

CITY OF LAWSON, MISSOURI
BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S
REPORT

JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-3
FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Activities	5
Statement of Net Assets - Governmental Fund	6
Reconciliation of the Statement of Net Position to the Statement of Net Assets - Governmental Fund	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Fund	9
Statement of Net Position – Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Notes to the Basic Financial Statements	13-24
REQUIRED SUPPLEMENTARY INFORMATION	
Statements of Changes in Revenues, Expenditures, and Changes in Fund Balance, Budget to Actual – General Fund	26
Missouri Local Government Employees Retirement System	27
Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	28-29



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the Board of Aldermen
City of Lawson, Missouri

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Lawson, Missouri, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, except of the departure outlined in the preceding paragraph, the financial statements referred to above do present fairly, in all material aspects, the respective financial position of the governmental activities, business-type activities and each major fund of the City of Lawson, Missouri as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management Discussion & Analysis and budgetary comparison information on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. The City has omitted the Management Discussion & Analysis as of and for the period ended June 30, 2014. Therefore, I was unable to perform audit procedures and therefore express no opinion on it. This does not affect the opinions on the basic financial statements. I have applied certain limited procedures to the budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report on pages 26 through 28 dated November 30, 2014, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance *Government Auditing Standards* in considering the City of Lawson, Missouri's internal control over financial reporting and compliance.

Kenney D Hales CPA

Kenney D. Hales, CPA, PC
Liberty, Missouri
November 30, 2014

**CITY OF LAWSON, MISSOURI
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Pooled cash and investments	\$ 234,556	\$ 560,835	\$ 795,391
Certificate of deposit	200,012	-	200,012
Cash and investments - restricted	135,929	761,489	897,418
Accounts receivable	-	123,702	123,702
Taxes receivable	78,204	-	78,204
Bond costs, net of amortization	4,018	-	4,018
Capital assets			
Land	235,000	22,000	257,000
Sewer system		1,607,640	1,607,640
Water distribution system		2,100,746	2,100,746
Buildings and improvements	767,742	56,035	823,777
Machinery and equipment	200,689	399,245	599,934
Infrastructure	404,210	-	404,210
Less: Accumulated depreciation	(710,808)	(1,851,190)	(2,561,998)
Total capital assets	<u>896,833</u>	<u>2,334,476</u>	<u>3,231,309</u>
Total assets	<u>1,549,552</u>	<u>3,780,502</u>	<u>5,330,054</u>
LIABILITIES			
Accounts payable and accrued expenses	41,133	104,870	146,003
Premium on bonds payable	-	31,217	31,217
Meter deposits	-	68,974	68,974
Long-term liabilities			
Due within one year			
Bonds, capital leases and certificates	334,494	105,000	439,494
Accrued interest	8,744	23,044	31,788
Compensated absences	22,115	-	22,115
Due in more than one year			
Bonds, capital leases and certificates	511,949	1,622,288	2,134,237
Compensated absences	8,512	-	8,512
Total liabilities	<u>926,947</u>	<u>1,955,393</u>	<u>2,882,340</u>
NET POSITION			
Invested in capital assets, net of related debt	50,390	607,188	657,578
Restricted			
Debt service	39,483	653,031	692,514
Road and street	666	-	666
Court bonds	1,494	-	1,494
Parks	134,435	-	134,435
Unrestricted	396,137	564,890	961,027
Total net position	<u>\$ 622,605</u>	<u>\$ 1,825,109</u>	<u>\$ 2,447,714</u>

