

Management Letter

Honorable Mayor and Board of Aldermen
City of Willard
Willard, Missouri

In planning and performing our audit of the financial statements of the City of Willard, Missouri for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. For example, the same person performs the accounts payable function as well as co-signs the checks. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

During the performance of our audit we observed several other areas of your organization not related to the internal control structure. The following suggestions hopefully will improve the efficiency and accuracy of your financial and statistical records.

2002 and 2003 Revenue Bond Ordinances

The water and sewerage system revenue bond ordinances require that operating revenues be charged at a high enough rate to cover expenses and 110% of annual debt service requirements. For the year ended December 31, 2004, the City expended higher than normal amounts for repairs to the system;

therefore, the City was not in compliance with meeting the ordinance covenants. The City has discussed this issue in the Management, Discussion & Analysis on page 12 of the financial statements.

Summary

We appreciate the opportunity to present these comments and suggestions. We can discuss these matters further at your convenience and provide implementation assistance for any changes or improvements you may require. This report is intended solely for the information and use of the board of directors and management.

February 17, 2005

CITY OF WILLARD, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2004

CITY OF WILLARD, MISSOURI
 Audit Report
 December 31, 2004

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Independent Auditor's Report

Honorable Mayor and Board of Aldermen
City of Willard
Willard, Missouri

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willard, Missouri as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Willard, Missouri's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, City of Willard, Missouri prepares its financial statements on the 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willard, Missouri as of December 31, 2004, and the respective changes in financial position – cash basis thereof for the year then ended on the basis of accounting described in Note 1.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of December 31, 2004.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

February 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The City of Willard's annual financial report presents management's narrative discussion and analysis of the City's overall financial performance during the fiscal year ended December 31, 2004. This is the first year of reporting in conformance with the Governmental Accounting Standards Board's (GASB) Statement No. 34, comparative information for the previous fiscal year is not provided. Please read this in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

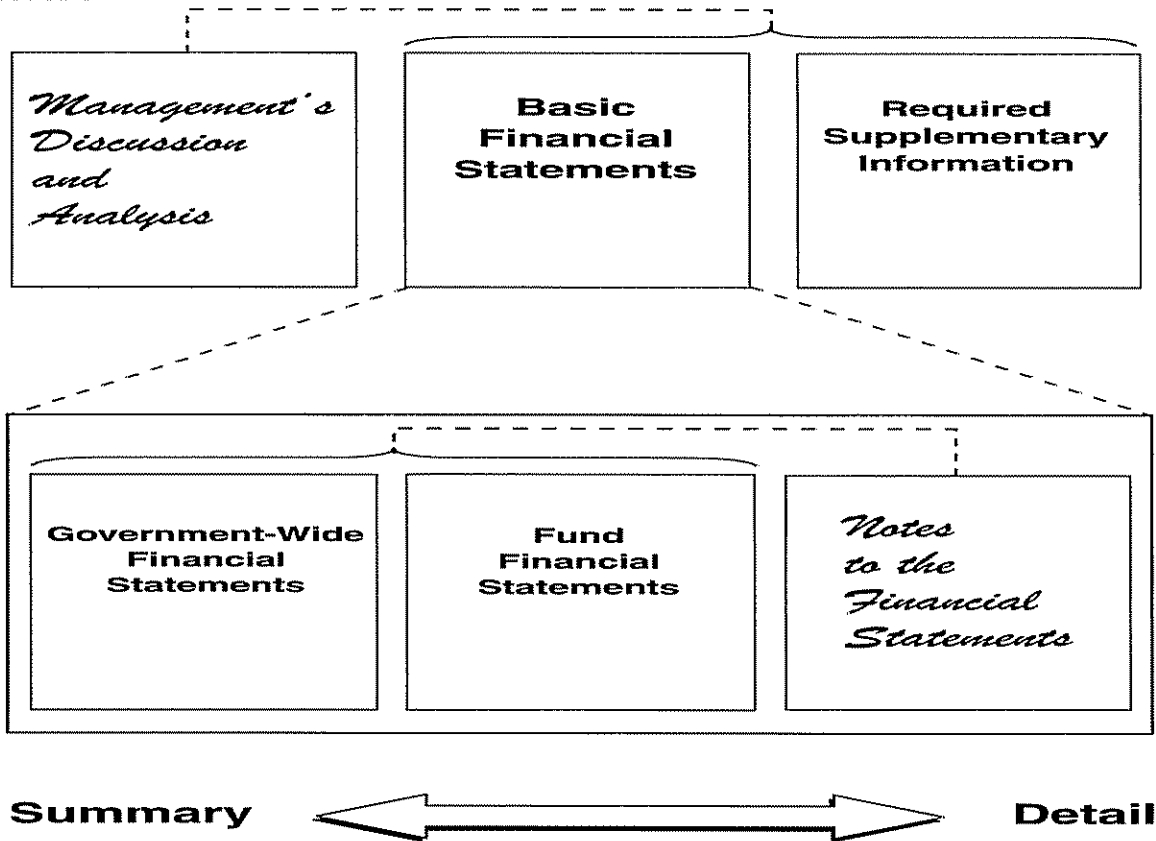
- The City's total combined net assets were \$6,522,594 on December 31, 2004, a decrease of \$4,179 over the previous fiscal year combined net assets of \$6,526,773.
- During the year, the City's expenses were \$4,179 more than the \$2,494,642 generated in taxes, program revenues and other revenues for government activities.
- Income, City wide was up 17% due primarily to increases in sales tax receipts.
- Expenses, City wide, were up 42% due to capital improvements in the water and sewer fund.
- Proprietary Fund net assets total \$4,961,602.
- Governmental Fund net assets total \$1,560,992.
- At the close of the fiscal year, the fund balances for the Governmental Funds were \$618,474 and the Proprietary Fund was \$4,961,602.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial statement consists of three parts; management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental fund's statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses.

Figure A-1



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Major Features of the City's Government-wide and Fund Financial Statements

Figure A-2 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 statements.

Figure A-2

Fund Statements				
Type of statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses; self insurance	Instances in which the district is the trustee or agent for someone else's resources
	Statement of net assets	Balance sheet	Statement of net assets	Statement of fiduciary
Required financial statements	Statement of activities	Statement of revenues expenditures & changes in fund balances	Statement of revenues expenses and changes in fund net assets	Statement of changes in fiduciary net assets
			Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic focus	Modified accrual accounting and current	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year regardless of when cash is received or paid

Figure A-2 displays a summary chart relating to the Financial Statements. It displays the type of statement, their measurement focus, the specific statements required, the basis of accounting used for each statement, the type of asset and liability information and type of inflow and outflow information required for each fund type. This is meant to give a quick overview of the purpose of each statement type.

