

**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, 2012**

# CITY OF KEARNEY, MISSOURI

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**CITY OF KEARNEY, MISSOURI**

**LIST OF PRINCIPAL OFFICIALS**

**MARCH 31, 2012**

**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, 2012, 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.

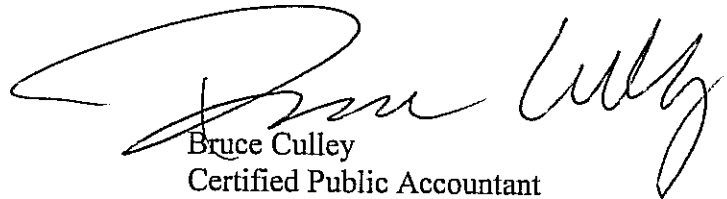
As described in Note 1, the basic financial statements for the Government Activities were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2012, 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, 2012, 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  
November 1, 2012

## **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, 2012. 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 \$855,633. This was an increase from last year when net assets increased \$424,892.
- The Water and Sewer Fund showed an increase in net assets of \$427,067 an increase from \$341,088 in 2011.
- The City continued to pay down debt on general obligation bonds, revenue bonds, and capital lease obligations. The overall reduction in debt was \$1,053,670.
- There were no new debt obligations.

### **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 retroactively record 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).

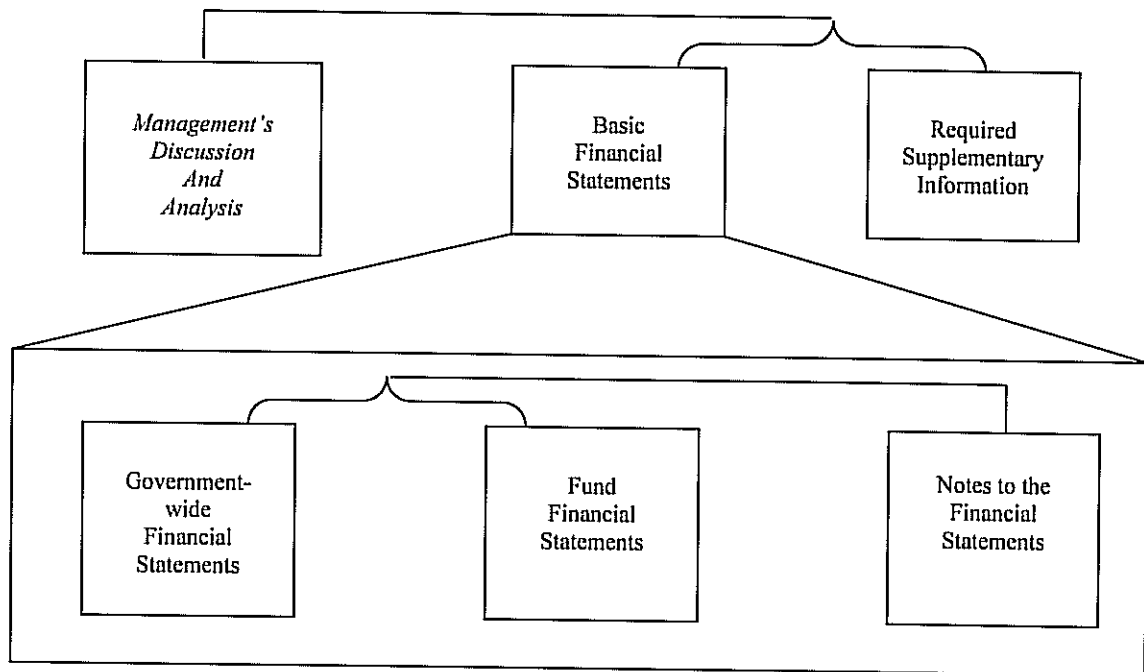
**Notes to Basic Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information:** The Budgetary Discussion (starting on page 57) 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 \$855,633 from \$13,571,813 to \$14,427,446. 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, 2012, are summarized as follows:

	Government <u>Activities</u>	Business <u>Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 4,109,291	\$ 1,853,066	\$ 5,962,357
Accounts Receivable	-	140,141	140,141
Capital Assets	<u>10,743,214</u>	<u>8,510,279</u>	<u>19,253,493</u>
Total Assets	14,852,505	10,503,486	25,355,991
Accounts Payable	-	28,975	28,975
Other Current Liabilities	821,714	334,204	1,155,918
Long Term Liabilities	<u>7,369,512</u>	<u>2,374,140</u>	<u>9,743,652</u>
Total Liabilities	8,191,226	2,737,319	10,928,545
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,551,988	5,801,935	8,353,923
Restricted	1,951,368	-	1,951,368
Unrestricted	<u>2,157,923</u>	<u>1,964,232</u>	<u>4,122,155</u>
Total Net Assets	<u>\$ 6,661,279</u>	<u>\$ 7,766,167</u>	<u>\$14,427,446</u>

The City's net assets from governmental activities increased \$428,566 compared to an increase of \$424,892 in 2011. 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 \$427,067 compared to \$404,373 in 2011.

The cost of all government activities this year was \$4,550,477. However, as shown in the Statement of Activities, the amount that the taxpayers ultimately financed for these activities was \$4,097,711 because \$452,766 in costs was paid by those who directly benefited from the program or from fines. Overall, the City's government program revenues totaled \$4,979,043.

## 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>2012</u>	<u>2011</u>
Unrestricted Cash and Cash Equivalents	\$ 1,615,035	\$ 1,518,830
Restricted Cash and Cash Equivalents	<u>2,494,256</u>	<u>3,209,035</u>
Total	<u>\$ 4,109,291</u>	<u>\$ 4,727,865</u>
 Fund Balance, Beginning of Year	 \$ 4,727,865	 \$ 5,406,843
Net Change in Fund Balance	<u>( 618,574)</u>	<u>(678,978)</u>
Fund Balance, End of Year	<u>\$ 4,109,291</u>	<u>\$ 4,727,865</u>

The fund balance decreased by less than 13%.

