City borrowed \$100,000 in a capital lease obligation to build a new theatre for the park. The City paid all of its required debt service payments. More detailed information on the City's long-term liabilities is presented in Note 3 of the Notes to Financial Statements. State law limits the amount of general obligation debt the City can issue to 20% (10% can be used for any purpose and the other 10% is reserved for streets and storm water projects) of the assessed value of all property within the City's corporate limits. The outstanding debt subject to the limit is \$6,220,000, resulting in a legal debt margin of \$20,765,000. The City has been able to maintain property tax rates for debt financing at relatively stable levels.

	Government Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$6,220,000	\$6,610,000	\$ -	\$ -	\$ 6,220,000	\$ 6,610,000
Revenue Bonds	-	-	3,035,617	3,411,175	3,035,617	3,411,175
Capital Lease Obligations	<u>2,637,623</u>	<u>2,711,868</u>	<u>-</u>	<u>-</u>	<u>2,637,623</u>	<u>2,711,868</u>
	<u>\$8,857,623</u>	<u>\$9,321,868</u>	<u>\$3,035,617</u>	<u>\$3,411,175</u>	<u>\$11,893,240</u>	<u>\$12,733,043</u>

Capital Assets and Capital Improvements

The infrastructure assets, which are part of the general fixed assets, have not been recorded if acquired prior to March 31, 2004. Under guidelines established by the accounting profession and because of the size of Kearney, a retroactive restatement of infrastructure assets is not required. Major assets acquired by the City included police department equipment and computers. The largest expenditure (\$346,895) was for the renovation of the police station building. A summary of the capital assets at their gross amount is shown below:

	Government Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
<i>Capital Assets</i>						
Land	\$ 564,419	\$ 564,419	\$ 267,925	\$ 267,925	\$ 832,344	\$ 832,344
Buildings	2,406,671	1,429,348	492,296	492,296	2,898,967	1,921,644
Improvements	2,019,629	1,617,754	-	-	2,019,629	1,617,754
Machinery and Equipment	1,125,048	1,100,426	661,504	661,504	1,786,552	1,761,930
Police Station WIP	-	630,428	-	-	-	630,428
Jesse Pavilion WIP	125,034	-	-	-	125,034	-
Water and Sewer Lines	<u>-</u>	<u>-</u>	<u>10,872,375</u>	<u>10,813,859</u>	<u>10,872,375</u>	<u>10,813,859</u>
	<u>\$6,240,801</u>	<u>\$5,342,375</u>	<u>\$12,294,100</u>	<u>\$12,235,584</u>	<u>\$18,534,901</u>	<u>\$17,577,959</u>

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The details of the budget comparison for the fund financial statements are shown in the Required Supplementary Information section.

The City showed good fiscal responsibility by operating within budget guidelines.

General Fund – The actual revenue was less than budget, by \$214,061. The total expenditures in the general fund were more than budget by \$75,228. Decreased personnel and supply costs were the main reason for the favorable variance.

Special Revenue – The sales tax revenue received in the Special Revenue Fund was less than budget by \$37,226. The decrease in sales tax reflects the overall weakness in the economy. Expenditures and transfers were more than budget by \$36,021.

Debt Service – Property tax revenue in the Debt Service Fund was less than budget by \$2,983. Actual expenditures in the Debt Service Fund were less than budget by \$49. Transfers to/from the Debt Service Fund were less than budget by \$66,859.

Capital Projects – The actual revenue in the Capital Projects Fund was more than budget by \$56,650. Actual expenditures were less than budget by \$25,420. Transfers to the Capital Project Fund were less than budget by \$420,379.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The following factors were considered in preparing the City's budget for the fiscal year ended March 31, 2011.

- The overall City economy reflects many of the regional trends which included an overall slowdown in the economy.
- Sales tax collections have leveled off, and the City cannot count on increased collections.
- The City continues to make capital improvements to its road and park infrastructure and to its water and sewer system to accommodate future growth.
- New residential and commercial construction has slowed considerably from previous years and building permits are down.
- There is likely to be inflationary pressure on the budget with inflationary pressures on costs and revenue sources flat.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office, Kearney, Missouri, at (816) 628-4142.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by GASB. The sets of statements include:

- Government-wide Financial Statements
- Fund Financial Statements
 - Governmental Funds
 - Agency Funds
- Proprietary Funds

In addition, the notes to basic financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF NET ASSETS
MARCH 31, 2011

	Governmental Activities	Business- Type Activities	Total
Assets			
Current Assets			
Cash - Checking	\$ 284,343	\$ 521,903	\$ 806,246
Cash - Savings	1,234,187	603,513	1,837,700
Cash - Certificates of Deposit	-	639,350	639,350
Restricted			
Cash - Checking	481,208	-	481,208
Cash - Savings	2,728,127	-	2,728,127
U.S. Government Securities	-	30,555	30,555
Accounts Receivable	-	128,097	128,097
Total Current Assets	4,727,865	1,923,418	6,651,283
Non-current Assets			
Land, Building and Equipment, Net	10,447,471	8,488,785	18,936,256
Total Non-current Assets	10,447,471	8,488,785	18,936,256
Total Assets	15,175,336	10,412,203	25,587,539
Liabilities			
Current Liabilities			
Accounts Payable	-	37,486	37,486
Long-term Bonds Due Within the Year	420,000	321,477	741,477
Capital Leases Due Within the Year	265,877	-	265,877
Tax Anticipation Note	85,000	-	85,000
Total Current Liabilities	770,877	358,963	1,129,840
Long-term Liabilities			
Long-term Bonds Due in More than One Year	5,800,000	2,714,140	8,514,140
Capital Leases Due in More than One Year	2,371,746	-	2,371,746
Total Long-term Liabilities	8,171,746	2,714,140	10,885,886
Total Liabilities	8,942,623	3,073,103	12,015,726
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,504,848	5,453,168	6,958,016
Restricted			
Capital Projects	2,310,665	-	2,310,665
Debt Service	290,004	-	290,004
Unrestricted	2,127,196	1,885,932	4,013,128
Total Net Assets	\$ 6,232,713	\$ 7,339,100	\$ 13,571,813

