

CITY OF CANTON, KANSAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

CITY OF CANTON, KANSAS
CITY OF THE THIRD CLASS
For the Year Ended December 31, 2009

Bradley M. Smiley, Mayor

CITY COUNCIL

Gabe Griffith
Thomas Kueser

Anthony Wedel
Tracy Morgan

Jean Anderson

CITY OFFICERS

Diann Hrabe, Clerk
Mary Jane Lauer, Treasurer

Tim Karstetter, Attorney
Amie Bauer, Municipal Judge

John Betzer, Chief of Police

CITY OF CANTON, KANSAS
FINANCIAL STATEMENTS
For the Year Ended December 31, 2009

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SWINDOLL
JANZEN
HAWK &
LOYD, LLC

Certified Public Accountants

B. Carver Swindoll, CPA
Keith S. Janzen, CPA
Kyle J. Hawk, CPA
D. Scot Loyd, CGFM, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Canton, Kansas 67428

We have audited the accompanying financial statements of the City of Canton, Kansas, as of and for the year ended December 31, 2009 as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial (and summarized) comparative information has been derived from the City's December 31, 2008 financial statements and, in our report dated February 26, 2009 we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance 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 more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2009, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2009, and its cash receipts and expenditures or disbursements, and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

Swindoll, Janzen, Hawk & Loyd, LLC

Certified Public Accountants

March 2, 2010

CITY OF CANTON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2009

	<u>Beginning Unencum- bered Cash Balance</u>	<u>Prior Year Cancelled Encumb- rances</u>	<u>Cash Receipts</u>	<u>Expendi- tures</u>	<u>Ending Un- encumbered Cash Balance</u>	<u>Add: Outstanding Encum- brances and Accounts Payable</u>	<u>Ending Cash Balance</u>
GENERAL FUND	\$ 323,901	\$ -	\$ 401,469	\$ 309,253	\$ 416,117	\$ 3,284	\$ 419,401
SPECIAL REVENUE FUNDS:							
Special City/County Highway Fund	56,143	-	20,007	7,223	68,927	208	69,135
Special Park and Recreation Fund	8,984	-	2,197	3,579	7,602	38	7,640
Special Equipment Fund	49,886	-	12,510	23,500	38,896	-	38,896
Total Special Revenue Funds	115,013	-	34,714	34,302	115,425	246	115,671
ENTERPRISE FUNDS:							
Sewer Fund	144,495	-	69,931	83,782	130,644	61	130,705
Water Fund	148,970	-	169,742	168,297	150,415	1,046	151,461
Total Enterprise Funds	293,465	-	239,673	252,079	281,059	1,107	282,166
Total Reporting Entity (Excluding Agency Funds)	\$ 732,379	\$ -	\$ 675,856	\$ 595,634	\$ 812,601	\$ 4,637	\$ 817,238
COMPOSITION OF CASH:							
Petty Cash							\$ 100
Checking Account - State Bank of Canton							498,463
Money Market Account - Citizens State Bank							224,487
Certificates of Deposit - Citizens State Bank							95,068
Total Cash							818,118
Less Agency Funds per Statement 4							(880)
Total Reporting Entity (Excluding Agency Funds)							\$ 817,238

CITY OF CANTON, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2009

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
GENERAL FUND	\$ 639,912	\$ -	\$ 639,912	\$ 309,253	\$ 330,659
SPECIAL REVENUE FUNDS:					
Special City/County Highway Fund	90,534	-	90,534	7,223	83,311
Special Park and Recreation Fund	10,970	-	10,970	3,579	7,391
Special Equipment Fund	<u>62,542</u>	<u>-</u>	<u>62,542</u>	<u>23,500</u>	<u>39,042</u>
Total Special Revenue Funds	<u>164,046</u>	<u>-</u>	<u>164,046</u>	<u>34,302</u>	<u>129,744</u>
ENTERPRISE FUNDS:					
Sewer Fund	193,220	-	193,220	83,782	109,438
Water Fund	<u>316,120</u>	<u>-</u>	<u>316,120</u>	<u>168,297</u>	<u>147,823</u>
Total Enterprise Funds	<u>509,340</u>	<u>-</u>	<u>509,340</u>	<u>252,079</u>	<u>257,261</u>
Total Reporting Entity	<u>\$ 1,313,298</u>	<u>\$ -</u>	<u>\$ 1,313,298</u>	<u>\$ 595,634</u>	<u>\$ 717,664</u>