### 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 surplus of \$96,205 for the year. The Special Revenue Fund showed a deficit of \$65,478. The Special Revenue fund receives sales tax and transfers the money to other funds. The Debt Service Fund showed a surplus of \$28,452 after transfers. The Capital Project Fund showed a deficit of \$677,753. The following is a comparison of the operating deficits and surpluses for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
General Fund	\$ 96,205	\$ (227,184)
Special Revenue	\$ (65,478)	\$ (76,888)
Debt Service	\$ 28,452	\$ (72,035)
Capital Projects	\$ (677,753)	\$ (302,871)

### 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 \$427,067. Net transfers of \$32,465 were made from the Water and Sewer Fund providing a net reduction to the net assets. Depreciation, which is a non-cash charge, amounted to \$263,323. The operations in 2012 compare favorably to 2011 when the addition to the net assets was \$341,088.

### Agency Funds

Agency funds involve the money for other government entities for which the City has no ownership. The City handles funds for the Tax Increment Financing District, Kearney Road District, and the Community Road District. 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 \$46,328. 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 \$6,743 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 debt service agreements because the receipts have exceeded the planned debt retirement. Bonds totaling \$114,000 were retired during the year.

The Kearney Road District received taxes from the county of \$114,728 and spent \$57,225 on street improvements during the year. There was an unexpended balance of \$57,123 at year end. The Community Improvement District collected taxes of \$71,466 and no funds were expended for services in the district during the year. This is the second year no expenditures were made from the fund. There was an unexpended balance at year-end of \$238,127. 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 shown on pages 21 and 22. 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 \$10,839,570 in outstanding bond and lease obligations. This represents a decrease of \$1,053,670. The City has a Tax Anticipation note that was reduced from \$85,000 to \$60,000. The City borrowed no new funds during the year. 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 \$5,820,000, resulting in a legal debt margin of \$19,795,796. The City has been able to maintain property tax rates for debt financing at relatively stable levels.

	Government Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$5,820,000	\$6,220,000	\$ -	\$ -	\$ 5,820,000	\$ 6,220,000
Revenue Bonds	-	-	2,708,344	3,035,617	2,708,344	3,035,617
Capital Lease Obligations	2,311,226	2,637,623	-	-	2,311,226	2,637,623
	<u>\$8,131,226</u>	<u>\$8,857,623</u>	<u>\$ 2,708,344</u>	<u>\$ 3,035,617</u>	<u>\$10,839,570</u>	<u>\$11,893,240</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 (\$208,565) was for the new public works building which was constructed with no debt financing. A summary of the capital assets at their gross amount is shown below:

	Government Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
<i>Capital Assets</i>						
Land	\$ 564,419	\$ 564,419	\$ 267,925	\$ 267,925	\$ 832,344	\$ 832,344
Buildings	2,802,406	2,406,671	492,296	492,296	3,294,702	2,898,967
Improvements	2,037,277	2,019,629	-	-	2,037,277	2,019,629
Machinery and Equipment	1,134,644	1,125,048	661,504	661,504	1,796,148	1,786,552
Police Station WIP	-	-	-	-	-	-
Jesse Pavilion WIP	-	125,034	-	-	-	125,034
Water and Sewer Lines	-	-	11,157,192	10,872,375	11,157,192	10,872,375
	<u>\$6,538,746</u>	<u>\$6,240,801</u>	<u>\$12,578,917</u>	<u>\$12,294,100</u>	<u>\$19,117,663</u>	<u>\$18,534,901</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 \$6,958. The total expenditures in the general fund were less than budget by \$63,439. Decreased personnel, supply costs and contracted services were the main reason for the favorable variance.

*Special Revenue* – The sales tax revenue received in the Special Revenue Fund was more than budget by \$14,876. Expenditures and transfers were more than budget by \$29,340.

*Debt Service* – Property tax revenue in the Debt Service Fund was more than budget by \$5,708. Actual expenditures in the Debt Service Fund were more than budget by \$1,092. Transfers to/from the Debt Service Fund were more than budget by \$24,038.

*Capital Projects* – The actual revenue in the Capital Projects Fund for projects undertaken was less than budget by \$87,251. Actual expenditures were less than budget by \$1,420,045. Transfers to the Capital Project Fund were less than budget by \$1,422,749.

## **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, 2013.

- The overall City economy reflects many of the regional trends which included an overall slowdown in the economy.
- 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, 2012**

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Current Assets			
Cash - Checking and Savings	\$ 1,615,035	\$ 1,179,172	\$ 2,794,207
Cash - Certificates of Deposit	-	643,339	643,339
Restricted			
Cash - Checking and Savings	2,494,256	-	2,494,256
U.S. Government Securities	-	30,555	30,555
Accounts Receivable	-	140,141	140,141
Total Current Assets	4,109,291	1,993,207	6,102,498
Non-current Assets			
Land, Building and Equipment, Net	10,743,214	8,510,279	19,253,493
Total Non-current Assets	10,743,214	8,510,279	19,253,493
Total Assets	14,852,505	10,503,486	25,355,991
<b>Liabilities</b>			
Current Liabilities			
Accounts Payable	-	28,975	28,975
Long-term Bonds Due Within the Year	495,000	334,204	829,204
Capital Leases Due Within the Year	266,714	-	266,714
Tax Anticipation Note	60,000	-	60,000
Total Current Liabilities	821,714	363,179	1,184,893
Long-term Liabilities			
Long-term Bonds Due in More than One Year	5,325,000	2,374,140	7,699,140
Capital Leases Due in More than One Year	2,044,512	-	2,044,512
Total Long-term Liabilities	7,369,512	2,374,140	9,743,652
Total Liabilities	8,191,226	2,737,319	10,928,545
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,551,988	5,801,935	8,353,923
Restricted			
Capital Projects	1,632,912	-	1,632,912
Debt Service	318,456	-	318,456
Unrestricted	2,157,923	1,964,232	4,122,155
Total Net Assets	\$ 6,661,279	\$ 7,766,167	\$ 14,427,446