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Primary Government		
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities							
City Hall Administration	\$ 447,109	\$ 68,473	\$ -	\$ -	\$ (378,636)	\$ -	\$ (378,636)
Court	44,372	-	-	-	(44,372)	-	(44,372)
Community Development	321,535	-	-	-	(321,535)	-	(321,535)
Police	1,089,996	164,556	-	-	(925,440)	-	(925,440)
Residential Trash	282,617	289,792	-	-	7,175	-	7,175
Street	1,004,703	-	-	-	(1,004,703)	-	(1,004,703)
Park	534,191	-	-	-	(534,191)	-	(534,191)
Interest and Fees	462,373	-	-	-	(462,373)	-	(462,373)
Depreciation	223,801	-	-	-	(223,801)	-	(223,801)
Miscellaneous	19,780	-	-	-	(19,780)	-	(19,780)
Total Governmental Activities	4,430,477	522,821	-	-	(3,907,656)	-	(3,907,656)
Business-type Activities							
Water and Sewer	1,796,790	2,060,795	-	-	-	264,005	264,005
Total Business-type Activities	1,796,790	2,060,795	-	-	-	264,005	264,005
Total Primary Government	\$ 6,227,267	\$ 2,583,616	\$ -	\$ -	(3,907,656)	264,005	(3,643,651)
General Revenues							
Taxes							
Sales Tax					1,749,974	-	1,749,974
Property Tax					1,022,562	-	1,022,562
Motor Fuel Tax					210,079	-	210,079
Franchise Tax					801,128	-	801,128
Road and Bridge Tax					107,372	-	107,372
Interest and Investments					39,270	-	39,270
Grants					291,123	-	291,123
Amphitheater					61,781	-	61,781
Miscellaneous					128,131	-	128,131
Rent Income					10,000	-	10,000
Transfers, Net Cash					(88,872)	77,083	(11,789)
Total General Revenues, Special Items and Transfers					4,332,548	77,083	4,409,631
Change in Net Assets					424,892	341,088	765,980
Net Assets, Beginning of the Year					5,807,821	6,934,727	12,742,548
Prior Period Adjustment					-	63,285	63,285
Adjusted Net Assets, Beginning of the Year					5,807,821	6,998,012	12,805,833
Net Assets, End of Year					\$ 6,232,713	\$ 7,339,100	\$ 13,571,813

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
MARCH 31, 2011

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Assets					
Unrestricted					
Cash - Checking	\$ 284,343	\$ -	\$ -	\$ -	\$ 284,343
Cash - Savings	1,234,487	-	-	-	1,234,487
Restricted					
Cash - Checking	-	79,194	86,333	315,681	481,208
Cash - Savings	-	529,172	203,671	1,994,984	2,727,827
Total Assets	<u>\$ 1,518,830</u>	<u>\$ 608,366</u>	<u>\$ 290,004</u>	<u>\$ 2,310,665</u>	<u>\$ 4,727,865</u>
Liabilities and Fund Balance					
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance					
Reserved For					
Capital Projects	-	-	-	2,310,665	2,310,665
Debt Service	-	-	290,004	-	290,004
Unreserved					
Undesignated	1,518,830	608,366	-	-	2,127,196
Total Fund Balance	<u>1,518,830</u>	<u>608,366</u>	<u>290,004</u>	<u>2,310,665</u>	<u>4,727,865</u>
Total Liabilities and Fund Balance	<u>\$ 1,518,830</u>	<u>\$ 608,366</u>	<u>\$ 290,004</u>	<u>\$ 2,310,665</u>	<u>\$ 4,727,865</u>

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

Fund Balance, Shown Above	\$ 4,727,865
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	10,447,471
Short-term and long-term liabilities are not due and payable in the current period and therefore, are not reported in the current period	<u>(8,942,623)</u>
Net Assets of Governmental Activities	<u>\$ 6,232,713</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2011

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues					
Taxes					
Property Tax	\$ 1,882,542	\$ 1,749,974	\$ 68,517	\$ -	\$ 3,701,033
Sales Tax	-	-	-	-	-
Motor Fuel Tax	-	-	-	-	-
Franchise Tax	-	-	-	190,082	190,082
Road and Bridge Tax	-	-	-	-	-
Interest on Accounts	12,821	7,559	3,058	15,832	39,270
Licenses, Permits, Fees, etc.	50,873	-	-	17,600	68,473
Public Safety	164,556	-	-	-	164,556
Trash	289,792	-	-	-	289,792
Lease Income	10,000	-	-	-	10,000
Amphitheater	61,781	-	-	-	61,781
Grants	174,584	-	-	116,539	291,123
Miscellaneous	143,302	-	-	22,764	166,066
Total Revenues	2,790,251	1,757,533	71,575	362,817	4,982,176
Expenditures					
Personnel Services	1,720,027	-	-	-	1,720,027
Contractual Services	1,813,252	14,753	-	-	1,828,005
Commodities and Supplies	109,296	-	-	-	109,296
Capital Expenditures	456,460	-	-	527,048	983,508
Debt Service					
Principal	62,197	-	391,250	163,332	616,779
Interest and Fees	43,559	-	326,176	89,891	459,626
Miscellaneous	7,269	-	7,772	-	15,041
Total Expenditures	4,212,060	14,753	725,198	780,271	5,732,282
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,421,809)	1,742,780	(653,623)	(417,454)	(750,106)
Other Receipts and Expenditures					
Transfers In	1,426,908	-	581,588	114,583	2,123,079
Transfers Out	(392,283)	(1,819,668)	-	-	(2,211,951)
Lease Proceeds	100,000	-	-	-	100,000
Bank Loan Proceeds	60,000	-	-	-	60,000
Total Other Receipts and Expenditures	1,194,625	(1,819,668)	581,588	114,583	71,128
Net Changes in Fund Balance After Transfers	(227,184)	(76,888)	(72,035)	(302,871)	(678,978)
Fund Balance, Beginning of Year	1,746,014	685,254	362,039	2,613,536	5,406,843
Fund Balance, End of Year	\$ 1,518,830	\$ 608,366	\$ 290,004	\$ 2,310,665	\$ 4,727,865

The accompanying notes are an integral part of the financial statements.