Government-wide Financial Statements

The government-wide financial statements provide information about the City as a whole using accounting methods similar to those used by private-sector companies.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, administration and parks. Taxes, fees, charges for services, and grants finance most of these activities. The business-type activities of the City include the water and sewer operations of the City.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds; not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City maintains the following types of funds:

- **Governmental Funds:** Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them. The City adopts an annual appropriated budget for its General Fund and Special Revenue Fund. A Budgetary comparison schedule has been provided for the General Fund and Park Fund to demonstrate compliance with the budget and is presented as required supplemental information.
- **Proprietary Funds:** Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two different types of proprietary funds, enterprise and internal service funds. The City currently uses only the enterprise fund type to account for its water and sewer operations.
 - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.
 - If used, Internal service funds are used to accumulate and allocate costs internally among the City's various functions.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information, which consist of budget comparisons for the General Fund and its other major governmental fund, the Park fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets were \$6,522,594 at December 31, 2004. (See Table A-1).

The largest portion of the City's net assets (82%) reflects investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets, that is still outstanding. The City uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A very small portion of the City's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$780,723, or 12%) may be used to meet the City's ongoing obligations to citizens and creditors.

Table A-1

City of Willard Government-wide Statement of Net Assets

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current and other assets	\$ 619,582	\$ 670,010	\$ 1,289,592
Capital assets	3,024,518	5,099,757	8,124,275
Total Assets	<u>3,644,100</u>	<u>5,769,767</u>	<u>9,413,867</u>
LIABILITIES			
Other Liabilities	89,108	214,479	303,587
Long-term Debt	1,994,000	593,686	2,587,686
Total Liabilities	<u>2,083,108</u>	<u>808,165</u>	<u>2,891,273</u>
NET ASSETS			
Investment in Capital Assets, net of related debt	942,518	4,388,170	5,330,688
Restricted	153,665	257,518	411,183
Unrestricted	464,809	315,914	780,723
Total Net Assets	<u><u>\$ 1,560,992</u></u>	<u><u>\$ 4,961,602</u></u>	<u><u>\$ 6,522,594</u></u>

Governmental activities increased the City's total net assets by \$74,440, resulting in net assets from governmental activities of \$1,560,992. Primary segments of this increase were as follows:

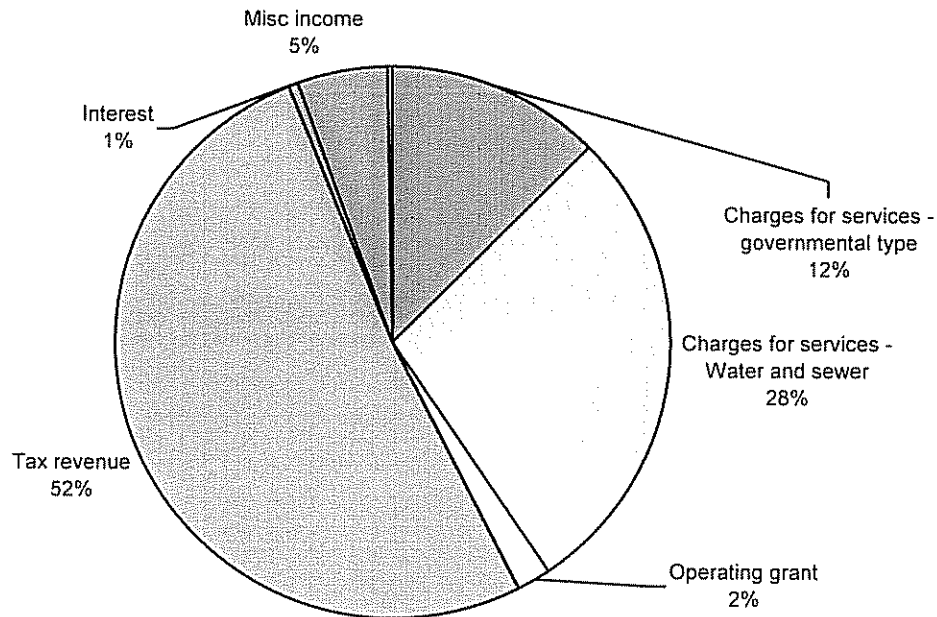
- A loss on asset disposal of \$6,700 primarily from the sale of outdated equipment.
- Despite the overall negative economic condition state wide, the City was still able to enjoy a growth total in overall tax collections, which include property taxes, franchise taxes and the general, stormwater/park, capital improvements, and transportation sales taxes, to \$1,287,638. This was approximately \$123,772 above the previous year's collections.

Business-type activities decreased the City's total net assets by \$78,619, resulting in net assets from business-type activities of \$4,961,602. Primary segments of this increase were as follows:

- Improvements and repairs to the water and sewer equipment and system was the main reason for the decrease during the year..

The City's total revenues are represented in Table A-2.

Table A-2



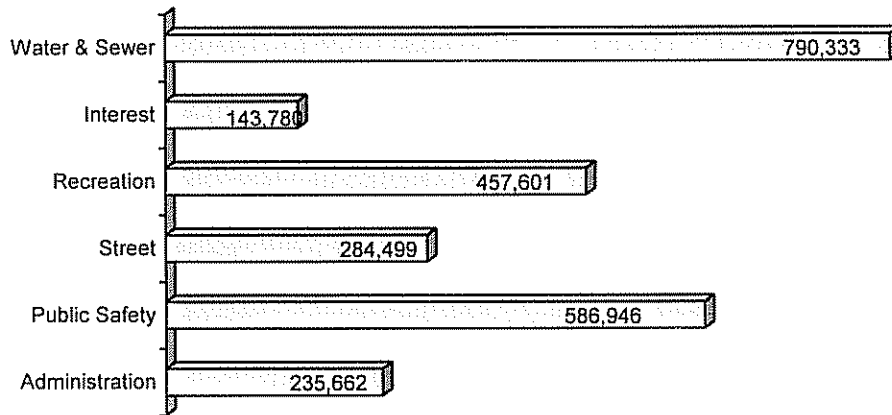
The following table (Table A-3) provides a summary of the City's operations for the year ended Decmeber 31, 2004.