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

**CITY OF KEARNEY, MISSOURI**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities							
City Hall Administration	\$ 438,898	\$ 48,035	\$ -	\$ -	\$ (390,863)	\$ -	\$ (390,863)
Court	39,538	-	-	-	(39,538)	-	(39,538)
Community Development	217,680	-	-	-	(217,680)	-	(217,680)
Police	1,125,557	116,300	-	-	(1,009,257)	-	(1,009,257)
Residential Trash	281,894	288,431	-	-	6,537	-	6,537
Street	932,254	-	-	-	(932,254)	-	(932,254)
Street Maintenance and Engineering Fees	302,355	-	-	-	(302,355)	-	(302,355)
Park	560,477	-	-	-	(560,477)	-	(560,477)
Interest and Fees	365,602	-	-	-	(365,602)	-	(365,602)
Depreciation	252,929	-	-	-	(252,929)	-	(252,929)
Miscellaneous	33,293	-	-	-	(33,293)	-	(33,293)
Total Governmental Activities	4,550,477	452,766	-	-	(4,097,711)	-	(4,097,711)
Business-type Activities							
Water and Sewer	1,747,899	2,199,261	-	-	-	451,362	451,362
Total Business-type Activities	1,747,899	2,199,261	-	-	-	451,362	451,362
Total Primary Government	\$ 6,298,376	\$ 2,652,027	\$ -	\$ -	(4,097,711)	451,362	(3,646,349)
<b>General Revenues</b>							
Taxes							
Sales Tax					1,956,076	-	1,956,076
Property Tax					985,595	-	985,595
Motor Fuel Tax					229,501	-	229,501
Franchise Tax					724,775	-	724,775
Road and Bridge Tax					83,125	-	83,125
Financial Institution Tax					5,852	-	5,852
Interest and Investments					2,235	-	2,235
Grants					136,137	8,170	144,307
Amphitheater					152,302	-	152,302
Miscellaneous					208,201	-	208,201
Rent Income					10,013	-	10,013
Transfers, Net Cash					32,465	(32,465)	-
Total General Revenues, Special Items and Transfers					4,526,277	(24,295)	4,501,982
Change in Net Assets					428,566	427,067	855,633
Net Assets, Beginning of the Year					6,232,713	7,339,100	13,571,813
Net Assets, End of Year					\$ 6,661,279	\$ 7,766,167	\$ 14,427,446

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

**CITY OF KEARNEY, MISSOURI**  
**BALANCE SHEET – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**MARCH 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Unrestricted					
Cash - Checking and Savings	\$ 1,615,035	\$ -	\$ -	\$ -	\$ 1,615,035
Restricted					
Cash - Checking and Savings	<u>-</u>	<u>542,888</u>	<u>318,456</u>	<u>1,632,912</u>	<u>2,494,256</u>
Total Assets	<u>\$ 1,615,035</u>	<u>\$ 542,888</u>	<u>\$ 318,456</u>	<u>\$ 1,632,912</u>	<u>\$ 4,109,291</u>
<b>Liabilities and Fund Balance</b>					
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance					
Restricted					
Capital Projects	-	-	-	1,632,912	1,632,912
Debt Service	-	-	318,456	-	318,456
Unassigned	<u>1,615,035</u>	<u>542,888</u>	<u>-</u>	<u>-</u>	<u>2,157,923</u>
Total Fund Balance	<u>1,615,035</u>	<u>542,888</u>	<u>318,456</u>	<u>1,632,912</u>	<u>4,109,291</u>
Total Liabilities and Fund Balance	<u>\$ 1,615,035</u>	<u>\$ 542,888</u>	<u>\$ 318,456</u>	<u>\$ 1,632,912</u>	<u>\$ 4,109,291</u>

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

Fund Balance, Shown Above	\$ 4,109,291
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	10,743,214
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>(8,191,226)</u>
Net Assets of Governmental Activities	<u>\$ 6,661,279</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, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
<b>Revenues</b>					
Taxes					
Property Tax	\$ 1,876,693	\$ -	\$ 66,425	\$ -	\$ 1,943,118
Sales and Other Taxes	-	1,956,076	-	-	1,956,076
Franchise Tax	-	-	-	128,028	128,028
Interest on Accounts	2,235	1,506	710	3,014	7,465
Licenses, Permits, Fees, etc.	48,035	-	-	1,335	49,370
Public Safety	116,300	-	-	-	116,300
Trash	288,431	-	-	-	288,431
Lease Income	32,813	-	-	23,206	56,019
Amphitheater	164,302	-	-	-	164,302
Grants	136,137	-	-	-	136,137
Miscellaneous	113,311	-	-	-	113,311
Total Revenues	2,778,257	1,957,582	67,135	155,583	4,958,557
<b>Expenditures</b>					
Personnel Services	1,717,492	-	-	-	1,717,492
Contractual Services	1,622,586	23,142	-	-	1,645,728
Commodities and Supplies	93,839	-	-	-	93,839
Capital Expenditures	297,337	-	-	708,515	1,005,852
Debt Service					
Principal	95,800	-	465,000	175,596	736,396
Interest and Fees	24,588	-	252,160	90,917	367,665
Miscellaneous	11,803	-	5,161	-	16,964
Total Expenditures	3,863,445	23,142	722,321	975,028	5,583,936
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,085,188)	1,934,440	(655,186)	(819,445)	(625,379)
Transfers and Financing Transactions					
Transfers To	1,586,085	-	717,638	185,932	2,489,655
Transfers From	(404,692)	(1,999,918)	(34,000)	(19,240)	(2,457,850)
Bank Loan Proceeds (Reduction)	-	-	-	(25,000)	(25,000)
Total Transfers and Financing Transactions	1,181,393	(1,999,918)	683,638	141,692	6,805
Net Changes in Fund Balance After Transfers	96,205	(65,478)	28,452	(677,753)	(618,574)
Fund Balance, Beginning of Year	1,518,830	608,366	290,004	2,310,665	4,727,865
Fund Balance, End of Year	\$ 1,615,035	\$ 542,888	\$ 318,456	\$ 1,632,912	\$ 4,109,291