**CITY OF KEARNEY, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ (678,978)
Governmental Funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	898,426
Depreciation expense on capital assets is reported on the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(223,801)
Bond and lease proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets	
Bond Payments	390,000
Lease Payments	174,245
Proceeds from Leasing of Sound System	(100,000)
Proceeds from Tax Anticipation Note	<u>(35,000)</u>
Change in Net Assets of Governmental Activities	<u>\$ 424,892</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - MODIFIED CASH BASIS
MARCH 31, 2011

	<u>TIF</u>	<u>Community Improvement District</u>	<u>Kearney Road District</u>	<u>Total</u>
Assets				
Cash and Investments	<u>\$ 53,071</u>	<u>\$ 166,341</u>	<u>\$ 861</u>	<u>\$ 220,273</u>
Total Assets	<u>\$ 53,071</u>	<u>\$ 166,341</u>	<u>\$ 861</u>	<u>\$ 220,273</u>
Liabilities	\$ -	\$ -	\$ -	\$ -
Net Assets				
Restricted	<u>53,071</u>	<u>166,341</u>	<u>861</u>	<u>220,273</u>
Total Net Assets	<u>53,071</u>	<u>166,341</u>	<u>861</u>	<u>220,273</u>
Total Liabilities and Net Assets	<u>\$ 53,071</u>	<u>\$ 166,341</u>	<u>\$ 861</u>	<u>\$ 220,273</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED MARCH 31, 2011

	<u>TIF</u>	<u>Community Improvement District</u>	<u>Kearney Road District</u>	<u>Total</u>
Revenues				
Taxes	\$ 149,791	\$ 53,816	\$ -	\$ 203,607
Interest	<u>188</u>	<u>1,057</u>	<u>324</u>	<u>1,569</u>
Total Revenues	149,979	54,873	324	205,176
Expenditures				
Debt Service				
Principal	108,000	-	-	108,000
Interest	38,670	-	-	38,670
Reimbursement to Developer	15,760	-	-	15,760
Street Maintenance	-	-	82,000	82,000
Other	<u>1,293</u>	<u>-</u>	<u>-</u>	<u>1,293</u>
Total Expenditures	<u>163,723</u>	<u>-</u>	<u>82,000</u>	<u>245,723</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(13,744)	54,873	(81,676)	(40,547)
Transfers	<u>12,449</u>	<u>-</u>	<u>-</u>	<u>12,449</u>
Change in Restricted Net Assets	<u>\$ (1,295)</u>	<u>\$ 54,873</u>	<u>\$ (81,676)</u>	<u>\$ (28,098)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KEARNEY, MISSOURI
STATEMENT OF NET ASSETS
WATER AND SEWER FUND
MARCH 31, 2011

Assets

Current Assets

Cash - Checking	\$ 521,903
Cash - Savings	603,513
Cash - Certificates of Deposit	639,350
U.S. Government Securities	30,555
Accounts Receivable	<u>128,097</u>
Total Current Assets	1,923,418

Non Current Assets

Land, Building and Equipment, Net	<u>8,488,785</u>
Total Non Current Assets	<u>8,488,785</u>

Total Assets	<u><u>\$ 10,412,203</u></u>
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Liabilities

Current Liabilities

Accounts Payable	\$ 37,486
Long-term Bonds Due Within the Year	<u>321,477</u>
Total Current Liabilities	358,963

Long-term Liabilities

Long-term Bonds Due in More Than One Year	<u>2,714,140</u>
Total Long-term Liabilities	<u>2,714,140</u>
Total Liabilities	3,073,103

Net Assets

Invested in Capital Assets, Net of Related Debt	-
Unrestricted	<u>7,339,100</u>
Total Net Assets	<u>7,339,100</u>
Total Liabilities and Net Assets	<u><u>\$ 10,412,203</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KEARNEY, MISSOURI
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
WATER AND SEWER FUND
FOR THE YEAR ENDED MARCH 31, 2011**

Operating Revenues	
Licenses, Permits and Fees	\$ 27,920
Water and Sewer Fees	2,009,740
Miscellaneous	<u>3,767</u>
Total Receipts	2,041,427
Operating Expenses	
Personnel Services	460,777
Contractual Services	608,039
Supplies	180,138
Water Contract - Kansas City	63,810
Fees	10,104
Miscellaneous	49,276
Depreciation	<u>263,846</u>
Total Expenses	<u>1,635,990</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	405,437
Net Nonoperating Revenues and (Expenses)	
Interest Income	19,368
Interest Expense	<u>(160,800)</u>
Net Nonoperating Revenues and Expenses	<u>(141,432)</u>
Income (Loss) Before Contributions and Transfers	264,005
Transfers In - Cash	495,083
Transfers Out - Cash	<u>(418,000)</u>
Change in Net Assets	341,088
Net Assets, Beginning of Year	6,934,727
Prior Period Adjustment	
Payment on Bonds from Unrecorded Escrow	<u>63,285</u>
Adjusted Net Assets, Beginning of Year	<u>6,998,012</u>
Net Assets, End of Year	<u>\$ 7,339,100</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2011**

Cash Flows From Operating Activities

Revenues Collected and Operating Transfers	
Over Expenditures Paid	\$ 341,088
Prior Period Adjustment	63,285
Depreciation	263,846
(Increase) Decrease in Accounts Receivable	122
Increase (Decrease) in Accounts Payable	(9,954)
Other	<u>18,538</u>
Total Adjustments	<u>335,837</u>
Net Cash Flows Provided (Used) by Operating Activities	676,925

Cash Flows From Investing Activities

(Increase) Decrease in Investments	(7,838)
Water and Sewer Plant Equipment Purchases	<u>(58,516)</u>
Net Cash Flows Provided (Used) by Investing Activities	(66,354)

Cash Flows From Financing Activities

Bonds Retired	
Net Cash Flows Provided (Used) by Financing Activities	<u>(405,558)</u>
Increase (Decrease) in Cash and Cash Equivalents	205,013
Cash and Cash Equivalents, Beginning of Year	<u>920,403</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,125,416</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kearney, Missouri, was incorporated in 1883 and covers an area of approximately eight square miles in Clay County, Missouri. The City is a city of the fourth class and operates under the Mayor - Administrator - Aldermen form of government. The City Administrator is the chief administrative assistant to the Mayor of the City. The City provides services to more than 8,381 (U.S. Census Estimate, July 2010) residents, including law enforcement, parks and recreation, street and storm water maintenance, water and sewer services, community enrichment and development, and various social services. Kearney School District No. 21, a separate governmental entity, provides educational services.

Except for the use of a modified cash basis of accounting for Government funds, the City complies with accounting principles generally accepted in the United States of America (GAAP). During the current fiscal year, the City converted to the accrual method of accounting for the Water and Sewer Fund. The accrual method of accounting is an acceptable method of accounting under generally accepted accounting principles in the United States. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended March 31, 2005, the City implemented the new financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* with the exception of the retroactive reporting of infrastructure assets. Newly acquired infrastructure assets since March 31, 2004, have been capitalized as part of the City's assets. GASB provided that smaller cities do not have to implement retroactive reporting of infrastructure assets that the City owned prior to March 31, 2004. The proper costing of these assets is a complex task, and the City of Kearney has elected to delay the reporting of these infrastructure assets until a later date. The City may, at some point in the future, record infrastructure assets acquired prior to March 31, 2004.