Table A-3

**CITY OF WILLARD
GOVERNMENT WIDE STATEMENT OF ACTIVITIES**

	<u>Governmental Activities</u>	<u>Business-Type Activitites</u>	<u>Total</u>
REVENUES			
Program Revenues			
Charges for Services	\$ 311,725	\$ 708,852	\$ 1,020,577
Operating Grants & Contributions	44,053	-	44,053
Capital Grants & Contributions	-	1,353	1,353
General Revenues			
Taxes	1,287,638	-	1,287,638
Interest & Investment income	6,271	10,429	16,700
Miscellaneous	108,809	22,212	131,021
Gain(Loss) on Asset Disposal	(6,700)	-	(6,700)
Total Revenues	<u>1,751,796</u>	<u>742,846</u>	<u>2,494,642</u>
EXPENSES			
Administration	235,662		235,662
Public Safety	586,946		586,946
Street	284,499		284,499
Recreation	457,601		457,601
Interest on Long-Term Debt	112,648	31,132	143,780
Water and Sewer		790,333	790,333
Total Expenses	<u>1,677,356</u>	<u>821,465</u>	<u>2,498,821</u>
INCREASE (DECREASE) IN NET ASSETS	74,440	(78,619)	(4,179)
NET ASSETS AT BEGINNING OF YEAR	<u>1,486,552</u>	<u>5,040,221</u>	<u>6,526,773</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,560,992</u>	<u>\$ 4,961,602</u>	<u>\$ 6,522,594</u>

Table A-4 presents the total cost of each of the City's departments.



- The cost of all governmental activities in 2004 was \$2,498,821.
- Some of the costs were paid by those who directly benefited from the programs; such as water and sewer services, \$708,852, or licenses, fines and park programs of \$311,725;
- Or, by grants of \$44,053.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Willard uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The General Fund is the chief operating fund of the City of Willard. The General Fund includes departments of General City Government, Public Safety, Streets, Community Building, Emergency Management, and Planning and Development. All of these activities are provided to, and benefit all of the citizens equally and equitably. At the end of the current fiscal year, the total fund balance of the General fund was \$415,387, a decrease of \$21,061 over the beginning balance of \$436,448.

The Park Fund was established by the City to account for the revenue and expenses associated with the Park and Recreation activities of the City of Willard. At the end of the current fiscal year, the total fund balance of the Park Fund was \$203,087, a decrease of \$75,478 over the beginning fund balance of \$278,565.

Proprietary Funds

Combined Water and Sewer Funds – The Combined Water and Sewer Funds are based on a User Fee system where the individuals and businesses utilizing the service pay a fee based upon a portion of the estimated cost of operation of the system. At the end of the current fiscal year, the total fund balance of the Water and Sewer Fund was \$4,961,602 a decrease of \$78,619 over the beginning balance of \$4,961,602. This figure includes contributed capital.

General Fund Budgetary Highlights

Over the course of the year, the City revised the budget two (2) times . Even with these adjustments, actual expenditures were below final budget amounts in the General Fund. Total expenditures in the General Fund were \$1,161,014 and budgeted expenditures were \$1,194,886.

On the revenue side, the budgeted revenues were \$967,100, with actual revenues in the General Fund totaling \$1,066,362. As noted earlier:

- Sales tax, fuel tax and franchise collections were more than expected.
- Payments of taxes exceeded projections.
- Increased park and pool receipts, fines and forfeitures and grant revenues resulted in a positive variance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of December 31, 2004, amounted to \$8,124,275 (net of accumulated depreciation). This investment in capital assets included land, buildings, improvements, machinery and equipment and water & sewer system. Reporting of the City's major infrastructure assets extends only to the assets which were completed in the current fiscal year, in which prior year costs for such projects were included. The City will be including the remaining infrastructure assets acquired in prior fiscal years in response to GASB Statement No. 34 in subsequent reports. The City's fiscal year 2004 capital budget allocated \$265,600 for capital equipment and projects, including: a replacement police vehicle, court software, skid steer loader, snow plow, dump bed, public works truck, radio read meter system, mower, park truck, and floor buffer. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the City had \$2,777,000 in long-term obligations outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5

Long Term Debt Obligations

	31-Dec-04
Waterworks Revenue	\$260,000
01 Certificates - Park	1,500,000
92 Certificates - Park	380,000
Police Bldg - Lease	202,000
Utility Bonds	435,000
Totals	<u>\$2,777,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Total General Revenue Fund revenues are projected to increase approximately 5% from the budgeted amount for Fiscal 2004. The current budget for 2005 will be amended to reflect this increase. Increases are projected in all areas of revenue due to the growth of the City, residential and commercial. Property tax rates for 2005, set in August, should maintain the same approximate levy. Increases will be due to new housing starts and valuation increases. Motor fuel funds are paid each month per capita and will not increase significantly until a census amendment is done or the new census in 2010. Sales tax revenues will continue to increase due to population growth and new commercial development.

Total expenditures budgeted for Fiscal 2005 are \$2,667,327. Two new departments were added to the General Fund in 2005 – Emergency Management and Planning/Development. City personnel increased in 2004 due to increased workloads caused by growth in the City. New equipment in each department continues to be a need. Capital and capital projects are being proposed based on the needs presented by the Department Heads.

The 2005 Budget for the General Fund provides for capital equipment for the various departments to maintain current service levels. Total capital expenditures in the fund amounts to \$44,200. The Park Fund budget provides \$74,200. for new equipment and capital projects. Scheduled projects include baseball field build-up, replace lifeguard stands, playground equipment, software, and siding for North Park Buildings.

During 2004, the City invested large amounts in repairs and upgrades of the utility system. These expenditures have caused the City to be out of compliance with the bond ordinance. As per the ordinance, the City is to charge utility rates to generate revenue that covers the cost of operating expenses and the principal and interest on the bonds for the year. The City was \$8,472 short in revenues. Also, the net revenues are not to be less than 100% of the annual debt service requirements. The City is \$20,085 short in revenues.

A water rate increase was put into effect mid-year 2004. This will cover a portion of the shortage. The sewer rates for the City were last increase in 1993. The current sewer rates are under investigation to determine the appropriate rate to recommend to the Board of Aldermen in 2005 for the mid-year budget amendment.

If these estimates are realized, the City's budgetary general fund balance is not expected to change appreciably by the close of 2005.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 or City Administrator's Office.