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, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ (618,574)
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.	549,992
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.	(250,860)
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	465,000
Lease Payments	261,397
Tax Anticipation Note	25,000
Other adjustments to revenue and expense	(3,389)
Change in Net Assets of Governmental Activities	<u>\$ 428,566</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, 2012**

	<u>TIF</u>	<u>Community Improvement District</u>	<u>Kearney Road District</u>	<u>Total</u>
<b>Assets</b>				
Cash and Investments	\$ 46,328	\$ 238,127	\$ 57,984	\$ 342,439
Total Assets	<u>\$ 46,328</u>	<u>\$ 238,127</u>	<u>\$ 57,984</u>	<u>\$ 342,439</u>
<b>Liabilities</b>	\$ -	\$ -	\$ -	\$ -
<b>Net Assets</b>				
Restricted	<u>46,328</u>	<u>238,127</u>	<u>57,984</u>	<u>342,439</u>
Total Net Assets	<u>46,328</u>	<u>238,127</u>	<u>57,984</u>	<u>342,439</u>
Total Liabilities and Net Assets	<u>\$ 46,328</u>	<u>\$ 238,127</u>	<u>\$ 57,984</u>	<u>\$ 342,439</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, 2012**

	<u>TIF</u>	<u>Community Improvement District</u>	<u>Kearney Road District</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 139,190	\$ 71,466	\$ 114,278	\$ 324,934
Interest	<u>90</u>	<u>320</u>	<u>70</u>	<u>480</u>
Total Revenues	139,280	71,786	114,348	325,414
<b>Expenditures</b>				
Debt Service				
Principal	114,000	-	-	114,000
Interest	<u>32,023</u>	<u>-</u>	<u>-</u>	<u>32,023</u>
Street Maintenance	<u>-</u>	<u>-</u>	<u>57,225</u>	<u>57,225</u>
Total Expenditures	146,023	-	57,225	203,248
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>\$ (6,743)</u>	<u>\$ 71,786</u>	<u>\$ 57,123</u>	<u>\$ 122,166</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, 2012**

**Assets**

Current Assets

Cash - Checking and Savings	\$ 1,179,172
Cash - Certificates of Deposit	643,339
U.S. Government Securities	30,555
Accounts Receivable	140,141
Total Current Assets	<u>1,993,207</u>

Non Current Assets

Land, Building and Equipment, Net	8,510,279
Total Non Current Assets	<u>8,510,279</u>

Total Assets	<u><u>\$ 10,503,486</u></u>
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**Liabilities**

Current Liabilities

Accounts Payable	\$ 28,975
Long-term Bonds Due Within the Year	334,204
Total Current Liabilities	<u>363,179</u>

Long-term Liabilities

Long-term Bonds Due in More Than One Year	2,374,140
Total Long-term Liabilities	<u>2,374,140</u>
Total Liabilities	<u>2,737,319</u>

**Net Assets**

Invested in Capital Assets, Net of Related Debt	5,801,935
Unrestricted	1,964,232
Total Net Assets	<u>7,766,167</u>
Total Liabilities and Net Assets	<u><u>\$ 10,503,486</u></u>



**CITY OF KEARNEY, MISSOURI  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
WATER AND SEWER FUND  
FOR THE YEAR ENDED MARCH 31, 2012**

<b>Operating Revenues</b>	
Licenses, Permits and Fees	\$ 5,610
Water and Sewer Fees	2,147,124
Miscellaneous	<u>46,527</u>
Total Receipts	2,199,261
<b>Operating Expenses</b>	
Personnel Services	453,256
Contractual Services	600,267
Supplies	160,354
Water Contract - Kansas City	62,585
Fees	9,490
Miscellaneous	50,350
Depreciation	<u>263,323</u>
Total Expenses	<u>1,599,625</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	599,636
Net Nonoperating Revenues and (Expenses)	
Interest Income	8,170
Interest Expense	<u>(146,675)</u>
Net Nonoperating Revenues and Expenses	<u>(138,505)</u>
Income (Loss) Before Contributions and Transfers	461,131
Transfers and Financing Transactions	
Transfers To	431,000
Transfers From	(463,465)
Reconciliation Adjustment	<u>(1,599)</u>
Total Transfers and Financing Transactions	<u>(34,064)</u>
Change in Net Assets	427,067
Net Assets, Beginning of Year	<u>7,339,100</u>
Net Assets, End of Year	<u>\$ 7,766,167</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, 2012**

**Cash Flows From Operating Activities**

Revenues Collected and Operating Transfers	
Over Expenditures Paid	\$ 427,067
Depreciation	263,323
(Increase) Decrease in Accounts Receivable	(12,044)
Increase (Decrease) in Accounts Payable	<u>(8,511)</u>
Total Adjustments	<u>242,768</u>
Net Cash Flows Provided (Used) by Operating Activities	669,835

**Cash Flows From Investing Activities**

(Increase) Decrease in Certificates of Deposit	(3,989)
Water and Sewer Plant Equipment Purchases	<u>(284,817)</u>
Net Cash Flows Provided (Used) by Investing Activities	(288,806)

**Cash Flows From Financing Activities**

Bonds Retired	
Net Cash Flows Provided (Used) by Financing Activities	<u>(327,273)</u>
Increase (Decrease) in Cash and Cash Equivalents	53,756
Cash and Cash Equivalents, Beginning of Year	<u>1,125,416</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,179,172</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, 2012**

**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 2011) 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, 2012**

**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, 2012**

**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, 2012**

**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

Nonmajor Funds

General Fund

Agency Funds

Capital Project Fund:  
Capital Improvements

Special Revenue

Debt Service

Water and Sewer

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, 2012**

**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, 2012**

**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, 2012**

**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, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

*Fund Financial Statements*

Governmental fund equity is classified as fund balance.