Financial Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government: City of Kearney, Missouri

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

Governmental-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary funds. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes three agency funds. Since agency funds are custodial in nature, (i.e., assets equal liabilities) they do not involve the measurement of results of operations. The agency fund is as follows:

TIF	Receipts and disbursements associated with the Tax Increment and Financing Commission.
Kearney Road District	Funds are received from the county and disbursed by the Kearney Road District for road improvements in the District. The Road District contracts with the City of Kearney for street maintenance projects.
Community Improvement District	Funds are received and disbursed in a geographic area designated for improvements.

Capital Project Funds

Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project fund:

Capital Improvements	Accounts for contributions and specific transfers from the General Fund and expenditures for various capital projects as the City Council may designate. This fund is classified as a major fund.
Special Revenue	The Special Revenue Fund of the City receives sales tax for special purposes (Debt Service, General Fund and the Water and Sewer Fund) and then transfers these funds for their designated purposes.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Water and Sewer	Accounts for the activities of the public trust in providing water, wastewater and sanitation services to the public. This fund is classified as a major fund.
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Major and Nonmajor Funds

The funds are classified as major or nonmajor as follows:

Major Funds

General Fund

Capital Project Fund:
Capital Improvements

Special Revenue

Debt Service

Water and Sewer

Nonmajor Funds

Agency Funds

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities governmental activities are presented using the economic resources measurement focus as defined below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus – Continued

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of a period.

Basis of Accounting

Government Funds

In the government-wide Statement of Net Assets, Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Business Activities – Water and Sewer Fund

Accrual Basis - Revenue is recognized when earned or billed to the customer. Expenses (including depreciation and amortization) are recorded when the liability was incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange took place.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of one year or less.

Investments – Government Securities

Investments classified in the financial statements consist entirely of government securities. Investments are carried at the market value at year end and are held in escrow connected with debt service accounts.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements for government activities but are recognized as assets in the Water and Sewer Fund because of the accrual method of accounting.

Capital Assets

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations, whether they are reported in the government-wide or fund financial statements or whether they are used in the proprietary fund statement.

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. The City elected to use the “modified approach” as defined by GASB Statement No., 34 for infrastructure reporting these assets. Infrastructure assets include streets, bridges, storm water system, fire hydrants, street lighting and a portion of the indirect costs of the water-sewer system. The only infrastructure assets recorded since GASB Statement No. 34’s implementation effective April 1, 2004, was for Highway 33 improvements. All other capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on the useful lives of all capital assets.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets - Continued

Buildings	40-50 years
Improvements Other than Buildings	10-25 years
Machinery, Furniture and Equipment	3-20 years
Utility Property and Improvements	10-50 years

The City has elected to delay the implementation of the retroactive reporting of infrastructure as provided by GASB No. 34. Because of the City's size, retroactive reporting of infrastructure assets is not required. The City may decide to implement retroactive reporting of these assets, but at this point, because of the systems required implementation is being delayed. Each of the assets that are part of the infrastructure is rated. The City's policy will be to maintain all infrastructure assets at a classification of "Good" or better condition. Accordingly depreciation is not reported for infrastructure assets and all expenditures except for betterments and major improvements made to a subsystem are expensed. The only infrastructure asset acquired since implementation is for Highway 33 improvements.

EQUITY CLASSIFICATIONS

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Restricted Capital Assets - net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted Net Assets – Consist of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements

Governmental fund equity is classified as fund balance.

REVENUE, EXPENDITURES AND EXPENSES

Sales Tax

The City presently levies a 1.0 % sales tax on taxable sales within the City for general fund purposes. An additional sales tax is collected for transportation (1/2%) and capital improvements (1/2%). The sales tax is collected by the State of Missouri and remitted to the City in the month following receipt by the State. The sales tax received is to be recorded as sales tax revenue within the general government funds.

Property Tax

The City levies and collects property taxes as outlined in Note 8.

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General Government	Licenses and Permits
Public Safety	Fine Revenue
Streets and Public Works	Commercial vehicle and gasoline excise tax shared by the State.
Parks and Recreation	Rental income, recreation fees, concession sales and specific donations.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the cash basis and are classified by department for government funds. For business type activities, the expenses are recorded when they have been incurred and have become a direct obligation of the City.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds	Current Capital Outlay Debt Service
Proprietary Fund	Operating and Nonoperating

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 – COMMITMENTS

Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 2 – COMMITMENTS – CONTINUED

The City manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions health and life	Purchased commercial insurance	None
b. Workers Compensation: Employee injuries	Purchased commercial insurance	None
c. Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 3 – LONG-TERM DEBT

The City's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and the amounts to be repaid from business-type activities.

The following is a summary of bond transactions for the year ended March 31, 2011:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Total</u>
Bonds Payable, March 31, 2010	\$6,610,000	\$3,411,175	\$10,021,175
Bonds Issued	-	-	-
Bonds Retired – Regular	(390,000)	(312,273)	(702,273)
Adjustment	-	(63,285)	(63,285)
Bonds Payable, March 31, 2011	<u>\$6,220,000</u>	<u>\$3,035,617</u>	<u>\$ 9,255,617</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 3 – LONG-TERM DEBT – CONTINUED

General Obligation Bonds payable at March 31, 2011, consist of:

General Obligation Bonds, Series 2006 due in varying installments through 2021	\$6,000,000
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General Obligation Bonds, Series 1997, for the purpose of constructing and equipping a sewerage treatment plant due in varying installments through January 1, 2017, at interest ranging from 3.9% to 5.125% per annum	220,000
Total General Obligation Bonds	<u>\$6,220,000</u>

Combined Waterworks and Sewerage System Revenue Bonds, due in varying installments from January 1, 1996, to January 1, 2016, at interest rates varying from 3.6% to 5.9%	\$ 352,500
--	------------

Water and Pollution Control Bonds due in varying installments through 2023	1,898,117
--	-----------

Waterworks and Sewerage System Refunding Revenue Bonds, Series 2004	785,000
Total Revenue Bonds	<u>\$3,035,617</u>

Total Bonds Payable	<u>\$9,255,617</u>
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General Obligation Bonds – 2006

	<u>Principal</u>	<u>Interest</u>
2012	\$ 420,000	\$ 248,982
2013	450,000	231,656
2014	490,000	213,098
2015	525,000	192,881
2016 – 2020	3,310,000	623,513
2021	805,000	34,212
	<u>\$6,000,000</u>	<u>\$1,544,342</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 3 – LONG-TERM DEBT – CONTINUED