CITY OF CANTON, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes -				
Ad valorem property tax	\$ 160,384	\$ 166,154	\$ 174,000	\$ (7,846)
Back tax collections	7,255	6,188	1,500	4,688
Motor vehicle tax	34,839	27,089	32,210	(5,121)
Recreational vehicle tax	816	785	747	38
16/20M vehicle tax	449	577	428	149
LAVTR	-	-	4,000	(4,000)
Local sales tax	85,464	88,875	60,000	28,875
Sales tax for streets	-	42,008	41,000	1,008
Local alcoholic liquor tax	2,229	2,197	1,979	218
M&E slider tax	1,343	-	1,000	(1,000)
Special assessments	657	845	-	845
Total Taxes	293,436	334,718	316,864	17,854
Licenses and Permits -				
Utility franchise taxes	34,738	29,369	25,000	4,369
City licenses and building permits	506	1,300	400	900
Total Licenses and Permits	35,244	30,669	25,400	5,269
Fines, Forfeitures and Penalties -				
Police fines	8,439	7,424	9,000	(1,576)
Use of Money and Property -				
Interest income	4,917	5,907	3,000	2,907
Other Income -				
Insurance dividend/claims	3,400	3,524	-	3,524
Economic development	1,071	1,088	1,300	(212)
Swimming pool receipts	4,600	8,417	6,000	2,417
Community center rent	-	2,065	1,200	865
Reimbursements	1,453	5,704	2,000	3,704
Miscellaneous	8,296	1,953	2,000	(47)
Total Other Income	18,820	22,751	12,500	10,251
Total Cash Receipts	360,856	401,469	\$ 366,764	\$ 34,705

The notes to the financial statements are an integral part of this statement.

CITY OF CANTON, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009
(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	<u>2008</u> <u>Actual</u>	<u>2009</u>		<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
		<u>Actual</u>	<u>Budget</u>	
Expenditures				
General Administration -				
Personal services	\$ 71,544	\$ 72,656	\$ 60,400	\$ (12,256)
Contracted services	30,179	28,083	29,000	917
Commodities	57,666	41,413	80,000	38,587
Capital outlay	5,796	10,000	60,000	50,000
Community center	43,241	2,932	5,000	2,068
Transfer to Special Equipment Fund	7,500	7,500	7,500	-
Total General Administration	<u>215,926</u>	<u>162,584</u>	<u>241,900</u>	<u>79,316</u>
Streets -				
Contracted services	<u>48,318</u>	<u>48,371</u>	<u>233,490</u>	<u>185,119</u>
Police Department -				
Personal services	46,634	47,956	53,000	5,044
Commodities	132	-	-	-
Uniforms	920	925	500	(425)
Training	215	201	1,000	799
Dues and subscriptions	136	100	100	-
Equipment maintenance	260	867	1,000	133
Fuel	2,429	1,732	4,500	2,768
Office supplies	339	1,240	500	(740)
Vehicle maintenance	357	1,277	3,000	1,723
Investigations	200	459	500	41
Phones	1,187	1,107	2,000	893
Utilities	1,724	1,160	1,215	55
Insurance	3,173	3,816	4,000	184
Total Police Department	<u>57,706</u>	<u>60,840</u>	<u>71,315</u>	<u>10,475</u>

CITY OF CANTON, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009
(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Expenditures (cont.)				
Fire Department -				
Contracted services	\$ 3,537	\$ 3,667	\$ 3,667	\$ -
McMurray Ball Park -				
Personal services	1,616	-	-	-
Contracted services	278	1,264	2,000	736
Commodities	269	-	-	-
Total McMurray Ball Park	<u>2,163</u>	<u>1,264</u>	<u>2,000</u>	<u>736</u>
Hess Pool -				
Personal services	15,417	20,505	19,000	(1,505)
Contractual services	144	-	-	-
Commodities	6,167	12,022	10,000	(2,022)
Total Hess Pool	<u>21,728</u>	<u>32,527</u>	<u>29,000</u>	<u>(3,527)</u>
Street Repair/Sales Tax -				
Contractual services	-	-	41,000	41,000
Economic Development	-	-	17,540	17,540
Parks and Recreation	252	-	-	-
Total Expenditures	<u>349,630</u>	<u>309,253</u>	<u>\$ 639,912</u>	<u>\$ 330,659</u>
Receipts Over (Under) Expenditures	11,226	92,216		
Unencumbered Cash, Beginning	<u>312,675</u>	<u>323,901</u>		
Unencumbered Cash, Ending	<u>\$ 323,901</u>	<u>\$ 416,117</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF CANTON, KANSAS

SPECIAL REVENUE FUNDSPECIAL CITY/COUNTY HIGHWAY FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	<u>2008</u>	<u>2009</u>		<u>Variance -</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
Cash Receipts				
State of Kansas - fuel tax	\$ 23,009	\$ 20,007	<u>\$ 23,870</u>	<u>\$ (3,863)</u>
Expenditures				
Street maintenance	<u>52,130</u>	<u>7,223</u>	<u>\$ 90,534</u>	<u>\$ 83,311</u>
Receipts Over (Under) Expenditures	(29,121)	12,784		
Unencumbered Cash, Beginning	<u>85,264</u>	<u>56,143</u>		
Unencumbered Cash, Ending	<u>\$ 56,143</u>	<u>\$ 68,927</u>		