***Fund Balance Classifications***

The Governmental Accounting Standards Board (GASB) released Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions” (GASB 54) on March 11, 2009, which is effective for the City’s fiscal year ending December 31, 2011. This Statement is intended to improve the usefulness of the amounts reported in fund balance by providing more structured classifications. Under GASB 54, fund balance is reported under the following five classifications:

- a. Nonspendable Fund Balance – consists of amounts that are not in a spendable form or are required to be maintained intact.
- b. Restricted Fund Balance – consists of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The Restricted for Debt Service and Restricted for Capital Projects balances reflect amounts that are restricted for debt service and construction or other capital outlay projects.
- c. Committed Fund Balance – consists of amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority (the Board of Aldermen) and do not lapse at year end. The committed fund balance consists of general board reserves.
- d. Assigned Fund Balance – consists of amounts intended for a specific purpose by the Board of Aldermen that has been delegated authority to assign amounts. This fund balance classification reflects funds assigned for capital projects.
- e. Unassigned Fund Balance – consists of any remaining fund balance that has not been reported in any other classification.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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.

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.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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.

Interfund Activity

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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.

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, 2012:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Total</u>
Bonds Payable, March 31, 2011	\$6,220,000	\$3,035,617	\$9,255,617
Bonds Issued	-	-	-
Bonds Retired – Regular	(465,000)	(327,273)	(792,273)
Adjustment	65,000	-	65,000
Bonds Payable, March 31, 2012	<u>\$5,820,000</u>	<u>\$2,708,344</u>	<u>\$8,528,344</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 3 – LONG-TERM DEBT – CONTINUED**

General Obligation Bonds payable at March 31, 2012, consist of:

General Obligation Bonds, Series 2006 due in varying installments through 2021	\$5,580,000
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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	240,000
Total General Obligation Bonds	<u>\$5,820,000</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%	\$ 290,000
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Water and Pollution Control Bonds due in varying installments through 2023	1,778,344
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Waterworks and Sewerage System Refunding Revenue Bonds, Series 2004	640,000
Total Revenue Bonds	<u>\$2,708,344</u>

Total Bonds Payable	<u>\$8,528,344</u>
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General Obligation Bonds – 2006

	<u>Principal</u>	<u>Interest</u>
2013	\$ 450,000	\$ 231,656
2014	490,000	213,098
2015	525,000	192,881
2016	570,000	171,225
2017	615,000	147,000
2018 – 2021	2,930,000	339,500
	<u>\$5,580,000</u>	<u>\$1,295,360</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 3 – LONG-TERM DEBT – CONTINUED**

General Obligation Series 1997 Bonds

Due <u>March 1</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 45,000	\$ 12,812
2014	50,000	10,506
2015	50,000	7,944
2016	50,000	5,380
2017	<u>45,000</u>	<u>2,819</u>
	<u>\$ 240,000</u>	<u>\$ 39,461</u>

1996 Combined Waterworks and Sewerage System Revenue Bonds (SRF)

Due <u>January 1</u>	<u>Principal</u>	<u>Interest</u>
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>\$ 290,000</u>	<u>\$ 44,250</u>

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

Due <u>July 1</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 119,204	\$ 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>\$1,778,344</u>	<u>\$ 533,982</u>



**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 3 – LONG-TERM DEBT – CONTINUED**

2004 Waterworks and Sewerage System Refunding Revenue Bonds

Due November 1	<u>Principal</u>	<u>Interest</u>
2013	\$ 150,000	\$ 24,695
2014	160,000	19,370
2015	160,000	13,370
2016	<u>170,000</u>	<u>6,970</u>
	<u>\$ 640,000</u>	<u>\$ 64,405</u>

An adjustment of \$65,000 was made to the general obligation debt and an offsetting adjustment was made to the lease obligation debt. There was no change in the total indebtedness of the City.

**NOTE 4 – LEASE COMMITMENTS**

The following is a summary of lease transactions for the year ended March 31, 2012:

Capital Lease Obligations Payable, March 31, 2011	\$2,637,623
Capital Lease Obligation Retired	(261,397)
Adjustments	<u>(65,000)</u>
Capital Lease Obligations Payable, March 31, 2012	<u>\$2,311,226</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>
2013	\$ 10,000	\$ 9,460
2014	10,000	8,910
2015	11,000	8,333
2016	11,000	7,727
2017	12,000	7,095
2018 – 2025	<u>123,000</u>	<u>28,828</u>
	<u>\$ 177,000</u>	<u>\$ 70,353</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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>
2013	\$ 110,000	\$ 33,878
2014	120,000	28,675
2015	125,000	23,125
2016	130,000	17,228
2017	135,000	11,216
2018	140,000	4,856
	<u>\$ 760,000</u>	<u>\$ 118,978</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>
2013	\$ 25,000	\$ 11,281
2014	25,000	10,093
2015	30,000	8,787
2016	30,000	7,362
2017	30,000	5,937
2018 – 2020	110,000	8,076
	<u>\$ 250,000</u>	<u>\$ 51,536</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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>
2013	\$ 64,000	\$ 6,937
2014	70,000	3,977
2015	16,000	740
	<u>\$ 150,000</u>	<u>\$ 11,654</u>

Pavilion

During fiscal 2011, the City entered into a lease purchase of a pavilion for the amphitheater. The principal amount of the lease was \$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>
2013	\$ 8,434	\$ 4,114
2014	8,825	3,724
2015	9,222	3,327
2016	9,637	2,912
2017	10,064	2,485
2018 to 2021	45,017	5,179
	<u>\$ 91,199</u>	<u>\$ 21,741</u>

**CITY OF KEARNEY, MISSOURI  
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED  
MARCH 31, 2012**

**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%.

Future payments due under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 49,280	\$ 33,484
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>\$ 883,027</u>	<u>\$ 260,622</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.