General Obligation Series 1997 Bonds

Due <u>March 1</u>	<u>Principal</u>	<u>Interest</u>
2012 – 2021	<u>\$ 220,000</u>	<u>\$ 54,581</u>

1996 Combined Waterworks and Sewerage System Revenue Bonds (SRF)

Due <u>January 1</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 62,500	\$ 20,945
2013	65,000	17,110
2014	70,000	13,275
2015	75,000	9,145
2016	<u>80,000</u>	<u>4,720</u>
	<u>\$ 352,500</u>	<u>\$ 65,195</u>

Series 2001 Water and Pollution Control State Revolving Loan Revenue Bonds (SRF)

Due <u>July 1</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 113,977	\$ 95,106
2013	125,000	89,447
2014	130,000	82,593
2015	135,000	75,472
2016	145,000	67,947
2017 – 2020	660,000	173,648
2021 – 2023	<u>589,140</u>	<u>44,875</u>
	<u>\$1,898,117</u>	<u>\$ 629,088</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 3 – LONG-TERM DEBT – CONTINUED

2004 Waterworks and Sewerage System Refunding Revenue Bonds

Due November 1	<u>Principal</u>	<u>Interest</u>
2012	\$ 145,000	\$ 29,480
2013	150,000	24,695
2014	160,000	19,370
2015	160,000	13,370
2016	170,000	6,970
	<u>\$ 785,000</u>	<u>\$ 93,885</u>

NOTE 4 – LEASE COMMITMENTS

The following is a summary of lease transactions for the year ended March 31, 2011:

	<u>General Obligation Bonds</u>
Capital Lease Obligations Payable, March 31, 2010	\$2,711,868
New Capital Lease	100,000
Adjustment to Lease Balance	65,000
Capital Lease Obligation Retired	<u>(239,245)</u>
Capital Lease Obligations Payable, March 31, 2011	<u>\$2,637,623</u>

Downtown Improvement Lease/Purchase

During fiscal 2005 the City entered into a lease-purchase agreement with a local bank for the acquisition of certain downtown property. The lease purchase agreement provided \$234,000 of funds payable over the next twenty years. Payments under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ 9,982
2013	10,000	9,460
2014	10,000	8,910
2015	11,000	8,333
2016 – 2020	63,000	31,872
2021 – 2025	83,000	11,778
	<u>\$ 177,000</u>	<u>\$ 80,335</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 4 – LEASE COMMITMENTS – CONTINUED

West Creek Sewer Interceptor

During 2004, the City entered into a lease purchase agreement with a local bank in the amount of \$1,500,000 enabling the City to acquire equipment for the West Creek sewer interceptor lines. The indebtedness is represented by Certificates of Participation. Under the lease agreement, the City is to make certain lease payments and, at the end of the lease, the City will own the sewer lines and equipment. The interest rate on the lease is 4.625% with annual principal payments due of between \$75,000 in the first year and \$140,000 in the final year of the lease. Principal payments due under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 110,000	\$ 38,966
2013	110,000	33,878
2014	1 20,000	28,675
2015	125,000	23,125
2016	130,000	17,228
2017 – 2018	<u>275,000</u>	<u>16,072</u>
	<u>\$ 870,000</u>	<u>\$ 157,944</u>

Amphitheater

The City entered into a lease-purchase agreement for construction of an amphitheater in the amount of \$360,000. The lease is financed at a rate of 4.6% with payments under the lease as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 25,000	\$ 12,469
2013	25,000	11,281
2014	25,000	10,093
2015	30,000	8,787
2016	30,000	7,362
2017 – 2020	<u>140,000</u>	<u>14,013</u>
	<u>\$ 275,000</u>	<u>\$ 64,005</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 4 – LEASE COMMITMENTS – CONTINUED

2007 Lease Purchase Refinance

During fiscal 2008 the City issued \$446,000 of Certificates of Participation to two local banks. The funds were used to retire two of the City's lease purchase obligations and to purchase certain park equipment.

The debt service requirement under the Certificates of Participation is as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 62,000	\$ 9,805
2013	64,000	6,937
2014	70,000	3,977
2015	16,000	740
	<u>\$ 212,000</u>	<u>\$ 21,459</u>

Sound System Lease

During fiscal 2011, the City entered into a lease purchase of sound equipment for the amphitheater. The principal amount of the lease is \$100,000. Under the lease agreement, the City is to make annual lease payments of \$12,549 through fiscal 2021 at an interest rate of 4.25%. Future payments under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 8,801	\$ 3,748
2013	8,434	4,114
2014	8,825	3,724
2015	9,222	3,327
2016	9,637	2,912
2017 to 2021	55,081	7,664
	<u>\$ 100,000</u>	<u>\$ 25,489</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 4 – LEASE COMMITMENTS – CONTINUED

Police Station Lease

During 2011, the City entered into a lease purchase of a building including the renovation of the building which is to become the new police station. Under the agreement, the City is to make monthly lease payments of \$7,524 through 2024 at an interest rate of 4.25%. Activity on the lease during the last year was as follows:

Amount Borrowed	\$ 987,868
Principal Payments on Lease	<u>(49,245)</u>
Balance Due	<u>\$ 938,623</u>

Future payments due under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 51,275	\$ 29,013
2013	53,601	36,687
2014	55,924	34,364
2015	58,347	31,940
2016 – 2020	331,795	119,645
2021 – 2024	<u>387,681</u>	<u>41,189</u>
	<u>\$ 938,623</u>	<u>\$ 292,838</u>

NOTE 5 – PENSION PLAN

Plan Description

The City of Kearney 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 401(a), and it is tax exempt.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 5 – 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 calling 1-800-447-4334.

Funding Status

Full-time employees of the City of Kearney do not contribute to the pension plan. The June 30th statutorily required contribution rates are 11.4% (General) and 11.7% (Police) 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 (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 167,913
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	167,913
Actual contributions	<u>165,898</u>
Increase (Decrease) in NPO	2,015
NPO beginning of year	-
NPO end of the year	<u>\$ 2,015</u>

The annual required contribution (ARC) was determined as part of the February 28, 2008, and February 29, 2009, annual actuarial valuations using the entry age actuarial cost method. The actuarial assumptions 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, 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 for males projected to 2000 setback 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

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 5 – PENSION PLAN – CONTINUED

liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period as of February 28, 2008, was 24 years for the General division and 24 years for the Police division. The amortization period as of February 28, 2009, was 30 years for the General division and 30 years for the Police division.