CITY OF WILLARD, MISSOURI
Government-wide Statement of Net Assets - Cash Basis
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 180,421	\$ 13,205	\$ 193,626
Investments	79,310	325,821	405,131
Receivables			
Taxes	142,867		142,867
Other		316	316
Due from other funds	63,319		63,319
 Restricted Assets			
Cash and cash equivalents	153,665		153,665
Investments		330,668	330,668
 Capital Assets:			
Land and improvements	239,688	60,591	300,279
Building and improvements	1,980,232		1,980,232
Water and sewer system		6,699,263	6,699,263
Equipment	1,379,149	107,536	1,486,685
Construction in progress		3,450	3,450
Accumulated depreciation	(574,551)	(1,787,670)	(2,362,221)
 Bond issuance costs, net		16,587	16,587
 TOTAL ASSETS	<u>3,644,100</u>	<u>5,769,767</u>	<u>9,413,867</u>
LIABILITIES			
Current Liabilities:			
Accrued expenses		1,742	1,742
Customer deposits	1,108	71,950	73,058
Due to other funds		63,319	63,319
Current portion of long-term debt	88,000	77,468	165,468
Total Current Liabilities	<u>89,108</u>	<u>214,479</u>	<u>303,587</u>
Long-term Liabilities, net of current portion:			
Long-term debt	1,994,000		1,994,000
Revenue bonds payable		615,000	615,000
Deferred amount on refinancing		(21,314)	(21,314)
Total Long-term Liabilities	<u>1,994,000</u>	<u>593,686</u>	<u>2,587,686</u>
 TOTAL LIABILITIES	<u>2,083,108</u>	<u>808,165</u>	<u>2,891,273</u>
 NET ASSETS			
Invested in capital assets, net of related debt	942,518	4,388,170	5,330,688
Restricted	153,665	257,518	411,183
Unrestricted	464,809	315,914	780,723
 TOTAL NET ASSETS	<u>\$ 1,560,992</u>	<u>\$ 4,961,602</u>	<u>\$ 6,522,594</u>

See accompanying notes to basic financial statements.

CITY OF WILLARD, MISSOURI
Government-wide Statement of Activities - Cash Basis
For the year ended December 31, 2004

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Administration	\$ 235,662	\$ 34,674			\$ (200,988)	\$ (200,988)	
Public safety	586,946	83,274	44,053		(459,619)	(459,619)	
Street	284,499				(284,499)	(284,499)	
Recreation	457,601	193,777			(263,824)	(263,824)	
Interest on long-term debt	112,648				(112,648)	(112,648)	
Total governmental activities	<u>1,677,356</u>	<u>311,725</u>	<u>44,053</u>	<u>-</u>	<u>(1,321,578)</u>	<u>-</u>	<u>(1,321,578)</u>
Business-type activities							
Water and sewer	790,333	708,852		1,353	(80,128)	(80,128)	
Interest on long-term debt	31,132				(31,132)	(31,132)	
Total Business-type activities	<u>821,465</u>	<u>708,852</u>	<u>-</u>	<u>1,353</u>	<u>(111,260)</u>	<u>(111,260)</u>	
Total primary government	<u>\$ 2,498,821</u>	<u>\$ 1,020,577</u>	<u>\$ 44,053</u>	<u>\$ 1,353</u>	<u>(1,321,578)</u>	<u>(111,260)</u>	<u>(1,432,838)</u>
General Revenues:							
Taxes					1,287,638	-	1,287,638
Interest and Investment Earnings					6,271	10,429	16,700
Miscellaneous					108,809	22,212	131,021
Gain/(Loss) on asset disposal					(6,700)	-	(6,700)
Total General Revenues and transfers					<u>1,396,018</u>	<u>32,641</u>	<u>1,428,659</u>
Change in Net Assets					74,440	(78,619)	(4,179)
Net Assets at Beginning of Year					1,486,552	5,040,221	6,526,773
Net Assets at End of Year					<u>\$ 1,560,992</u>	<u>\$ 4,961,602</u>	<u>\$ 6,522,594</u>

See accompanying notes to basic financial statements.

CITY OF WILLARD, MISSOURI
 Balance Sheet - Cash Basis
 Governmental Funds
 December 31, 2004

	General Fund	Park Fund	Total Governmental Funds
ASSETS AND OTHER DEBITS			
Unrestricted Assets:			
Cash and cash equivalents	\$ 122,046	\$ 58,375	\$ 180,421
Investments	79,310		79,310
Receivables, net of allowance for doubtful accounts			
Taxes	110,007	32,860	142,867
Due from other funds	105,132		105,132
Restricted Assets:			
Cash and cash equivalents		153,665	153,665
TOTAL ASSETS AND OTHER DEBITS	\$ 416,495	\$ 244,900	\$ 661,395
LIABILITIES AND FUND BALANCES			
Due to other funds		\$ 41,813	\$ 41,813
Customer deposits	\$ 1,108		1,108
Total Liabilities	1,108	41,813	42,921
Fund Balances:			
Unreserved, reported in:			
General fund	415,387		415,387
Special revenue funds		49,422	49,422
Reserved, reported in:			
Special revenue funds		153,665	153,665
Total Fund balances	415,387	203,087	618,474
TOTAL LIABILITIES AND FUND BALANCES	\$ 416,495	\$ 244,900	\$ 661,395

CITY OF WILLARD, MISSOURI

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets - Cash Basis

December 31, 2004

Total fund balance - total governmental funds	\$ 618,474
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,024,518
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	(2,082,000)
Net assets of governmental activities	<u>\$ 1,560,992</u>

CITY OF WILLARD, MISSOURI
Statement of Revenues, Expenditures, and Changes in Fund Balances - Cash Basis
Governmental Funds
Year Ended December 31, 2004

	General Fund	Park Fund	Total Governmental Funds
REVENUES			
Tax revenues	\$ 806,304	\$ 481,334	\$ 1,287,638
License and permits	34,674		34,674
Fines and forfeitures	83,274		83,274
Charge for services		193,777	193,777
Intergovernmental revenues	44,053		44,053
Interest	4,204	2,067	6,271
Other	93,853	14,956	108,809
TOTAL REVENUES	1,066,362	692,134	1,758,496
EXPENDITURES			
Administrative	215,969		215,969
Public safety	559,575		559,575
Street	264,438		264,438
Recreation		410,242	410,242
Capital outlay	88,107	117,656	205,763
Debt service:			
Principal	22,000	65,000	87,000
Interest and fiscal fees	10,925	101,723	112,648
TOTAL EXPENDITURES	1,161,014	694,621	1,855,635
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(94,652)	(2,487)	(97,139)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	72,991	(72,991)	-
Sale of property and equipment	600		600
TOTAL OTHER FINANCING SOURCES (USES)	73,591	(72,991)	600
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(21,061)	(75,478)	(96,539)
FUND BALANCE (DEFICIT), January 1	436,448	278,565	715,013
FUND BALANCE (DEFICIT), December 31	\$ 415,387	\$ 203,087	\$ 618,474