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.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 5 – PENSION PLAN – CONTINUED**

Funding Status

Full-time employees of the City of Kearney do not contribute to the pension plan. The June 30<sup>th</sup> statutorily required contribution rates are 11.8% (General) and 13.3% (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	\$ 193,966
Interest on Net Pension Obligation	562
Adjustment to Annual Required Contribution	<u>(533)</u>
Annual Pension Cost	193,995
Actual Contributions	<u>193,966</u>
Increase (Decrease) in NPO	29
NPO Beginning of Year	<u>7,750</u>
NPO End of the Year	<u><u>\$ 7,779</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2010, and February 28, 2011, annual actuarial valuations using the entry age actuarial cost method. The actuarial assumptions as of February 29, 2012, included (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period as of February 28, 2010, was 22 years for the General division and 25 years for the Police division. The amortization period as of February 28, 2011, was 21 years for the General division and 21 years for the Police division.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 5 – PENSION PLAN – CONTINUED**

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/10	\$167,913	98.8%	\$ 2,015
06/30/11	\$184,212	96.9%	\$ 7,750
06/30/12	\$193,995	100.0%	\$ 7,779

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
	Actuarial	Entry Age	Unfunded		Annual	[(b-a)/c]
	Valuation	Actuarial	Accrued	Funded	Covered	Percentage of
<u>Date</u>	<u>of Assets</u>	<u>Liability</u>	<u>(UAL)</u>	<u>Ratio</u>	<u>Payroll</u>	<u>Covered</u>
02/28/10	\$2,191,220	\$3,004,777	\$813,557	73%	\$1,506,380	54%
02/28/11	\$2,527,248	\$3,348,858	\$821,610	75%	\$1,552,652	53%
02/29/12	\$2,976,714	\$3,530,927	\$554,213	84%	\$1,553,218	36%

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, 2011, 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, 2012**

**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, 2011	\$ 598,000
Bonds Retired	<u>(114,000)</u>
Bonds Payable, March 31, 2012	<u>\$ 484,000</u>

1996 and 2002 Tax Increment Bonds

<u>Due March 1</u>	<u>Principal Amount</u>
2013	\$ 100,000
2014	107,000
2015	182,000
2016	<u>95,000</u>
	<u>\$ 484,000</u>

**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

Deferred Compensation Plan

City employees may defer a portion of their compensation under the City's sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 7 – COMMITMENTS AND CONTINGENCIES – CONTINUED**

The laws governing deferred compensation plans require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Because the assets held under these plans are not the City's property and are not subject to Board control, they have been excluded from these financial statements.

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 \$111,201 which included thirteen monthly payments based upon the contract requirements. In addition the City paid \$64,282 for water purchased from Kansas City.

**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, 2011, on which the 2011 levy was based, was \$128,078,733. In the year ended March 31, 2012, the City collected \$985,894 of property taxes that were billed in the period.



**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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, 2012 and \$0.58 for the year ended March 31, 2011. The City's debt service tax levy per \$100 assessed valuation was \$.05 for the year ended March 31, 2012 and March 31, 2011.

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, 2012, certain grant expenditures have not been audited by grantor governments, but

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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 \$6,274,241 and the bank balances totaled \$6,297,808. The difference of \$23,567 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>\$6,297,808</u>
Total Value of Securities Pledged	\$9,269,905
FDIC Insurance	<u>250,000</u>
	<u>\$9,519,905</u>
Insurance and Pledged Securities in Excess of Deposits	<u>\$3,222,097</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the City's practice to place operating funds in either money market accounts or savings accounts. All longer-term investments are placed in certificates of deposit having relatively short maturities. These consist of funds whose use is restricted and are unlikely to be needed prior to maturity (e.g. Sewer Debt Reserve).

Credit Risk

Missouri statutes prohibit municipalities from investing in derivative, leveraged, or speculative securities. City agents invest funds for restricted debt reserves and unexpended debt proceeds in money market funds.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. As of March 31, 2012, the carrying amount of the City's deposits was less than pledged securities plus federal deposit insurance. It is City practice to require banks to provide collateral equal to any deposited amounts exceeding federal depository insurance limits.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At March 31, 2012, the City's investments were not exposed to custodial credit risk.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 13 – CAPITAL EXPENDITURES**

Capital Asset activity for the year ended March 31, 2012, was as follows:

<u>General Government</u>	<u>03-31-11</u>	<u>Additions</u>	<u>Subtraction</u>	<u>03-31-12</u>
Governmental Activities				
Assets Not Subject to Depreciation				
Land	\$ 564,419	\$ -	\$ -	\$ 564,419
Infrastructure	5,706,805	183,050	-	5,889,855
WIP – Jesse James Pavilion	125,034	-	125,034	-
Assets Subject to Depreciation				
Buildings	2,406,671	395,735	-	2,802,406
Improvements	2,019,629	17,648	-	2,037,277
Machinery and Equipment	<u>1,125,048</u>	<u>78,593</u>	<u>68,997</u>	<u>1,134,644</u>
Total at Historical Cost	11,947,606	675,026	194,031	12,428,601
Less Accumulated Depreciation				
Buildings	206,268	38,071	-	244,339
Improvements	383,390	98,916	-	482,306
Machinery and Equipment	<u>910,477</u>	<u>113,873</u>	<u>65,608</u>	<u>958,742</u>
Total Accum. Depreciation	<u>1,500,135</u>	<u>250,860</u>	<u>65,608</u>	<u>1,685,387</u>
Total Capital Assets, Net	<u>\$10,447,471</u>	<u>\$ 424,166</u>	<u>\$ 128,423</u>	<u>\$10,743,214</u>
 <u>Water and Sewer</u>	 <u>03-31-11</u>	 <u>Additions</u>	 <u>Subtraction</u>	 <u>03-31-12</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>10,872,375</u>	<u>284,817</u>	<u>-</u>	<u>11,157,192</u>
Total at Historical Cost	12,294,100	284,817	-	12,578,917
Less Accumulated Depreciation				
Buildings	97,431	7,805	-	105,236
Machinery and Equipment	540,741	15,048	-	555,789
Water and Sewer Lines and Improvements	<u>3,167,143</u>	<u>240,470</u>	<u>-</u>	<u>3,407,613</u>
Total Accum. Depreciation	<u>3,805,315</u>	<u>263,323</u>	<u>-</u>	<u>4,068,638</u>
Total Capital Assets, Net	<u>\$ 8,488,785</u>	<u>\$ 21,494</u>	<u>\$ -</u>	<u>\$ 8,510,279</u>

Depreciation has been recorded on the capital assets as follows:

Government Activities	\$ 250,860
Business Activities:	
Water and Sewer Fund	<u>263,323</u>
	<u>\$ 514,183</u>

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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, 2012.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**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)	(Level 3)
<i>March 31, 2012</i>	<u>Fair Value</u>			
Certificates of Deposit	\$ 639,350	\$ 639,350	\$ -	\$ -
Pooled Government Securities	<u>30,555</u>	<u>30,555</u>	-	-
	<u>\$ 669,905</u>	<u>\$ 669,905</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 15 – TAX ANTICIPATION NOTE**

The City has borrowed \$60,000 on a tax anticipation note due April 1, 2013. The amount is reflected as a current liability on the financial statements.

**NOTE 16 – INTER-FUND TRANSACTIONS**

Inter-fund transfers for the year ended March 31, 2012, consisted of the following:

Transfer from Special Revenue Fund	<u>\$ (1,999,918)</u>
Transfer from Enterprise Fund	<u>\$ (32,465)</u>
Transfer to Debt Service Fund	<u>\$ 683,638</u>
Transfer to Capital Project Fund	<u>\$ 166,692</u>
Transfer to General Fund (Net)	<u>\$ 1,181,402</u>
Other Transfers	<u>\$ 651</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF KEARNEY, MISSOURI**  
**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**MARCH 31, 2012**

**NOTE 17 – UPCOMING ACCOUNTING PRONOUNCEMENTS**

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The statement will be effective for the City's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The statement will be effective for the City's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will affect the format and reporting of the balance sheet at the government-wide level and also at the fund level.

## **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, 2012**

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, 2012**

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, 2012**

	Operating	Cemetery	Police	Park	DWI Drug	Park Capital	Total	Budget	Over/Under Budget
<b>Revenues</b>									
Taxes: Property, Sales, etc.	\$ 1,815,820	\$ -	\$ -	\$ 60,873	\$ -	\$ -	\$ 1,876,693	\$ 1,817,200	\$ 59,493
Licenses, Permits, Fees, etc.	47,872	-	-	-	-	163	48,035	50,250	(2,215)
Interest	1,818	236	8	-	-	173	2,235	12,459	(10,224)
Utilities/Trash	288,431	-	-	-	-	-	288,431	293,000	(4,569)
Fines	116,300	-	-	-	-	-	116,300	150,000	(33,700)
Miscellaneous	72,984	5,363	2,734	29,954	2,276	-	113,311	147,677	(34,366)
Cricket Antenna Lease	-	-	-	-	-	10,013	10,013	19,200	(9,187)
Amphitheater Revenue	-	-	-	164,302	-	-	164,302	165,000	(698)
Billboard Lease	-	-	-	22,800	-	-	22,800	21,600	1,200
Grants/Donations	136,137	-	-	-	-	-	136,137	108,829	27,308
<b>Total Revenues</b>	<b>2,479,362</b>	<b>5,599</b>	<b>2,742</b>	<b>277,929</b>	<b>2,276</b>	<b>10,349</b>	<b>2,778,257</b>	<b>2,785,215</b>	<b>(6,958)</b>
<b>Expenditures</b>									
Personnel	1,561,456	-	-	156,036	-	-	1,717,492	1,764,790	47,298
Contractual Services	1,285,936	-	-	336,650	-	-	1,622,586	1,659,532	36,946
Commodities/Supplies	85,046	-	-	8,793	-	-	93,839	127,800	33,961
Capital	234,718	-	-	59,692	2,927	-	297,337	244,475	(52,862)
Principal	-	-	-	8,800	-	87,000	95,800	95,800	-
Interest	-	-	-	3,748	-	20,840	24,588	24,487	(101)
Miscellaneous	3,103	-	-	8,700	-	-	11,803	10,000	(1,803)
<b>Total Expenditures</b>	<b>3,170,259</b>	<b>-</b>	<b>-</b>	<b>582,419</b>	<b>2,927</b>	<b>107,840</b>	<b>3,863,445</b>	<b>3,926,884</b>	<b>63,439</b>
<b>Revenues Collected Over</b>	<b>(690,897)</b>	<b>5,599</b>	<b>2,742</b>	<b>(304,490)</b>	<b>(651)</b>	<b>(97,491)</b>	<b>(1,085,188)</b>	<b>(1,141,669)</b>	<b>56,481</b>
<b>(Under) Expenditures Paid</b>									
Transfers and Financing Transactions									
Transfers To	1,193,440	-	-	308,280	-	84,365	1,586,085	1,590,094	(4,009)
Transfers From	(404,692)	-	-	-	-	-	(404,692)	(408,692)	4,000
<b>Total Transfers and Financing Transactions</b>	<b>788,748</b>	<b>-</b>	<b>-</b>	<b>308,280</b>	<b>-</b>	<b>84,365</b>	<b>1,181,393</b>	<b>1,181,402</b>	<b>(9)</b>
<b>Revenues Collected Over (Under)</b>	<b>\$ 97,851</b>	<b>\$ 5,599</b>	<b>\$ 2,742</b>	<b>\$ 3,790</b>	<b>\$ (651)</b>	<b>\$ (13,126)</b>	<b>\$ 96,205</b>	<b>\$ 39,733</b>	<b>\$ 56,472</b>
<b>Expenditures and Transfers</b>									

