

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

OF

CITY OF NORTH KANSAS CITY, MISSOURI

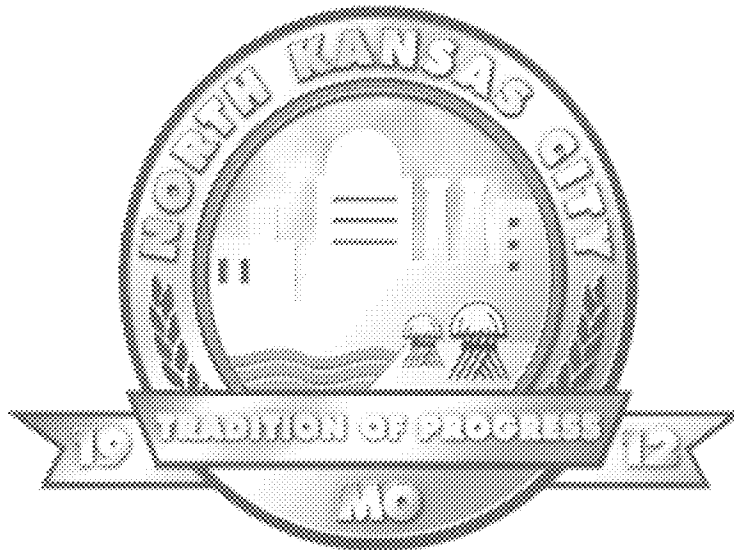


**For the Year Ended
September 30, 2006**

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Prepared by:
Administration Department

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February 28, 2007

Honorable Mayor, Members of the City Council, and
Citizens of the City of North Kansas City:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended September 30, 2006.

Management assumes the responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

McGladrey & Pullen, LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the City of North Kansas City, Missouri’s financial statements for the year ended September 30, 2006. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City, incorporated as a village in 1912, became a fourth Class City in 1924 and a third Class City in 1954. The City currently has a land area of 4.2 square miles. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation; however, the City is landlocked by the Missouri River and surrounding cities.

The City operates under the mayor/council/administrator form of government. Policymaking and legislative authority is vested in the governing body, which consists of a mayor and an eight-member council. The governing body is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and appointing the city administrator. The city administrator is the chief administrative and budget officer of the City and is responsible for carrying out the policies and ordinances of the governing body and overseeing the day-to-day operations of the City. The council is elected on a nonpartisan basis. Council members are elected to two-year staggered terms with four council members elected every year. The mayor is elected to four-year terms. The council members are elected from within their respective wards. The mayor is elected at large.

The City is strategically located in the southwest portion of Clay County on the Missouri River, bordered by Kansas City, Missouri. Two interstate highways (I-29 and I-35) and two state highways (9 and 210) serve the community. It is next door to the Kansas City Municipal Airport and just twenty minutes south of the Kansas City International Airport. The Kansas City Area Transportation Authority, which operates a metropolitan-wide bus system, provides frequent, low cost service to all sections of North Kansas City. Industry enjoys easy access to rail or barge service. There are 4,714 people residing in the City with a working population of more than 20,000 persons. The business/industrial payroll is about \$1 billion.

With total governmental fund type revenue over \$28.9 million in fiscal 2006, use of which is prudently allocated by the City Council, the City provides many services not available elsewhere, such as one police officer for every 118 residents, two fire stations with 61 firefighters providing excellent ambulance and fire protection services and three refuse collections weekly for residential and church property at no charge.

The City's fiscal year runs from October 1 to September 30. General operations are dependent primarily on a one-cent general sales tax, property taxes, occupation license fees, casino rents and utility franchise taxes. For the 2005–2006 budget year, revenue in the General Fund totaled \$13.2 million compared to a budget amount of \$12.0 million. Most general government capital improvements are financed from gaming revenue collections, and are accounted for in the Gaming Fund. This Gaming Fund had a total fund balance at September 30, 2006 of approximately \$12.5 million which included \$2.4 million restricted for encumbrances and a \$3.1 million maintenance reserve.

The North Kansas City Economy Year 2006 In Review

North Kansas City's financial success is based upon its large and diverse economic base. The City hosts a huge supply of commercial and industrial building space at the hub of the transportation network. This provides businesses, in the region, unsurpassed access to needed physical facilities, employment and customer resources. Maintaining the condition and value of commercial real estate is key to sustaining the City's growing economy. Overall, aggregate assessed valuations of real property grew by approximately ten percent from 2005 to 2006

With over 25 million square feet of industrial and commercial building space, the City can accommodate virtually any type of company with space from 100 to 500,000 square feet. In today's fast-paced business environment, managers appreciate the stability the City provides through low tax rates, responsive public services and the diversity of property options.

The City's geography continues to be a proven market for institutional real estate investment groups, thereby helping maintain property values. In 2006, Texas based Cobalt Group bought the largest industrial real estate portfolio in the Kansas City region's history. The purchase included four major multi-tenant industrial buildings in North Kansas City. Also, a Block and Co. partnership purchased hundreds of thousands of industrial space in the City's Paseo Industrial District. Block immediately began major renovations to the 1960's and 1970's buildings by recessing truck docks and creating new office entryways.