The accompanying notes are an integral part of these financial statements

CITY OF LAWSON, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program	Net (Expense) Revenue and Changes in Net Assets		
		Revenues Charges for Services & Fines	Governmental Activities	Business-Type Activities	Total
Primary government					
Governmental activities					
General government	\$ 392,775	\$ 17,414	\$ (375,361)	\$ -	\$ (375,361)
Police and court	391,489	75,862	(315,627)	-	(315,627)
Parks	77,358	14,314	(63,044)	-	(63,044)
Street	86,411	-	(86,411)	-	(86,411)
Total governmental activities	<u>948,033</u>	<u>107,590</u>	<u>(840,443)</u>	<u>-</u>	<u>(840,443)</u>
Business-type activities					
Water	588,695	660,634	-	71,939	71,939
Sewer	186,612	222,663	-	36,051	36,051
Trash	130,558	129,460	-	(1,098)	(1,098)
Total business-type activities	<u>905,865</u>	<u>1,012,757</u>	<u>-</u>	<u>106,892</u>	<u>106,892</u>
Total primary government	<u>1,853,898</u>	<u>1,120,347</u>	<u>(840,443)</u>	<u>106,892</u>	<u>(733,551)</u>
Taxes					
Property			484,413	-	484,413
Sales			447,070	-	447,070
Franchise fees			180,611	-	180,611
Surtax			67,305	-	67,305
Miscellaneous			1,464	-	1,464
Grant			9,769	-	9,769
Unrestricted investment earnings			430	-	430
Total general revenues			<u>1,191,062</u>	<u>-</u>	<u>1,191,062</u>
Changes in net assets			<u>350,619</u>	<u>106,892</u>	<u>457,511</u>
Net assets - beginning			<u>271,986</u>	<u>1,718,217</u>	<u>1,990,203</u>
Net assets - ending			<u>\$ 622,605</u>	<u>\$ 1,825,109</u>	<u>\$ 2,447,714</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LAWSON, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 434,568
Taxes receivable	78,204
Restricted cash and investments	135,929
Total assets	648,701
 LIABILITIES AND NET POSITION	
Liabilities	
Accrued expenses	28,384
Court bond liability	1,283
Payroll withholdings	11,466
Total liabilities	41,133
 Net Assets	
Restricted	
Court	1,494
Parks	134,435
Road and street	666
Debt service	39,483
Unassigned	431,490
Total net assets	607,568
Total liabilities and net assets	\$ 648,701

The accompanying notes are in integral part of these financial statements

**CITY OF LAWSON, MISSOURI
RECONCILIATION OF THE STATEMENT OF NET POSITION
TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUND
JUNE 30, 2014**

Fund balances of governmental funds	\$ 607,568
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund statements	896,833
Certain other assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets	4,018
Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(8,744)
Long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental-wide statements	
Bonds and capital leases	(846,443)
Compensated absences	(30,627)
	(877,074)
Net assets of governmental activities	\$ 622,605

The accompanying notes are an integral part of these financial statements

CITY OF LAWSON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Total Governmental Funds</u>
Revenues	
Taxes	\$ 806,155
Franchise fees	180,611
Fines	75,862
Parks	14,314
Licenses, fees and permits	17,414
Interest	<u>549</u>
Total revenues	<u>1,094,905</u>
Expenditures	
General government	223,249
Police	355,668
Municipal court	35,821
Street	86,411
Parks	77,358
Capital outlay	10,891
Debt service	<u>254,594</u>
Total expenditures	<u>1,043,992</u>
Net change in fund balance	50,913
Fund balance - beginning	<u>533,324</u>
Fund balance - ending	<u><u>\$ 584,237</u></u>

The accompanying notes are an integral part of these financial statements

**CITY OF LAWSON, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

Net change in fund balances - total governmental funds	\$	50,913
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. 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.		(59,972)
Governmental funds report repayment of bond principal payments as an expenditure. In contrast, the Statement of Net Assets reports repayment as a reduction to long-term liabilities. This is the amount by which proceeds exceed repayments.		361,185
Government funds report premiums and discounts as other financing sources. In contrast, those items are capitalized on the Statement of Net Assets and amortized over the life of the bonds on the Statement of Activities. This is the net amount of the premiums, discounts, and amortization.		<u>(1,507)</u>
Change in net assets of governmental activities	\$	<u><u>350,619</u></u>

The accompanying notes are an integral part of these financial statements

**CITY OF LAWSON, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Water	Sewer	Trash	Total
ASSETS				
Cash and cash equivalents	\$ 343,695	\$ 186,269	\$ 30,871	\$ 560,835
Accounts receivable	80,153	26,407	17,142	123,702
Restricted cash	68,974	692,515	-	761,489
Capital assets - net of depreciation	1,152,897	1,181,579	-	2,334,476
Total assets	<u>1,645,719</u>	<u>2,086,770</u>	<u>48,013</u>	<u>3,780,502</u>
LIABILITIES				
Accounts payable	25,491	46,058	13,465	85,014
Accrued expenses	36,365	6,535	-	42,900
Refundable deposits	68,974	-	-	68,974
Premium on bonds payable	-	31,217	-	31,217
Bonds payable due within one year	-	105,000	-	105,000
Bonds payable due in more than one year	-	1,622,288	-	1,622,288
Total liabilities	<u>130,830</u>	<u>1,811,098</u>	<u>13,465</u>	<u>1,955,393</u>
NET POSITION				
Invested in capital assets, net of related debt	1,152,897	(545,709)	-	607,188
Restricted for debt service	68,974	692,515	-	761,489
Unrestricted	293,018	128,866	34,548	456,432
Total net position	<u>1,514,889</u>	<u>275,672</u>	<u>34,548</u>	<u>1,825,109</u>
Total liabilities and net position	<u>\$ 1,645,719</u>	<u>\$ 2,086,770</u>	<u>\$ 48,013</u>	<u>\$ 3,780,502</u>