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
06/30/08	\$165,248	100.0%	\$ -
06/30/09	\$173,755	100.0%	\$ -
06/30/10	\$167,913	98.8%	\$ 2,015

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
Actuarial Valuation <u>Date</u>	Actuarial Value <u>of Assets</u>	Entry Age Actuarial Accrued <u>Liability</u>	Unfunded Accrued Liability <u>(UAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	Percentage of UAL as a Covered <u>Payroll</u>
02/28/08	\$2,248,272	\$2,639,909	\$391,637	85%	\$1,469,931	27%
02/28/09	\$2,045,717	\$2,984,338	\$938,621	69%	\$1,633,652	57%
02/29/10	\$2,191,220	\$3,004,777	\$813,557	73%	\$1,506,380	54%

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 KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 6 – TAX INCREMENT FINANCING COMMISSION (TIF)

During fiscal 1997, the City of Kearney set up a Tax Increment Financing Commission to operate in the City of Kearney. The City entered into an agreement with a developer to construct a building in the development area. A special tax levy on property is funding the debt service requirements. A second bond issue was sold in fiscal 2002 to make certain improvements on the property.

As part of the second TIF bond issue, the City has agreed to reimburse the developer \$250,000 of construction costs. The reimbursement is to be paid out of future property tax collections (PILOTS) and sales taxes (EATS) generated by the project.

The taxing power of the City is not pledged to the payment of the TIF bonds either as to principal or interest. The bonds do not constitute a general obligation of the City. The bonds are special obligation bonds payable from special tax levies on the project.

The following is a summary of bond transactions in the TIF account:

Bonds Payable, March 31, 2010	\$ 706,000
Bonds Retired	<u>(108,000)</u>
Bonds Payable, March 31, 2011	<u>\$ 598,000</u>

1996 and 2002 Tax Increment Bonds

Due <u>March 1</u>	Principal <u>Amount</u>
2012	\$ 80,000
2013	100,000
2014	107,000
2015	60,000
2016 – 2018	<u>251,000</u>
Total	<u>\$ 598,000</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457, which is accounted for in the Deferred Compensation Plan Fund. The plan, which is administered by one carrier, is available to

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 7 – COMMITMENTS AND CONTINGENCIES – CONTINUED

all City employees who qualify under the plan terms and permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available to employees until termination, retirement, death or unforeseeable emergency. The assets in the plan at March 31, 2011, total \$334,439.

A summary of changes during the period is as follows:

Beginning Balance, March 31, 2010	\$ 293,427
Contributions	33,172
Withdrawals	(21,270)
Change in Value	<u>29,110</u>
Ending Balance, March 31, 2011	<u>\$ 334,439</u>

Purchase of Water from Kansas City, Missouri

The City has entered into a water purchase agreement with the City of Kansas City, Missouri, to purchase water for a period of twenty-five years. The City of Kearney has sold revenue bonds and made water system improvements to meet requirements of the City of Kansas City, Missouri. Beginning in fiscal 2004, the City of Kearney has agreed to purchase 28.7% of the capacity of the water line. If purchases are not made, then certain penalties will apply. Beginning in November 2004, the City of Kearney is to pay the City of Kansas City, Missouri, \$1,339,964 in monthly payments of \$9,270. The payments are to be made over a twenty-year period at an interest rate of 5.65%. The City of Kearney paid Kansas City \$111,200 which included thirteen monthly payments based upon the contract requirements. In addition the City paid \$68,355 for water.

NOTE 8 – PROPERTY TAX REVENUE AND ASSESSMENT

The City's property tax is levied each November 1 on the assessed value as of the prior January 1 for all real and personal property located in the City. Assessed values are established by the Clay County Assessor subject to review by the County's Board of Equalization.

The assessed value for property located in the City as of December 31, 2010, on which the 2010 levy was based, was \$134,927,000. In the year ended March 31, 2011, the City collected \$1,022,562 of property taxes that were billed in the period.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 8 – PROPERTY TAX REVENUE AND ASSESSMENT – CONTINUED

The City is permitted by Missouri State Statutes to levy taxes up to \$1.00 per \$100 of assessed valuation for general services other than the payment of principal and interest on long-term debt, and in unlimited amounts for the payment of principal and interest on long-term debt. The City's General Fund property tax levy per \$100 assessed valuation was \$0.58 for the year ended March 31, 2011 and \$0.58 for the year ended March 31, 2010. The City's debt service tax levy per \$100 assessed valuation was \$.05 for the year ended March 31, 2011 and March 31, 2010.

Property taxes are billed by the City on or before December 1 and are considered delinquent after January 1 after which the City may attach a lien to all property on which taxes are unpaid. The City records property tax as revenue at the time the taxes are received.

NOTE 9 – COMMITMENTS AND CONTINGENCIES – LAW SUITS

There are no claims for lawsuits to which the City is a part as a result of certain injuries and various other matters and complaints arising in the ordinary course of City activities. The City's management and legal counsel anticipate that any unknown potential claims, if any, against the City not covered by insurance would not have a material effect on the financial position of the City.

NOTE 10 – INTERFUND TRANSFERS

During the course of normal operations, the City may have transactions between funds including expenditures and transfers of resources primarily to provide services. A reimbursement process is in place when resources are transferred between funds.

NOTE 11 – FEDERAL AND STATE GRANTS

In prior years the City has participated in a number of federal and state programs that were 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 regulations, the City may be required to reimburse the grantor government. As of March 31, 2011, certain grant expenditures have not been audited by grantor governments, but

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 11 – FEDERAL AND STATE GRANTS – CONTINUED

the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Missouri or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A. Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As noted all deposits were fully insured or collateralized.

The City maintains a cash and investment pool, which is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as part of the checking or savings account. All of the City's deposits at year end were in commercial banks.

At year end the carrying amount of the City's deposits totaled \$6,712,904 and the bank balances totaled \$6,758,310. The difference of \$45,406 represented reconciling items in the bank account. The City's balances were covered by FDIC insurance or pledged securities as follows:

Deposits covered by federal depository insurance or by collateral held by the City, or its agent, in the City's name	<u>\$6,758,310</u>
Total Value of Securities Pledged	\$7,956,418
FDIC Insurance	<u>250,000</u>
	<u>\$8,206,418</u>
Insurance and Pledged Securities in Excess of Deposits	<u>\$1,448,108</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 13 – CAPITAL EXPENDITURES

Capital Asset activity for the year ended March 31, 2011, was as follows:

<u>General Government</u>	<u>03-31-10</u>	<u>Additions</u>	<u>Subtraction</u>	<u>03-31-11</u>
Governmental Activities				
Assets Not Subject to Depreciation				
Land	\$ 564,419	\$ -	\$ -	\$ 564,419
Infrastructure	5,706,805	-	-	5,706,805
WIP – Police Station	630,428	-	630,428	-
WIP – Jesse James Pavilion	-	125,034	-	125,034
Assets Subject to Depreciation				
Buildings	1,429,348	977,323	-	2,406,671
Improvements	1,617,754	401,875	-	2,019,629
Machinery and Equipment	<u>1,100,426</u>	<u>24,622</u>	-	<u>1,125,048</u>
Total at Historical Cost	11,049,180	1,528,854	630,428	11,947,606
Less Accumulated Depreciation				
Buildings	187,178	19,090	-	206,268
Improvements	283,454	99,936	-	383,390
Machinery and Equipment	<u>805,702</u>	<u>104,775</u>	-	<u>910,477</u>
Total Accum. Depreciation	<u>1,276,334</u>	<u>223,801</u>	-	<u>1,500,135</u>
Total Capital Assets, Net	<u>\$ 9,772,846</u>	<u>\$1,305,053</u>	<u>\$ 630,428</u>	<u>\$10,447,471</u>
 <u>Water and Sewer</u>	 <u>03-31-10</u>	 <u>Additions</u>	 <u>Subtraction</u>	 <u>03-31-11</u>
Proprietary Activities				
Land	\$ 267,925	\$ -	\$ -	\$ 267,925
Buildings	492,296	-	-	492,296
Machinery and Equipment	661,504	-	-	661,504
Water and Sewer Lines and Improvements	<u>10,813,859</u>	<u>58,516</u>	-	<u>10,872,375</u>
Total at Historical Cost	12,235,584	58,516	-	12,294,100
Less Accumulated Depreciation				
Buildings	89,626	7,805	-	97,431
Machinery and Equipment	514,099	26,642	-	540,741
Water and Sewer Lines and Improvements	<u>2,937,744</u>	<u>229,399</u>	-	<u>3,167,143</u>
Total Accum. Depreciation	<u>3,541,469</u>	<u>263,846</u>	-	<u>3,805,315</u>
Total Capital Assets, Net	<u>\$ 8,694,115</u>	<u>\$ (205,330)</u>	<u>\$ -</u>	<u>\$ 8,488,785</u>

Depreciation has been recorded on the capital assets as follows:

Government Activities	\$ 223,801
Business Activities:	
Water and Sewer Fund	<u>263,846</u>
	<u>\$ 487,647</u>

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 14 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid money market funds, U.S. Treasuries and exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include fixed income securities and pooled investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and level within the ASC Topic 820 Fair Value Measurement in which the fair measurements fall at March 31, 2011.

CITY OF KEARNEY, MISSOURI
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
MARCH 31, 2011

NOTE 14 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES – CONTINUED

		<u>Fair Value Measurements Using</u>		
		Quoted Prices		
		In Active	Significant	
		Markets for	Other	Significant
		Identical	Observable	Unobservable
		Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level3)
	<u>Fair Value</u>			
<i>March 31, 2011</i>				
Certificates of Deposit	\$ 639,350	\$ 639,350	\$ -	\$ -
Pooled Government Securities	<u>30,555</u>	<u>30,555</u>	<u>-</u>	<u>-</u>
	<u>\$ 669,905</u>	<u>\$ 669,905</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 15 – TAX ANTICIPATION NOTE

The City has borrowed \$85,000 on a tax anticipation note due April 1, 2011. The amount is reflected as a current liability on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
Special Revenue Funds
Debt Service Funds
Capital Project Funds

**CITY OF KEARNEY, MISSOURI
COMPARISON OF NEEDED-TO-ACTUAL
MAINTENANCE/PRESERVATION
FOR NEW INFRASTRUCTURE ASSETS
MARCH 31, 2011**

The City has elected to use the Modified Approach as defined by GASB 34 for all infrastructure assets. Under GASB 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amounts to maintain and preserve at the established condition assessment level.

The City has not implemented the retroactive restatement of infrastructure assets owned by the City prior to March 31, 2004. The City's revenue is less than prescribed by accounting standards to be required to implement retroactive reporting of infrastructure assets. The City may at some point in the future implement the recording of the assets. All of the new infrastructure assets which have been recorded are new and a condition assessment is not necessary because the assets are new. A comparison of actual to budgeted expenditures is not necessary.

The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level. It is the City's policy to maintain all infrastructure assets at or above the 70% level (100% being new construction).

CITY OF KEARNEY, MISSOURI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY DISCUSSION
FOR THE YEAR ENDED MARCH 31, 2011

Budgetary Accounting

The City prepares its budget for the General Fund on the cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements. All unexpended appropriations lapse at year end.

Through the budget, the Board of Aldermen sets the direction of the City, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget covers the period from April 1, to March 31, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the City's performance.

The City's budget is prepared and based on various expenditure categories; personnel, supplies and services, minor capital outlay and capital improvement programs. The first three listed are considered operational in nature or known as recurring costs. Capital improvement projects are asset acquisitions, facilities, systems, and infrastructure improvements typically over \$1,000 and/or those items 'outside' of the normal operational budget. These are known as one-time costs.

The City collects and records revenue and expenditures within the Governmental Activities. The Governmental Funds include the General Fund and Capital Projects. All funding sources are kept separate for both reporting and use of the money. The General Fund is where most City services are funded that are not required to be segregated.

The budget process begins as a team effort in January of each year. Then the individual departments use projected revenue assumptions to prioritize and recommend the next fiscal year's objectives. The City Administrator's Office review all budget proposals and revenue assumptions, as well as all current financial obligations before preparing the document that is proposed to the Board of Aldermen. The Board of Aldermen reviews the Proposed Budget and the final adoption of the budget is scheduled for approval in March.