CITY OF WILLARD, MISSOURI
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
 Of the Governmental funds to the Statement of Activities - Cash Basis
 Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$ (96,539)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	91,279
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	87,000
In the statement of activities, only the gain on the sale of the assets is reported, whereas in the governmental fund statement, only the proceeds are reported, as an increase in financial resources. Thus, the change in net assets differs from the change in fund balance.	(7,300)
Change in net assets of governmental activities	<u>\$ 74,440</u>

CITY OF WILLARD, MISSOURI
Statement of Net Assets - Cash Basis
Proprietary Funds
December 31, 2004

	<u>Water & Sewer</u>
ASSETS AND OTHER DEBITS	
Current assets:	
Cash and cash equivalents	\$ 13,205
Investments	325,821
Receivables, net of allowance for doubtful accounts:	
Other	<u>316</u>
Total current assets	339,342
Restricted assets:	
Investments	<u>330,668</u>
Capital Assets	
Land	60,591
Equipment	107,536
Water plant	2,156,336
Sewer plant	4,542,927
Construction in progress	3,450
Less accumulated depreciation	<u>(1,787,670)</u>
Net capital assets	5,083,170
Bond issuance costs, net	<u>16,587</u>
TOTAL ASSETS	<u><u>\$ 5,769,767</u></u>
 LIABILITIES	
Current Liabilities:	
Accrued expenses	\$ 1,742
Due to other funds	63,319
Water meter deposits	71,950
Current portion of long term debt	<u>77,468</u>
Total current liabilities	214,479
Noncurrent liabilities	
Revenue bonds payable	615,000
Deferred amount on refinancing	<u>(21,314)</u>
Total noncurrent liabilities	593,686
TOTAL LIABILITIES	<u>808,165</u>
Net Assets:	
Invested in capital assets, net of related debt	4,388,170
Restricted	257,518
Unrestricted	<u>315,914</u>
TOTAL NET ASSETS	<u><u>\$ 4,961,602</u></u>

CITY OF WILLARD, MISSOURI
Statement of Revenues, Expenses and Changes in Net Assets - Cash Basis
Proprietary Funds
Year Ended December 31, 2004

OPERATING REVENUES	
Water	\$ 281,139
Sewerage	427,713
Miscellaneous income	22,212
	<hr/>
TOTAL OPERATING REVENUES	731,064
OPERATING EXPENSES	
Water services	
Depreciation and amortization	69,676
Personnel costs	95,657
Occupancy	110,107
Administrative	7,131
Outside services	12,252
Sewerage services	
Depreciation and amortization	97,253
Personnel costs	100,382
Occupancy	87,476
Administrative	5,050
Outside services	205,349
	<hr/>
TOTAL OPERATING EXPENSES	790,333
	<hr/>
OPERATING INCOME (LOSS)	(59,269)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	10,429
Interest expense and agent fees	(31,132)
	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(20,703)
	<hr/>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(79,972)
Capital contributions	1,353
	<hr/>
CHANGE IN NET ASSETS	(78,619)
TOTAL NET ASSETS, January 1	5,040,221
	<hr/>
TOTAL NET ASSETS, December 31	\$ 4,961,602
	<hr/> <hr/>

See accompanying notes to the financial statements.

CITY OF WILLARD, MISSOURI
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2004

	Water & Sewer
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 711,936
Cash received from miscellaneous sources	22,212
Cash payments for materials and services	(574,516)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u> 159,632</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of fixed assets	(197,682)
Interest and fees paid on revenue bonds	(31,132)
Principal paid on revenue bonds	(85,000)
Payment of refinancing loss	2,532
Proceeds from special assessments	1,352
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u> (309,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	10,429
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u> 10,429</u>
NET INCREASE IN CASH AND RESTRICTED CASH	(139,869)
CASH AND RESTRICTED CASH, JANUARY 1	<u> 809,563</u>
CASH AND RESTRICTED CASH, DECEMBER 31	<u><u> \$ 669,694</u></u>

See accompanying notes to the financial statements.

CITY OF WILLARD, MISSOURI
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2004

Water &
Sewer

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED FOR) OPERATING ACTIVITIES:

Operating income (loss)	\$	(59,269)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		166,929
Increase (decrease) in due to other funds		48,486
Increase (decrease) in other receivables		(316)
Increase (decrease) in accrued expenses		402
Increase (decrease) in customer meter deposits		3,400
		<hr/>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$	<u>159,632</u>

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Willard, Missouri is a fourth class City under Missouri State Statutes and is governed under a Mayor/Aldermen form of government. Willard provides a range of municipal services, including general government administration, public safety, recreation, planning and community development, street maintenance, and waterworks and sewerage.

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. As required by generally accepted accounting principles, these financial statements present the City and any component units, entities for which the City is considered to be financially accountable. There are no component units of the City of Willard as defined by Statement No. 14 of the Governmental Accounting Standards Board. For financial reporting purposes, the City included all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the City.

B. New Accounting Standards Adopted

In fiscal year ended December 31, 2004, the City adopted three new statements of financial accounting standards and one new interpretation issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34-Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments

Statement No. 37-Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus

Statement No. 38-Certain Financial Statement Disclosures

Interpretation No. 6-Recognition and Measurements of Certain Liabilities & Expenditures in Governmental Fund Financial Statements

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

B. New Accounting Standards Adopted (Continued)

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus, but the City of Willard has continued to use the cash basis of accounting. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statements of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

The City's implementation of these standards had the following effect on the City's financial statements:

The City has historically capitalized all capital assets, excluding infrastructure. The City also has not recorded annual depreciation expense or the related accumulated depreciation. As of January 31, 2004, the City recorded \$480,130 of accumulated depreciation on all governmental activity assets that had not previously been recognized.

In addition to the government-wide financial statements, the City has prepared fund financial statements which continue to use the cash basis of accounting. Accordingly, the accounting and financial reporting of the City's General Fund is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34 to focus on major funds, as opposed to presenting fund types.

Statement No. 34 also requires certain required supplementary information in the form of Management's Discussion and Analysis, which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund and other major funds' budgets with actual results.

Statement No. 37 amends GASB Statements No. 21 and No. 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private purpose trust fund under Statement No. 34. Additionally, the amendments either 1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or 2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement became effective for the City in fiscal year 2004.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

B. New Accounting Standards Adopted (Continued)

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which modifies, establishes and rescinds certain financial statement disclosure requirements. This statement has become effective to the City in phases-certain provisions became effective in fiscal year 2004 and certain other provisions will become effective in fiscal year 2005.