CITY OF CANTON, KANSAS

SPECIAL REVENUE FUNDSSPECIAL PARK AND RECREATION FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local alcoholic liquor tax	\$ 2,229	\$ 2,197	\$ 1,978	\$ 219
Expenditures				
Personal services	-	1,650	\$ 1,800	\$ 150
Contracted services	-	-	500	500
Park improvement	2,218	1,929	8,670	6,741
Total Expenditures	2,218	3,579	\$ 10,970	\$ 7,391
Receipts Over (Under) Expenditures	11	(1,382)		
Unencumbered Cash, Beginning	8,973	8,984		
Unencumbered Cash, Ending	\$ 8,984	\$ 7,602		

CITY OF CANTON, KANSAS

SPECIAL REVENUE FUNDSPECIAL EQUIPMENT FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Interest	\$ 244	\$ 10	\$ 200	\$ (190)
Transfer from General Fund	7,500	7,500	7,500	-
Transfer from Sewer Fund	2,500	2,500	2,500	-
Transfer from Water Fund	2,500	2,500	2,500	-
Total Cash Receipts	<u>12,744</u>	<u>12,510</u>	<u>\$ 12,700</u>	<u>\$ (190)</u>
Expenditures				
Capital outlay	<u>3,000</u>	<u>23,500</u>	<u>\$ 62,542</u>	<u>\$ 39,042</u>
Receipts Over (Under) Expenditures	9,744	(10,990)		
Unencumbered Cash, Beginning	<u>40,142</u>	<u>49,886</u>		
Unencumbered Cash, Ending	<u>\$ 49,886</u>	<u>\$ 38,896</u>		

CITY OF CANTON, KANSAS

CAPITAL PROJECT FUNDCAPITAL IMPROVEMENT FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Grant funds	\$ 30,898	\$ -	\$ -	\$ -
Expenditures				
Community Center project	-	-	\$ -	\$ -
Receipts Over (Under) Expenditures	30,898	-		
Unencumbered Cash, Beginning	(30,898)	-		
Unencumbered Cash, Ending	\$ -	\$ -		

CITY OF CANTON, KANSAS

ENTERPRISE FUNDSEWER FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sewer collections	\$ 65,894	\$ 68,916	\$ 73,700	\$ (4,784)
Interest income	1,777	1,015	100	915
Miscellaneous	6	-	-	-
Total Cash Receipts	<u>67,677</u>	<u>69,931</u>	<u>\$ 73,800</u>	<u>\$ (3,869)</u>
Expenditures				
Personal services	21,397	38,950	\$ 40,770	\$ 1,820
Contractual services	9,187	8,898	6,000	(2,898)
Commodities	7,918	14,472	10,000	(4,472)
Capital outlay	-	-	114,988	114,988
Transfer to Special Equipment Fund	2,500	2,500	2,500	-
Revolving Loan Principal	11,052	11,384	11,384	-
Revolving Loan Interest	7,910	7,578	7,578	-
Total Expenditures	<u>59,964</u>	<u>83,782</u>	<u>\$ 193,220</u>	<u>\$ 109,438</u>
Receipts Over (Under) Expenditures	7,713	(13,851)		
Unencumbered Cash, Beginning	<u>136,782</u>	<u>144,495</u>		
Unencumbered Cash, Ending	<u>\$ 144,495</u>	<u>\$ 130,644</u>		

CITY OF CANTON, KANSAS

ENTERPRISE FUNDWATER FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2009

(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	2008 Actual	2009		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Water collections	\$ 159,875	\$ 162,656	\$ 165,000	\$ (2,344)
Meter hookups/connection fees	2,340	2,240	3,000	(760)
Sales tax	811	852	1,000	(148)
Interest	1,966	1,061	750	311
Miscellaneous	1,017	2,933	150	2,783
Total Cash Receipts	<u>166,009</u>	<u>169,742</u>	<u>\$ 169,900</u>	<u>\$ (158)</u>
Expenditures				
Personal services	42,868	47,578	\$ 50,000	\$ 2,422
Contractual services	6,723	17,053	10,000	(7,053)
Trash hauling	40,365	35,031	43,000	7,969
Commodities	42,462	28,497	50,000	21,503
Capital outlay	13,122	36,809	159,620	122,811
Sales tax	819	829	1,000	171
Transfer to Special Equipment Fund	2,500	2,500	2,500	-
Total Expenditures	<u>148,859</u>	<u>168,297</u>	<u>\$ 316,120</u>	<u>\$ 147,823</u>
Receipts Over (Under) Expenditures	17,150	1,445		
Unencumbered Cash, Beginning	<u>131,820</u>	<u>148,970</u>		
Unencumbered Cash, Ending	<u>\$ 148,970</u>	<u>\$ 150,415</u>		

CITY OF CANTON, KANSAS

AGENCY FUNDSTATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
For the Year Ended December 31, 2009

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Payroll Clearing Fund	\$ -	\$ 187,594	\$ 186,714	\$ 880

CITY OF CANTON, KANSAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The City of Canton is a municipal corporation governed by an elected mayor and elected five-member council. These financial statements present the City of Canton. The City does not have any component units.