The accompanying notes are an integral part of these financial statements

CITY OF LAWSON, MISSOURI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 660,634	\$ 222,663	\$ 129,460	\$ 1,012,757
Total operating revenues	<u>660,634</u>	<u>222,663</u>	<u>129,460</u>	<u>1,012,757</u>
Operating expenses				
Production costs	340,309	16,384	-	356,693
Personnel	66,182	65,892	-	132,074
Repairs and maintenance	22,207	27,709	-	49,916
Fuel	3,862	4,687	-	8,549
Utilities	10,566	10,100	-	20,666
Depreciation	80,893	39,262	-	120,155
Trash contract	-	-	130,558	130,558
Administrative	64,676	22,578	-	87,254
Total operating expenses	<u>588,695</u>	<u>186,612</u>	<u>130,558</u>	<u>905,865</u>
Operating income	71,939	36,051	(1,098)	106,892
Nonoperating revenues (expenses)				
Interfund transfers	(98,624)	98,624	-	-
Total nonoperating revenues	<u>(98,624)</u>	<u>98,624</u>	<u>-</u>	<u>-</u>
Change in net assets	(26,685)	134,675	(1,098)	106,892
Net assets at beginning of year	1,541,574	140,997	35,646	1,718,217
Net assets at end of year	<u>\$ 1,514,889</u>	<u>\$ 275,672</u>	<u>\$ 34,548</u>	<u>\$ 1,825,109</u>

The accompanying notes are an integral part of these financial statements

**CITY OF LAWSON, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities	
Receipts from customers	\$ 1,012,757
Payments to suppliers	(312,548)
Payments to employees	(356,693)
Other payments	(133,734)
Net cash provided by operating activities	<u>209,782</u>
Cash flows from capital and related financing activities	
Proceeds from restricted monies	70,755
Principal paid on debt	(105,000)
Purchases of capital assets	(16,535)
Interest paid on debt	(62,915)
Net cash used in capital and related financing activities	<u>(113,695)</u>
Net increase in cash and cash equivalents	96,087
Cash - beginning	<u>464,748</u>
Cash - ending	<u><u>\$ 560,835</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating income	\$ 106,892
Depreciation and amortization	120,155
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase (decrease) in:	
Accounts receivable	(23,514)
Accounts payable and accrued expenses	6,249
Net cash provided by operating activities	<u><u>\$ 209,782</u></u>

The accompanying notes are an integral part of these financial statements

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies

The City of Lawson, Missouri (the City) is a fourth class city and incorporated as a political subdivision of the State of Missouri, duly created, organized and existing under and by virtue of the Constitution and laws of the State of Missouri. The City government consists of a mayor and board of aldermen. The City provides services to its residents in the areas of general government, public safety, water, sewer, and trash services.

The following is a summary of the City's more significant accounting policies.

A. Basic Financial Statements – Government-Wide Statements

In evaluating the City's financial reporting entity, management has considered all potential component units. The accompanying basic financial statements present the City and the component units over which the City is financially accountable. Financial accountability is based primarily on operational or financial relationships with City. Currently, the City does not have any component units.

The City's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize the City's primary activities as either governmental or business type. The City's public safety, parks, street and general administrative services are classified as governmental activities. The City's water, sewer and trash services are classified as business-type activities.

The Statement of Financial Position and Statement of Activities display information about the City as a whole. 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.

B. Basic Financial Statements – Fund Financial Statements

The financial transactions of the City are reported by major fund in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following funds are used by the City:

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies - continued

Governmental Funds

The focus of the government funds' measurement is upon determination of financial position and changes in financial position rather than upon net income. The following is a description of the governmental funds of the City:

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

Proprietary Fund

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Water, Sewer and Trash Funds – The Water, Sewer and Trash Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public be financed or recovered primarily through user charges.