Commercial vacancy rates in the City continue to be lower than the regional average at approximately five percent. About one million square feet of building space is available to lease. In addition, there is currently a wide selection of buildings available for purchase, which is a rather unique situation for the City. Investment intensive operations, unlike bulk warehouses for instance, prefer to own so they can recoup major expenditures for new HVAC systems, electrical upgrades and other improvements that landlords are hesitant to provide. As older buildings depreciate and capital gains tax rates remain palatable, property investors decide to sell to meet this pent-up demand. As these properties change hands, they commonly receive significant investment and the community can receive the long-term benefits that these owner-occupants bring.

The City is seeing many of these older industrial buildings being converted to office or retail uses. These structures do not have the most modern loading or ceiling heights for industrial uses. However, they provide a trendy environment many occupants prefer over sterile, higher priced office parks or strip center settings. One section of renovated buildings just northeast of 13th and Burlington has attracted several high-tech operations along with more traditional firms through the adaptive reuse principals described above.

All buildings in the City can connect to liNKCity, the city-owned, high-speed fiber optic system, which can provide up to one gigabyte per second of symmetrical Internet access. Few, if any, community-wide fiber optic networks in the nation can offer this level performance. Consequently, liNKCity, through national promotions, has attracted interest from technology-based businesses from across the nation.

The City has discovered a niche in attracting virtual businesses ready to expand to a new level. Virtual businesses usually consist of a network of individuals who collaborate with one another electronically. Young, high-tech businesses with few associates can save costs by “going virtual”. But as the company grows over a small number of employees, it becomes more effective and efficient to establish a central business location. A brick and mortar presence in North Kansas City helps them develop credibility, a corporate culture and become part of a full-service community that can fuel exponential growth. The City’s unique allure to growing virtual businesses includes a central location, low fixed operational costs, a safe environment with 24/7 amenities for flexible work schedules, and unsurpassed connectivity via liNKCity.

The most important funding issue for most businesses is access to customers, so the City’s location at the hub of the transportation network is especially important. In addition, the liNKCity fiber optic system allows affordable creation of electronic storefronts that can serve customers worldwide and this may become increasingly important as Internet sales carve increasing into traditional retailers’ market share. The City can assist businesses with financial incentive programs. For instance, the Rebuilding Communities Program can yield up to \$375,000 in salable state tax credits for eligible businesses. Interest rates remain competitive, with programs like the Small Business Administration’s 504 loan program offering 20 year fixed rates below seven percent for capital investments.

Access to labor is typically the key consideration when evaluating a business location. North Kansas City’s central location is within 30 minutes of 900,000 working aged adults. The huge residential growth occurring in the area, including Kansas City’s downtown core is bringing top young talent to the area. Many of these newcomers are well-trained individuals sought by growing businesses in today’s market. Many have moved to the area before securing a job. They realize they can reach practically any employment opportunity in the metro while enjoying the urban renaissance right outside their homes.

North Kansas City offers either urban, loft-style living or more traditional housing like the new single family homes in Northgate Village, which is ideal for young families ready to set down roots. In a two-mile radius study around the Armour Road and Swift Street intersection, estimates are that household income will rise by 70% from 1990 to 2010. Significant population and disposable income growth is part of the reason there are now at least five new, multi-tenant retail developments planned along the Armour Road and Burlington Road corridors. A new home remodeling loan program and improved codes enforcement for older housing will also help secure area property values and prospects for sustainable growth.

Planning for the Future

North Kansas City is completing several long-term capital projects in the next two years and starting several more as laid out in by the City Council's Action Plan.

The Northgate Redevelopment project should be completed in fiscal 2008 using the fund balance of the Northgate Capital Improvements fund to finalize the project. Any remaining fund balance will be transferred backed to the Gaming Fund along with the Payment-in-Lieu-of-Taxes and Economic Activity Taxes generated by the Tax Increment Financing district.

The largest part of the initial infrastructure investment for the liNKCity fiber optic system will be completed in fiscal 2007 by a transfer from the Gaming Fund. Future transfers may be needed as the enterprise fund begins generating Internet fees.

The City Council met on July 8, 2006, to revisit their priorities to ensure that they had not changed. Staff has been working to develop the goals, strategies and tasks into a format that is comprehensive and workable. The document has not been drafted as of this date, but the goals have been divided into four major categories on which to focus resources—Cultural and Recreational, Downtown, Redevelopment and Residential. Some future projects needed to meet the Council's goals include restoration of the Armour Theater, Brownfield Redevelopment and improvements to the 14th/16th Interchange as discussed in the following Major Initiatives section. These projects will be financed by the Gaming Fund with a partial contribution from the Transportation fund for the Interchange improvements.

Other projects identified were sidewalk and curbs replacements using the Transportation Fund balance; sewer lateral line relinings and stormwater management in the Paseo Industrial District both funded by the Water Pollution Control fund balance; and Railroad Avenue Improvements also funded by the Transportation Fund balance.

Major Initiatives

The Missouri Department of Transportation (MODOT) anticipates widening the Interstate 29/35 corridor from four lanes to at least six lanes from downtown Kansas City to north of Missouri Highway 210 in North Kansas City. The widening includes replacing the Paseo Bridge. The City has been an active participant in MODOT's Environmental Impact Study and design processes. The City is a member of the Community Advisory Group for the project. The City has also developed its own conceptual plans for the Missouri Hi-way 210/Armour, 14th/16th Avenues and Levee/Bedford interchanges. The intention is to improve the interstate corridor while improving local access to the City.