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID
GENERAL FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2011

Revenues											
	Operating	Cemetery	Police	Park	DWI Drug	Park Capital	Total	Budget	Over/Under Budget		
Taxes: Property, Sales, etc.	\$ 1,822,900	\$ -	\$ -	\$ 59,642	\$ -	\$ -	\$ 1,882,542	\$ 1,851,020	\$ 31,522		
Licenses, Permits, Fees, etc.	48,273	-	-	-	-	2,600	50,873	50,250	623		
Interest	10,045	1,105	38	796	-	837	12,821	15,868	(3,047)		
Utilities/Trash	289,792	-	-	-	-	-	289,792	282,000	7,792		
Fines	164,556	-	-	-	-	-	164,556	140,000	24,556		
Miscellaneous	1,162	3,060	3,704	51,816	4,360	19,200	83,302	317,858	(234,556)		
Cricknet Antenna Lease	10,000	-	-	-	-	-	10,000	19,200	(9,200)		
Amphitheater Revenue	-	-	-	121,781	-	-	121,781	157,000	(35,219)		
Grants/Donations	174,584	-	-	-	-	-	174,584	171,116	3,468		
Total Revenues	2,521,312	4,165	3,742	234,035	4,360	22,637	2,790,251	3,004,312	(214,061)		
Expenditures											
Personnel	1,541,571	-	-	178,456	-	-	1,720,027	1,751,384	31,357		
Contractual Services	1,479,134	-	-	334,118	-	-	1,813,252	1,664,332	(148,920)		
Commodities/Supplies	98,670	-	-	10,626	-	-	109,296	122,800	13,504		
Capital	263,651	-	-	131,617	1,292	59,900	456,460	483,765	27,305		
Principal	-	-	-	-	-	62,197	62,197	68,395	6,198		
Interest	-	-	-	-	-	43,559	43,559	38,656	(4,903)		
Miscellaneous	2,269	-	-	5,000	-	-	7,269	7,500	231		
Total Expenditures	3,385,295	-	-	659,817	1,292	165,656	4,212,060	4,136,832	(75,228)		
Revenues Collected Over (Under) Expenditures Paid	(863,983)	4,165	3,742	(425,782)	3,068	(143,019)	(1,421,809)	(1,132,520)	(289,289)		
Operating Transfers and Financing Transactions											
Transfer To	1,034,625	-	-	308,280	-	84,003	1,426,908	1,434,708	(7,800)		
Transfer From	(392,283)	-	-	-	-	-	(392,283)	(400,083)	7,800		
Lease Purchase Proceeds	-	-	-	100,000	-	-	100,000	100,000	-		
Loan Proceeds	-	-	-	-	-	60,000	60,000	-	60,000		
	642,342	-	-	408,280	-	144,003	1,194,625	1,134,625	60,000		
Revenues Collected and Operating Transfers Over (Under) Expenditures Paid	\$ (221,641)	\$ 4,165	\$ 3,742	\$ (17,502)	\$ 3,068	\$ 984	\$ (227,184)	\$ 2,105	\$ (229,289)		

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID
SPECIAL REVENUE FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2011

	Sales Tax	Transportation Sales Tax	Capital Improvement Sales Tax	Total	Budget	Over (Under) Budget
Revenues						
Sales Taxes	\$ 915,500	\$ 417,311	\$ 417,163	\$ 1,749,974	\$ 1,787,200	\$ (37,226)
Interest	4,807	1,835	917	7,559	11,200	(3,641)
Total Revenues	920,307	419,146	418,080	1,757,533	1,798,400	(40,867)
Expenditures						
Contractual Services	-	-	14,753	14,753	8,000	(6,753)
Total Expenditures	-	-	14,753	14,753	8,000	(6,753)
Revenues Collected Over (Under) Expenditures	920,307	419,146	403,327	1,742,780	1,790,400	(47,620)
Transfers						
Transfer To	-	-	-	-	-	-
Transfer From	(1,029,281)	(421,897)	(368,490)	(1,819,668)	(1,790,400)	(29,268)
Revenues Collected Over (Under) Operating Transfers and Expenditures Paid	\$ (108,974)	\$ (2,751)	\$ 34,837	\$ (76,888)	\$ -	\$ (76,888)

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID
DEBT SERVICE FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2011

	Water and Sewer Obligation	Sewer Plant Obligation	G.O. Hwy Bonds	Total	Budget	Over (Under) Budget
Revenues						
Property Taxes	\$ 68,517	\$ -	\$ -	\$ 68,517	\$ 71,500	\$ (2,983)
Interest	57	-	3,001	3,058	5,300	(2,242)
Total Revenue	68,574	-	3,001	71,575	76,800	(5,225)
Expenditures						
Principal	41,250	-	350,000	391,250	388,000	(3,250)
Interest	3,301	-	322,875	326,176	329,497	3,321
Fees	1,779	-	967	2,746	2,450	(296)
Contractual Services	5,026	-	-	5,026	5,300	274
Total Expenditures	51,356	-	673,842	725,198	725,247	49
Revenues Collected Over (Under) Expenditures	17,218	-	(670,841)	(653,623)	(648,447)	(5,176)
Lease Purchase	-	-	-	-	-	-
Operating Transfers - In	-	-	581,588	581,588	673,447	(91,859)
Operating Transfers - Out	-	-	-	-	(25,000)	25,000
Revenues Collected and Operating Transfers Over (Under) Expenditures Paid	\$ 17,218	\$ -	\$ (89,253)	\$ (72,035)	\$ -	\$ (72,035)

CITY OF KEARNEY, MISSOURI
COMBINED STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID
CAPITAL PROJECTS FUNDS - ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED MARCH 31, 2011

	Sewer Capital Improvements	33 Hwy Construction	Wireless Capital Improvements	Downtown Improvements	Police Station Construction	Total	Budget	Over (Under) Budget
Revenues								
Taxes - Franchise	\$ -	\$ -	\$ 190,082	\$ -	\$ -	\$ 190,082	\$ 142,507	\$ 47,575
Licenses and Permits	17,600	-	-	-	-	17,600	15,000	2,600
Interest	2,150	12,803	877	2	-	15,832	26,660	(10,828)
Grants	-	-	-	116,539	-	116,539	100,000	16,539
Sprint Antenna Lease	-	-	-	22,764	-	22,764	22,000	764
Total Revenues	19,750	12,803	190,959	139,305	-	362,817	306,167	56,650
Expenditures								
Capital Improvements	-	-	4,507	-	352,706	357,213	405,585	48,372
Contractual Services	8,519	50,010	-	97,002	14,304	169,835	146,884	(22,951)
Principal	100,000	-	49,217	14,115	-	163,332	168,474	5,142
Interest	43,706	-	41,071	5,114	-	89,891	84,749	(5,142)
Total Expenditures	152,225	50,010	94,795	116,231	367,010	780,271	805,692	25,421
Revenues Collected Over (Under) Expenditures Paid	(132,475)	(37,207)	96,164	23,074	(367,010)	(417,454)	(499,525)	31,229
Other								
Transfers To	114,583	-	-	-	-	114,583	534,962	(420,379)
Transfers From	-	-	-	-	-	-	-	-
	114,583	-	-	-	-	114,583	534,962	(420,379)
Revenues Collected and Operating Transfers Over (Under) Expenditures Paid	\$ (17,892)	\$ (37,207)	\$ 96,164	\$ 23,074	\$ (367,010)	\$ (302,871)	\$ 35,437	\$ (389,150)