C. Basis of Accounting

The City prepares its government-wide financial statements on the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business privilege, and income taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue in the government-wide financial statements include:
(1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies - continued

Internally dedicated resources are reported as general revenues rather than program specific revenues. Accordingly, general revenues include all taxes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other programs of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various programs concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, those expenditures may be accrued if they are to be liquidated with available resources. Imposed nonexchange revenues such as real estate taxes are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, and income taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are recognized only when cash is received by the City because they are not measurable until that time.

Significant revenues include property taxes, franchise taxes, grants, state road taxes, and certain state and federal grants and entitlements. Expenditures, including capital outlays, are recorded in all governmental funds when the related liability is both measurable and incurred except for general obligation debt principal and interest which are reported as expenditures in the year due.

D. Use of Estimates

The preparation of basic financial statements on an accrual basis of accounting requires the City's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies - continued

E. Cash and Investments

Deposits – Missouri Statutes permit the City to invest in prime money market instruments and securities, such as U.S. Government obligations, repurchase agreements, Missouri bank certificates of deposit, demand accounts, and savings accounts. As of June 30, 2014, the City had cash in demand deposits and money market instruments.

F. Budgets

Budgets for the City are prepared and adopted on the cash basis of accounting for all governmental and proprietary funds. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revision that alter the total expenditures of any fund must be approved by the Board of Aldermen. The fund level constitutes the City's legal level of budgetary control. Reported budget amounts are as originally adopted or amended by Board of Aldermen resolution. Annual operating budgets are adopted for the General and Proprietary Funds. Appropriations lapse at fiscal year-end, but may be appropriated again in the following year. The actual results of operations are presented in comparison to the budget on the statement of revenues, expenditures and changes in fund balances. The actual results are presented in accordance with the cash basis of accounting and reconciled to the modified accrual basis of accounting used for governmental-type funds.

G. Statement of Cash Flows

A statement of cash flows has been presented in accordance with Governmental Accounting Standards Board Statement No. 9 for the Proprietary Funds. For purposes of the statement of cash flows, demand deposit, and all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalent.

H. Restricted Cash

Cash has been restricted for sinking and reserve funds associated with various bond issues, court appearance bonds, protested taxes, meter deposits and construction projects.

I. Accounts Receivable

Accounts receivable for water, sewer and trash services are accounted for in the Proprietary Fund. Because the City bills its citizens at month-end, there are no unbilled amounts included in accounts receivable.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies - continued

J. Capital Assets

Government-wide

Capital assets are recorded as expenditures in the General Funds at the time payment is made. In the Proprietary Funds, the costs of normal maintenance and repairs, which do not add to the value of the asset or materially extend the asset life, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest costs associated with construction of capital assets are capitalized in the Proprietary Funds.

Public domain “infrastructure” assets consist of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Also, depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Net Position.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the following estimated useful lives:

Machinery and equipment	5-10 years
Sewer system	10-40 years
Water distribution system	10-40 years
Building and improvements	20-40 years
Infrastructure	20 years

K. Compensated Absences

The City permits employees to accumulate earned but unused vacation and sick pay benefits based on the number of years of service. Accumulated vacation payable is accrued when incurred in the government-wide financial statements and proprietary fund statements. In the government fund financial statements, a liability is accrued when it has matured, for example, as a result of employee resignations and retirements.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies – continued

L. Fund Equity – Government-Wide Statements

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

Invested in capital assets, net of related debt – Consists of capital assets including 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 improvement of those assets.

Restricted net assets – Consists of net assets with constraints place on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net assets – Consists of all other net assets that do not meet the definition of any of the other above captioned categories.

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Equity

In the fund financial statements, governmental funds report aggregate amounts for five classification of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in a spendable form or legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining classifications:

Restricted – This classification reflects the constraints impose on resources either externally by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Aldermen. Those committed amounts cannot be used for any other purpose unless the Board of Aldermen removes the specified use by taking the same type of action imposing the commitment. This classification also included contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Summary of Significant Accounting Policies – continued

M. Fund Equity (continued)

Assigned – This classification reflects the amounts constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Aldermen and the City Administrator have the authority to assign amounts to be used for specific purposes. This category include all remaining amounts that are reported in the governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other government funds.