Interpretation 6 is an interpretation of NCGA Statements 1, 4, and 5. NCGA Interpretation 8: and GASB Statement Nos. 10, 16, and 18. It clarifies the existing standards for distinguishing the portion of a liability that should be reported as a governmental fund liability/expenditure from the portion that should be reported as a general long-term liability (i.e., government-wide reporting only).

C. Basic Financial Statements

In accordance with GASB Statement 34-*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the cash basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements (Continued)

Invested in capital assets net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Administration, Public Safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

The City reports both governmental funds, the General Fund and the Park Fund as major governmental funds and the City reports the Water and Sewer fund as a major enterprise fund.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The accounts of the City are maintained, and the accompanying financial statements have been prepared, on the modified cash basis of accounting. Therefore, revenues and expenditures are recognized only when collected or paid, and receivables and current liabilities are not reflected in the financial statements, except for accrued taxes and fees, court bonds payable, and utility customer deposits payable.

The governmental fund types the City has are:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The business-type fund types the City has are:

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs of providing goods or services to the general public are financed or recovered primarily through user charges.

E. Budgets and Budgetary Practices

The Board of Aldermen is responsible for the preparation and approval of an annual operating budget for all funds of the City in accordance with Sections 67.010 to 67.080, RSMo 1986. Once approved the Board may amend the legally adopted budget when unexpected modifications are required. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Board of Aldermen. Revisions to the budget were made throughout the year.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

F. Cash and Investments

Cash consists of amounts in demand deposits and certificates of deposit. The City considers all highly liquid investments maturing within three months to be cash equivalents. Cash balances are invested to the extent available. Investments include time deposits and certificates of deposit. Investments are stated at cost or amortized cost, which approximates market value.

G. Short-Term Interfund Receivables/Payables

During the course of operations, transactions occur which result in amounts owed to a particular fund by another fund, other than for goods provided or services rendered. These receivables and payables are due within a year and are classified as "due from/to other funds" on the balance sheet.

H. Restricted Assets

Restricted assets in the Park and Water and Sewer Fund represent cash and investments set aside for repayment of utility customer deposits, and expenditures for revenue bond proceeds. Certain resources set aside for debt repayment are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants.

I. Compensated Absences

The City's vacation policy allows full-time employees to earn one week of vacation leave annually after one year of employment, two weeks after working two consecutive years, three weeks after working five consecutive years and four weeks after working twelve or more consecutive years. Employees are required to take their vacations and are not allowed to accumulate vacation leave unless work schedules dictate otherwise. Employees required to work through vacations are paid for their earned leave.

The City allows each full-time employee sick days based upon length of employment. Sick day accumulation begins at three months. Employees shall be allowed to accumulate 35 working days in sick leave, which may be carried over from one year to the next. No sick leave is paid upon termination of employment.

No leave liability is recorded in the financial statements, as utilization of accumulated vacation or sick leave by employees is not expected to have a material effect on City expenditures in any one year.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

J. Property, Plant and Equipment

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. Under GASB No. 34, small Cities have the option to capitalize infrastructure purchased in previous years. The City of Willard has chosen not to capitalize existing infrastructure but will capitalize any future infrastructure that it acquires. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g. roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an individual cost of more than \$1,000 and an estimated useful life greater than one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5-15 years
Buildings	50 years
Sewer mains	50 years
Water towers and lines	20-50 years

K. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Property Taxes

Property taxes are levied on November 1 and payable by December 31. Taxes paid after December 31 are subject to penalties and interest. Property taxes attach as an enforceable lien on property as of January 1. The majority of property taxes are collected between November 1 and December 31, but the City collects delinquent taxes throughout the year.

Greene County collects the property taxes for the City and remits the taxes to the City on a monthly basis.

CITY OF WILLARD, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2004

1. Summary of Significant Accounting Policies (Continued)

M. Statement of Cash Flows

For purposes of the statement of cash flows, the Water and Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

N. Encumbrances

Encumbrance accounting is not used by the City.

O. Bond Issuance Costs

Bond issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method. They are presented as an asset in the financial statements.

2. Legal Compliance

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the City of Willard. The use of budgets and monitoring of equity status facilitate the City's compliance with legal requirements.

A. Budgetary Process

The budgets of the City are adopted on the cash basis, which is the basis consistent with the financial statements.

For the year ended December 31, 2004, the City of Willard was in compliance with state budget regulations.

B. Restricted Assets, Net Assets and Fund Balance

Park Fund

	Restricted Cash and Investments	Restricted Fund Balance
Reserved for debt service	\$ 153,665	\$ 153,665
Total Reserved - Park Fund	\$ 153,665	\$ 153,665

CITY OF WILLARD, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2004

2. Legal Compliance (Continued)

B. Restricted Assets, Net Assets and Fund Balance (Continued)

Water and Sewer Fund

The 2002 and 2003 revenue bond ordinances, which authorize the revenue bond issues, established certain deposit requirements for bond and interest sinking funds, reserve funds, and depreciation and replacement funds. At December 31, 2004, the required deposits had not been met, and therefore the City of Willard was not in compliance with the bond ordinance.

The Water and Sewer Fund's restricted assets are stated at cost and are composed of the following at December 31, 2004:

	Restricted Cash and Investments	Restricted Fund Balance
Reserved for customer deposits	\$ 73,150	\$ -
Reserved for debt service	257,518	257,518
Total Reserved - Water/Sewer Fund	\$ 330,668	\$ 257,518

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

3. Cash and Equivalents

The City does not have formal investment policies for City monies. However, the City has determined through experience that checking accounts, money market accounts, time deposits and certificates of deposits are appropriate for its needs.

The City's deposits, including restricted assets, are stated at cost and are composed of the following:

Year Ended December 31, 2004	<u>Book Carrying Amounts</u>	<u>Bank Balance</u>
Petty Cash	\$ 405	\$ -
Checking & Money Market Accounts (0 to 1.24 percent)	160,987	194,815
Time Deposit Open Accounts (1.50 to 1.75 percent)	708,114	698,581
Certificates of Deposit (1.75 percent)	59,919	59,919
Total	<u>\$ 929,425</u>	<u>\$ 953,315</u>
Deposits Held in Trust:		
Financial Square Trust Treasury Obligation Fund	153,665	153,665
Total	<u>\$ 1,083,090</u>	<u>\$ 1,106,980</u>

Of the total bank balance at December 31, 2004, \$1,106,980 was covered by federal depositary insurance or by pledged collateral securities held by the City's custodial banks in the City's name.