**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, 2012**

	Sales Tax	Transportation Sales Tax	Capital Improvement Sales Tax	Total	Budget	Over (Under) Budget
<b>Revenues</b>						
Sales Taxes	\$ 1,028,876	\$ 465,962	\$ 461,238	\$ 1,956,076	\$ 1,941,200	\$ 14,876
Interest	847	476	183	1,506	7,600	(6,094)
Total Revenues	1,029,723	466,438	461,421	1,957,582	1,948,800	8,782
<b>Expenditures</b>						
Contractual Services	-	-	23,142	23,142	15,000	(8,142)
Total Expenditures	-	-	23,142	23,142	15,000	(8,142)
Revenues Collected Over (Under) Expenditures	1,029,723	466,438	438,279	1,934,440	1,933,800	640
Transfers and Financing Transactions Transfers To	-	-	-	-	44,920	(44,920)
Transfers From	(1,044,230)	(494,285)	(461,403)	(1,999,918)	(1,978,720)	(21,198)
Total Transfers and Financing Transactions	(1,044,230)	(494,285)	(461,403)	(1,999,918)	(1,933,800)	(66,118)
Revenues Collected Over (Under) Expenditures and Transfers	\$ (14,507)	\$ (27,847)	\$ (23,124)	\$ (65,478)	\$ -	\$ (65,478)

**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, 2012**

	Water and Sewer Obligation	Sewer Plant Obligation	G.O. Hwy Bonds	Total	Budget	Over (Under) Budget
<b>Revenues</b>						
Property Taxes	\$ 66,425	\$ -	\$ -	\$ 66,425	\$ 60,717	\$ 5,708
Interest	23	-	687	710	1,900	(1,190)
Total Revenue	66,448	-	687	67,135	62,617	4,518
<b>Expenditures</b>						
Principal	45,000	-	420,000	465,000	460,000	(5,000)
Interest	1,116	-	248,981	250,097	253,781	3,684
Fees	1,566	-	497	2,063	2,248	185
Contractual Services	5,161	-	-	5,161	5,200	39
Total Expenditures	52,843	-	669,478	722,321	721,229	(1,092)
Revenues Collected Over (Under) Expenditures	13,605	-	(668,791)	(655,186)	(658,612)	3,426
Transfers and Financing Transactions						
Transfers To	-	-	717,638	717,638	668,600	49,038
Transfers From	(34,000)	-	-	(34,000)	(9,000)	(25,000)
Total Transfers and Financing Transactions	(34,000)	-	717,638	683,638	659,600	24,038
Revenues Collected Over (Under) Expenditures and Transfers	\$ (20,395)	\$ -	\$ 48,847	\$ 28,452	\$ 988	\$ 27,464

**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, 2012**

	Sewer Capital Improvements	33 Hwy Construction	Wireless Capital Improvements	Downtown Improvements	Police Station Construction	Total	Budget	Over (Under) Budget
<b>Revenues</b>								
Taxes - Franchise	\$ -	\$ -	\$ 128,028	\$ -	\$ -	\$ 128,028	\$ 194,532	\$ (66,504)
Licenses and Permits	1,335	-	-	-	-	1,335	15,000	(13,665)
Interest	414	2,483	117	-	-	3,014	10,602	(7,588)
Grants	-	-	-	-	-	-	500,000	(500,000)
Miscellaneous	-	-	-	-	-	-	87,563	(87,563)
Sprint Antenna Lease	-	-	-	23,206	-	23,206	22,700	506
Total Revenues	1,749	2,483	128,145	23,206	-	155,583	830,397	(674,814)
<b>Expenditures</b>								
Personnel Services	-	-	-	-	-	-	52,381	52,381
Capital Improvements	-	-	208,565	-	14,545	223,110	1,519,712	1,296,602
Contractual Services	-	485,050	-	288	67	485,405	613,993	128,588
Principal	110,000	-	55,596	10,000	-	175,596	171,275	(4,321)
Interest	38,966	-	42,216	9,735	-	90,917	87,712	(3,205)
Total Expenditures	148,966	485,050	306,377	20,023	14,612	975,028	2,445,073	1,470,045
Revenues Collected Over (Under) Expenditures	(147,217)	(482,567)	(178,232)	3,183	(14,612)	(819,445)	(1,614,676)	795,231
Transfers and Financing Transactions								
Transfers To	132,465	-	41,420	-	12,047	185,932	1,608,681	(1,422,749)
Transfers From	-	-	-	(19,240)	-	(19,240)	(19,249)	9
Tax Anticipation Note	-	-	-	-	-	-	-	-
Received	-	-	60,000	-	-	60,000	60,000	-
Paid	-	-	(85,000)	-	-	(85,000)	(85,000)	-
Total Transfers and Financing Transactions	132,465	-	16,420	(19,240)	12,047	141,692	1,564,432	(1,422,740)
Revenues Collected Over (Under) Expenditures and Transfers	\$ (14,752)	\$ (482,567)	\$ (161,812)	\$ (16,057)	\$ (2,565)	\$ (677,753)	\$ (50,244)	\$ (627,509)