When both restricted and unrestricted resources are available for use, the City uses externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

2. Deposits and Investments

Deposits – Missouri Statutes require that all deposits with financial institutions be collateralized in an amount at least equal to uninsured deposits. At June 30, 2014, all of the bank balances were covered by federal depository insurance. Any remainder would be covered by pledges of various securities by the bank and held in safekeeping subject to a joint custody receipt issued by the custodial financial institution which is not the pledging institution.

Investments – At June 30, 2014, all investments were part of the State Revolving Fund Series Trust Accounts and Money Market Accounts which are not subject to risk classifications, because they are not evidenced by securities that exist in physical or book entry form. It is the City’s policy to present investments with maturities of one year or more at the time of purchase at fair value. The fair value of these investments totaled \$897,418.

3. Accounts Receivable

As a result of providing water, sewer and trash services to its citizens, the City has extended credit to them. Accounts receivable for all Proprietary Funds are presented with a combined \$10,755 allowance for doubtful accounts.

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

4. Restricted Cash and Restricted Investments

Restricted cash at June 30, 2014, consisted of the following:

Park sales tax		\$	134,435
Court appearance bonds			<u>1,494</u>
Total General Fund restricted cash			<u>\$ 135,929</u>
Construction and bond covenant requirements		\$	692,515
Meter deposits			<u>68,974</u>
Total Proprietary Funds restricted cash			<u>\$ 761,489</u>

5. Capital Assets

Land is a non-depreciable capital asset. Depreciation expense in the General Fund was \$80,893 and \$39,262 in the Proprietary Funds. Capital asset activity for the year ended June 30, 2014, consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 235,000	\$ -	\$ -	\$ 235,000
Buildings and improvements	767,742	-	-	767,742
Machinery and equipment	189,798	10,891	-	200,689
Infrastructure	<u>404,210</u>	<u>-</u>	<u>-</u>	<u>404,210</u>
Total capital assets, General Fund	1,596,750	10,891	-	1,607,641
Less accumulated depreciation	<u>(639,945)</u>	<u>(70,863)</u>	<u>-</u>	<u>(710,808)</u>
General Fund capital assets	<u>\$ 956,805</u>	<u>\$ (59,972)</u>	<u>\$ -</u>	<u>\$ 896,833</u>
Land	\$ 22,000	\$ -	\$ -	\$ 22,000
Buildings and improvements	56,035	-	-	56,035
Machinery and equipment	399,245	-	-	399,245
Sewer system	1,591,105	16,535	-	1,607,640
Water distribution system	<u>2,100,746</u>	<u>-</u>	<u>-</u>	<u>2,100,746</u>
Total capital assets, Proprietary Funds	4,169,131	16,535	-	4,185,666
Less accumulated depreciation	<u>(1,731,035)</u>	<u>(120,155)</u>	<u>-</u>	<u>(1,851,190)</u>
Proprietary Funds, capital assets	<u>\$ 2,438,096</u>	<u>\$(103,620)</u>	<u>\$ -</u>	<u>\$ 2,334,476</u>

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

6. Long-Term Debt

Total City long-term debt at June 30, 2014, payable from proprietary resources consisted of the following:

General Fund bond:

\$974,000 July 23, 2013, General Obligation Bonds, due in annual installments varying from year to year, until maturity on March 1, 2016, interest at 3.25% \$ 658,000

Proprietary Fund revenue bonds:

\$550,000 April 18, 2001, Water Pollution Control and Drinking Water Revenue Bonds, due in annual installments varying from year to year, until maturity on January 1, 2022, interest at 4% - 5% \$ 245,000

\$1,080,000 November 2, 2002, Water Pollution Control and Drinking Water Revenue Bonds, due in annual installments varying from year to year, until maturity on July 1, 2023, interest at 2.05% - 5% \$ 715,000

\$330,000 May 19, 2005, Water Pollution Control and Drinking Water Revenue Bonds, due in annual installments varying from year to year, until maturity on July 1, 2025, interest at 3% - 5% \$ 210,000
\$ 1,170,000

State Revolving Fund Loans:

State Revolving Fund Loan establishing reserve for Series 2001 Water Pollution Control and Drinking Water Revenue Bonds \$ 175,660

State Revolving Fund Loan establishing reserve for Series 2002 Water Pollution Control and Drinking Water Revenue Bonds \$ 381,628
\$ 557,288

Aggregate annual principal and interest payments applicable to long-term debt are as follows:

Year Ending June 30	Principal	Interest	Governmental Bonds Payable
2015	\$ 351,000	\$ 21,385	\$ 372,385
2016	<u>307,000</u>	<u>9,978</u>	<u>316,978</u>
Total	<u>\$ 658,000</u>	<u>\$ 31,363</u>	<u>\$ 689,363</u>

**CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

6. Long-Term Debt (continued)

Year Ending June 30	Principal	Interest	Proprietary Bonds Payable
2015	\$ 105,000	\$ 57,646	\$ 162,646
2016	105,000	51,999	156,999
2017	110,000	46,743	156,743
2018	110,000	40,993	150,993
2019	115,000	35,075	150,075
2020	120,000	28,912	148,912
2021	125,000	22,675	147,675
2022	135,000	16,400	151,400
2023	100,000	6,750	106,750
2024	105,000	4,625	109,625
2025	20,000	1,500	21,500
2026	<u>20,000</u>	<u>500</u>	<u>20,500</u>
Total	<u>\$1,170,000</u>	<u>\$ 313,818</u>	<u>\$ 1,483,818</u>

The City is required to deposit monies into a debt service account sufficient to meet maturity dates of principal and interest. The City is also required to charge rates for its services in order to create net revenues available for debt service that equal at least 110% of its debt service requirements.

The City has three debt issues which are part of the State of Missouri Revolving Fund Program. In conjunction with the bond issuance, the City entered into an agreement with the Missouri Department of Natural Resources, whereby the State of Missouri will advance monies to establish a reserve fund in an amount up to 70% of the outstanding bonds. This Reserve Fund serves as collateral on the bonds in the event of default, and interest earnings on the Reserve Fund will be used to reduce the City's interest payments on the outstanding bonds. As the bonds are retired, the reserve fund is reduced, and therefore the City's loan payable is reduced. The reserve amount is reflected as restricted cash in the Sewer Fund. Interest earnings on the Reserve Fund have been recorded as interest income.

7. Capital Lease

The City entered into a lease agreement to refinance the lease payments on selected capital assets. The lease agreement qualifies as a capital lease for accounting purposes, and therefore have been recorded at the present value of their future minimum lease payments as of the inception dates. The assets acquired through the capital lease are as follows:

Street lights	\$ 42,150
Ballfield lights	349,380
Land/lake	<u>200,000</u>
Total	<u>\$ 591,530</u>

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

7. Capital Lease (continued)

Future minimum lease payments under the capital lease together with the present value of net minimum lease payments at 3.07% interest consist of the following:

Year Ending June 30	Amount
2015	\$ 26,236
2016	26,236
2017	26,236
2018	26,236
2019	26,236
2020 - 2024	<u>131,180</u>
	262,360
Less amount representing Interest	<u>(37,917)</u>
Total	<u>\$ 224,443</u>

8. Property Taxes

Property taxes are attached by an enforceable lien on property as of January 1st each year. Taxes are levied by November 1st and are payable by December 31st. All unpaid taxes become delinquent January 1st of the following year.

The assessed valuation of the tangible property for the purpose of local taxation for the year ended June 30, 2014 was as follows:

Real estate – Ray County	\$ 15,518,095
Real estate – Clay County	3,147,890
Personal property – Ray County	3,860,807
Personal property – Clay County	<u>948,826</u>
Total	<u>\$ 23,475,618</u>

The tax rate per \$100 of assessed valuation of tangible taxable property for the calendar year 2012 for purposes of local taxation was as follows:

General revenue	\$ 0.6822
Debt service	<u>1.3669</u>
Total	<u>\$ 2.0491</u>

CITY OF LAWSON, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

9. Contingencies and Risk Management

The City participates in 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 LAGERS' responsibility to administer the law in accordance with the expressed intent of the General Assembly. LAGERS is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

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

The City's full-time employees do not contribute to the pension plan. The City is required by state statute to contribute at an actuarially determined rate; the current rate is 9.4% (general) and 8.9% (police) of annual covered payroll. The contribution requirements of plan members are determined by the Board of Aldermen. The contribution provisions of the City are established by state statute.