To protect the safety of the City deposits, Section 110.020, RSMo 1986, requires depositaries to pledge collateral securities to secure City deposits not insured by the Federal Deposit Insurance Corporation. As the previous paragraph indicates, the City and its depositary banks were in compliance with the Missouri law.

Section 95.355, RSMo 1986, requires the City to enter into agreements with the banks selected as depositaries. The City does have formal depositary contracts with the banks

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

4. Capital Assets

Capital asset activities for the year ended December 31, 2004 were as follows:

Governmental activities:

	Balance 1/1/2004	Additions	Retirements	Balance 12/31/2004
Land & improvements	\$ 239,688	\$ -		\$ 239,688
Buildings & improvements	1,892,461	87,771		1,980,232
Equipment	1,288,520	111,655	(21,026)	1,379,149
Total	<u>3,420,669</u>	<u>199,426</u>	<u>(21,026)</u>	<u>3,599,069</u>
Less accumulated depreciation for:				
Buildings & improvements	159,991	43,541		203,532
Equipment	320,139	64,606	(13,726)	371,019
Total	<u>480,130</u>	<u>108,147</u>	<u>(13,726)</u>	<u>574,551</u>
Net capital asset	<u>\$ 2,940,539</u>	<u>\$ 91,279</u>	<u>\$ (7,300)</u>	<u>\$ 3,024,518</u>

Business-type activities:

Land	\$ 20,000	\$ 40,591	\$ -	\$ 60,591
Water and sewer system	6,508,323	190,940		6,699,263
Equipment	84,958	22,578		107,536
Work in progress	59,877	3,450	(59,877)	3,450
Total	<u>6,673,158</u>	<u>257,559</u>	<u>(59,877)</u>	<u>6,870,840</u>
Less accumulated depreciation for:				
Water and sewer system	1,564,947	155,291		1,720,238
Equipment	58,100	9,332		67,432
Total	<u>1,623,047</u>	<u>164,623</u>	<u>-</u>	<u>1,787,670</u>
Net capital asset	<u>\$ 5,050,111</u>	<u>\$ 92,936</u>	<u>\$ (59,877)</u>	<u>\$ 5,083,170</u>

Depreciation expense for the year ended December 31, 2004 is as follows:

Administration	\$ 18,109
Public Safety	25,787
Street	18,477
Recreation	45,774
	<u>\$ 108,147</u>

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

5. Long-Term Debt

The following is a summary of changes in long-term obligations of the City at December 31, 2004:

	Balance January 1, 2004	Issues or Additions	Payments or Expenditures	Balance December 31, 2004	Due Within One Year
Governmental Activities:					
Park COP's-2001	\$ 1,515,000		\$ 15,000	\$ 1,500,000	\$ 20,000
Park COP's-2003	430,000		50,000	380,000	45,000
Police Building Lease	224,000		22,000	202,000	23,000
Total governmental activities	<u>\$ 2,169,000</u>	<u>\$ -</u>	<u>\$ 87,000</u>	<u>\$ 2,082,000</u>	<u>\$ 88,000</u>
Business-Type Activities:					
2002 Revenue Bonds	300,000		40,000	260,000	40,000
2003 Revenue Bonds	480,000		45,000	435,000	40,000
Total business-type activities	<u>\$ 780,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	695,000	80,000
Unamortized loss on refunding				23,846	2,532
				<u>\$ 671,154</u>	<u>\$ 77,468</u>
Total long-term debt	<u>\$ 2,949,000</u>	<u>\$ -</u>	<u>\$ 172,000</u>	<u>\$ 2,753,154</u>	<u>\$ 165,468</u>

A. Bonds Payable

2001 Certificates of Participation debt (COP's) used for construction of a recreation center, dated April 9, 2001, due in annual installments through August 1, 2021, bearing interest rates of 4.0% to 5.0%, interest payable semi-annually on February 1 and August 1.

2003 Refinancing COP's used for construction of park, dated October 15, 2003, due in annual installments through May 15, 2012, bearing interest rates of 1.625% to 4.20%, interest payable semi-annually on May 15 and November 15.

2002 Revenue Refunding Bonds used for water and sewer system improvements, dated March 27, 2002, due in annual installments through February 1, 2010, bearing interest rates of 2.375% to 4.50%, interest payable semi-annually on February 1 and August 1.

2003 Revenue Refunding Bonds used for water and sewer system improvements, dated May 12, 2003, due in annual installments through February 1, 2014, bearing interest rates of 3.40% to 4.00%, interest payable semi-annually on February 1 and August 1.

CITY OF WILLARD, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2004

5. Long-Term Debt (Continued)

A. Bonds Payable (Continued)

The City's annual debt service requirements to maturity on the bonds payable for principal and interest are as follows:

Year Ending December 31,	Principal	Interest	Total
2005	\$ 145,000	\$ 119,415	\$ 264,415
2006	150,000	115,405	265,405
2007	160,000	110,617	270,617
2008	170,000	104,958	274,958
2009	180,000	98,481	278,481
2010 - 2014	735,000	390,456	1,125,456
2015 - 2019	565,000	244,263	809,263
2020 - 2024	470,000	46,412	516,412
	<u>\$ 2,575,000</u>	<u>\$ 1,230,007</u>	<u>\$ 3,805,007</u>

The 2003 and 2002 Combined Waterworks and Sewerage System Refunding Revenue Bonds require disclosure of the following:

	<u>Number of Customers</u>
Beginning of Year	1,438
End of Year	1,548

Risk Coverage	Coverage Amount	Insurer	Expiration Date	Premium	
Commercial property	4,476,043	Land O' Lakes	1/1/2006	\$ 32,445	
Commercial inland marine	93,358	Land O' Lakes	1/1/2006	incl above	
Worker's compensation	statutory	Mo Employers Mutual	11/15/2005	incl above	
General liability	4,000,000	per occurrence	Land O' Lakes	1/1/2006	incl above
Automobile liability	2,000,000	per occurrence	Land O' Lakes	1/1/2006	incl above
Boiler and machinery	600,000	each accident	Travelers	11/15/2005	\$ 27,994

CITY OF WILLARD, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2004

5. Long-Term Debt (Continued)

B. Capitalized Lease Obligations

The City has entered into a cancelable lease for the construction of a police building. The asset has been capitalized at cost on the Government-wide Statement of Net Assets. Although the agreement provides for a cancellation clause each year, Section L20, "Leases," of the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards* addresses the legal restrictions imposed and for financial statement presentation these leases are accounted for as capital leases.