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

Annual required contribution	\$ 39,543
Interest on net pension obligation	75
Adjustment to annual required contribution	<u>(86)</u>
Annual pension cost	39,532
Actual contributions	<u>39,543</u>
Decrease in NPO	(11)
NPO – beginning	<u>1,033</u>
NPO – ending	<u>\$ 1,022</u>

10. Risk Management

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases casualty, fidelity bonds, and various types of liability coverage from commercial insurance companies in order to reduce its exposure to various types of potential losses. Most of these policies carry a co-insurance or a deductible clause. There were no significant changes in the commercial insurance coverage for the City in 2014, nor any significant losses.

The City has received financial assistance from various Federal, state and local agencies in the form of grants and entitlements. These programs are subject to audit by agents of the granting authority. Management does not believe that liabilities for reimbursements will materially affect the basic financial statements of the City.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAWSON, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Original & Final Budget	Actual	Variances Favorable (Unfavorable)
Revenues:			
Taxes	\$ 1,127,000	\$ 1,180,863	\$ 53,863
Licenses, fees and permits	14,000	17,414	3,414
Fines	35,750	75,862	40,112
Interest	250	549	299
Other	7,950	14,314	6,364
Total revenues	<u>\$ 1,184,950</u>	<u>\$ 1,274,688</u>	<u>\$ 97,688</u>
Expenditures:			
General government	\$ 260,000	\$ 255,112	\$ 4,888
Police	379,945	336,740	43,205
Municipal court	37,000	30,385	6,615
Street	116,930	86,411	30,519
Parks	93,600	77,358	16,242
Capital outlay	100,000	97,120	2,880
Debt service	360,238	337,753	22,485
Total expenditures	<u>1,347,713</u>	<u>1,220,879</u>	<u>126,834</u>
Change in fund balance	<u>\$ (162,763)</u>	<u>\$ 53,809</u>	<u>\$ 224,522</u>

Note: The City annually adopts a budget at the beginning of the year. Budgets are adopted on the cash basis which is not consistent with generally accepted accounting principles. However, there is no significant difference between the cash basis amounts presented in the financial statements.

A budget amount is not approved for depreciation, and capital expenditures are budgeted as expenditures in the General Fund.

CITY OF LAWSON, MISSOURI
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

Missour Local Government Employees Retirement System

Schedule of Employer Contribution

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$ 36,175	100.0%	\$ 1,087
6/30/13	40,144	100.1%	1,033
6/30/14	39,532	100.0%	1,022

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/12	\$400,474	\$509,696	\$109,222	79%	\$428,102	26%
2/28/13	488,520	571,486	82,966	85%	408,765	20%
2/28/14	596,669	618,058	21,389	97%	436,087	5%

The required contribution was determined as part of the February 29, 2012 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014 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, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back zero years for men and zero years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back zero years for men and zero 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 29, 2012 was 7 years for the General division and 17 years for the Police division.

The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and 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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



KenneyDHales, CPA, PC

Honorable Mayor and
Members of the Board of Aldermen
City of Lawson, Missouri

I have audited, in accordance with the 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, the financial statement of the governmental activities, the business-type activities, and each major fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Lawson, Missouri's basic financial statements, and have issued my report thereon dated November 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Lawson, Missouri's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lawson, Missouri's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Lawson, Missouri's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, I consider the following deficiencies in the City's internal control to be significant deficiencies:

Significant Deficiencies

The City does not have personnel with certified expertise to prepare the financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

The accounts receivable account in the Sewer Fund has an excessive amount due to an error in a prior reporting period. This should be corrected in the period where the error occurred, when transferring information to the new accounting system.

Management Comments

In addition, I have noted other matters involving the internal control and its operations that are listed below.

Capital assets – The listing of capital assets appears to have items which are old, obsolete or possibly no longer owned. I recommend doing a detailed inventory of equipment and machinery to verify the existence as well as to update insurance coverage.

Accounting system – There appears to be a recording error in the payroll liabilities area which was consistent throughout the reporting period. This affects payroll taxes withheld as well as employee benefits. These errors accumulate over time and adversely affect the quality of the financial statement prepared for the Board of Aldermen each month. A trial balance should be included in the monthly review by the staff and City Administrator to verify figures are in line with prior periods. This quick scan can alleviate problems down the road before they grow.

Accrual basis of accounting – I would suggest the City implement procedures to convert the cash basis accounting system to an accrual system at year end. This would provide the Board of Aldermen with a snapshot of the actual financial standing of the City at a time when budgets can be amended early in the following fiscal year should the need arise.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing on internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kenney D Hales CPA

Kenney D. Hales, CPA, PC
Liberty, Missouri
November 30, 2014