Future minimum lease payments for capital lease commitments are as follows:

Year Ending December 31,	Police Building Lease
2005	\$ 32,825
2006	32,650
2007	32,450
2008	32,175
2009	32,850
2010 - 2014	81,825
Total	244,775
Less amount to interest	(42,775)
Present value of lease payments	\$ 202,000

The interest rate for the capitalized lease is 5% and is imputed based on the lessor's implicit rate of return.

CITY OF WILLARD, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2004

5. Long-Term Debt (Continued)

C. Advance Refunding

In June, 2003, the City issued \$480,000 of revenue refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$445,000 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$27,854. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the old debt. This advance refunding was undertaken to reduce total debt service payments over the next eleven years by \$75,830.

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The City maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

7. Operating Leases

At December 31, 2004, the City was committed, subject to cancellation provisions, for rental payments under operating leases for equipment. The following is a schedule for the next five years of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2004.

<u>Year Ending June 30,</u>	<u>Minimum Rental Payment</u>
2005	\$ 2,982
2006	-
2007	-
2008	-
2009	-
	<u>\$ 2,982</u>

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

8. Retirement Plan

Until April 2004, the City has a single employer defined contribution pension plan administered by Century Life of America. Beginning in April 2004, the City began participation in the Missouri Local Government Employees Retirement System (LAGERS), which is described below.

A. Plan Description

The City of Willard participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute, section RSMo. 70.600 – 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, PO Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

B. Funding Status

The City of Willard's full-time employees contribute 4% of their gross pay to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the current rate is 6.2% (general) and 6.6% (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.

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

8. Retirement Plan (Continued)

C. Annual Pension Cost

For 2004, the political subdivision's annual pension cost of \$46,696 was equal to the required and actual contributions. The required contribution was determined as part of the August 31, 2003 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, (d) pre-retirement mortality based on the 1983 Group Annuity Mortality table and (e) post-retirement mortality based on the 1971 Group Annuity Mortality table projected to 2000 set back 1 year for men and 7 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at February 28, 2004 was 30 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2004	\$ 46,696	100%	\$ -

CITY OF WILLARD, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

8. Retirement Plan (Continued)

C. Annual Pension Cost (Continued)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2002	\$ 1,021,644	\$1,289,795	\$ 268,151	79%	\$ 905,391	30%
2/28/2003	1,114,333	1,421,127	306,794	78%	967,667	32%
2/29/2004	1,226,550	1,557,611	331,061	79%	989,654	33%

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, 2001 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

9. Subsequent Event

In December 2004, the Board of Alderman approved a lease purchase agreement in the amount of \$425,000 for the purpose of improving the lift station. The lease purchase agreement was dated January 1, 2005, and therefore as of December 31, 2004, this lease purchase agreement is not reflected in the balance sheet or statement of net assets.

SUPPLEMENTARY INFORMATION

CITY OF WILLARD, MISSOURI
 Budgetary Comparison Schedule - Cash Basis
 General Fund
 Year Ended December 31, 2004

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
Revenues				
Tax Revenues	\$ 740,200	\$ 783,800	\$ 806,304	\$ 22,504
License and permits	6,800	27,000	34,674	7,674
Fines and forfeitures	35,000	50,000	83,274	33,274
Intergovernmental revenue	2,500	17,500	44,053	26,553
Interest	10,000	5,000	4,204	(796)
Other	44,700	83,800	93,853	10,053
Total Revenues	839,200	967,100	1,066,362	99,262
Expenditures				
Administration	176,350	241,825	215,969	(25,856)
Public safety	435,950	538,500	559,575	21,075
Street	207,296	292,536	264,438	(28,098)
Capital outlay	59,500	89,100	88,107	(993)
Debt service:				
Principal	22,000	22,000	22,000	-
Interest and fees	10,925	10,925	10,925	-
Total Expenditures	912,021	1,194,886	1,161,014	(33,872)
Excess (Deficit) of Revenues Over Expenditures	(72,821)	(227,786)	(94,652)	133,134
Other Financing Sources (Uses)				
Transfer in (out)	75,000	100,000	72,991	(27,009)
Sale of property and equipment		600	600	-
Total Other Financing Sources (Uses)	75,000	100,600	73,591	(27,009)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,179	(127,186)	(21,061)	106,125
Fund Balance, January 1	436,448	436,448	436,448	-
Fund Balance, December 31	\$ 438,627	\$ 309,262	\$ 415,387	\$ 106,125

CITY OF WILLARD, MISSOURI
 Budgetary Comparison Schedule - Cash Basis
 Park Fund
 Year Ended December 31, 2004

	Original Budget	Budget as Amended	Actual	Variance from amended Positive (Negative)
Revenues				
Tax revenue	\$ 445,000	\$ 465,000	\$ 481,334	\$ 16,334
Charges for services	173,000	183,500	193,777	10,277
Interest	1,500	1,300	2,067	767
Other	4,000	13,500	14,956	1,456
Total Revenues	623,500	663,300	692,134	28,834
Expenditures				
Recreation	358,200	423,100	410,242	(12,858)
Capital outlay	30,000	118,000	117,656	(344)
Debt service:				
Principal	45,000	65,000	65,000	-
Interest and fees	114,900	99,500	101,723	2,223
Total Expenditures	548,100	705,600	694,621	(10,979)
Excess (Deficit) of Revenues Over Expenditures	75,400	(42,300)	(2,487)	39,813
Other Financing Sources (Uses)				
Transfer in (out)	(75,000)	(100,000)	(72,991)	27,009
Total Other Financing Sources (Uses)	(75,000)	(100,000)	(72,991)	27,009
Revenues and Other Sources Over (Under) Expenditures and Other Uses	400	(142,300)	(75,478)	66,822
Fund Balance, January 1	278,565	278,565	278,565	-
Fund Balance, December 31	\$ 278,965	\$ 136,265	\$ 203,087	\$ 66,822

CITY OF WILLARD, MISSOURI

Notes to the Required Supplementary Information - Budget Comparisons

December 31, 2004

1. Budgetary Basis

Annual budgets are prepared in accordance with accounting principles generally accepted in the United States of America by the Board of Aldermen.

2. Budgetary Information

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level.

All budget revisions at this level are subject to final review by the Board of Aldermen. Revisions to the budget were made once during the year.

3. Excess of Expenditures over Appropriations

None