(b) Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for separately. Funds are classified into three categories: governmental, proprietary and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

Governmental Fund Types

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources other than special assessments, private purpose trust or major capital projects that are legally restricted to expenditures for specified purposes.

Capital Project Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary and Permanent Funds.

Proprietary Fund Types

These funds account for operations that are self-supporting through user charges. The funds included in this category are Enterprise Funds.

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Types

These funds account for assets held by the City as a trustee or agent for individuals, private organizations and other units of governments. These funds are as follows:

Agency Funds - These funds are used to account for assets received for, held for, and disbursed to individuals, other State and Local Government unit funds or other governmental or private sector organizations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

(d) Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

(e) Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specifically exempted by statute), Debt Service Funds and Enterprise Funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1.
2. Publication in local newspaper on or before August 5 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2009.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(e) Budgetary Information (cont.)

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budget expenditure authority lapses at year end.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

No statutory violations noted in 2009.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The City does not have investments at December 31, 2009.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2009.

At December 31, 2009, the City's carrying amount of deposits was \$818,018 and the bank balance was \$832,468. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance and the remaining \$332,468 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2009, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/Payments	Net Change	Balance End of Year	Interest Paid
Kansas Water Pollution Control Revolving Loan	2.73%	7-27-04	\$ 288,228	3-1-26	\$ 257,121	\$ -	\$ 11,384	\$ (11,384)	\$ 245,737	\$ 7,578
Total Long-Term Debt					\$ 257,121	\$ -	\$ 11,384	\$ (11,384)	\$ 245,737	\$ 7,578

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	YEAR								
	2010	2011	2012	2013	2014	2015 to 2019	2020 to 2024	2025 to 2026	Total
PRINCIPAL:									
Kansas Water Pollution Control Revolving Loan	\$ 11,726	\$ 12,078	\$ 12,440	\$ 12,814	\$ 13,199	\$ 72,180	\$ 83,685	\$ 27,615	\$ 245,737
INTEREST:									
Kansas Water Pollution Control Revolving Loan	7,236	6,884	6,522	6,148	5,763	22,630	11,125	827	67,135
TOTAL PRINCIPAL AND INTEREST	\$ 18,962	\$ 18,962	\$ 18,962	\$ 18,962	\$ 18,962	\$ 94,810	\$ 94,810	\$ 28,442	\$ 312,872

5. PENSION COSTS AND EMPLOYEE BENEFITS

(a) Defined Benefit Pension Plan

Plan Description. The City contributes to the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100; Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established for calendar year 2009 is 6.54%. (Included in this rate is the contribution for Group Death and Disability Insurance of 1.0% from March 1, 2009 through November 30, 2009). The City employer contributions to KPERs for the years ending December 31, 2009, 2008, and 2007 were \$3,732, \$2,959, and \$4,362, respectively, equal to the required contributions for each year.

5. PENSION COSTS AND EMPLOYEE BENEFITS (CONT.)

(b) Other Employee Benefits

Vacation - Vacation leave if not taken shall not accrue from year to year. No vacation leave shall be taken until a new employee has completed one year of continuous service. Employees may use vacation leave in units of not less than one hour. Upon retirement, discharge, dismissal, or other circumstances of separation of an employee from his employment with the City, the City, in its discretion, may pay to such employee the value of any earned but unused vacation leave.

Each permanent full-time employee will accrue vacation leave as follows:

<u>Years of Service</u>	<u>Per Year</u>
After 1 year	40 working hours
After 2 years	80 working hours
After 6 years	120 working hours
After 15 years	160 working hours

Other employees shall not receive vacation leave.

Sick leave - All full-time employees and part-time employee who work at least 20 hours or more per week, shall be entitled to sick leave with pay for absences resulting from personal illness, injuries, accidents or other physical incapacities, occurring either on or off the job. Sick leave, if not taken, shall accrue to no more than 720 hours at the end of each year. All excess sick days not used by the end of the year will be forfeited. Upon termination, no employee will be compensated for unused sick leave.

Amount of sick leave - Eligible employees shall earn eight hours of sick leave for each full month of service. Other employees shall not have paid sick leave.

(c) Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

6. JOINTLY GOVERNED ORGANIZATION

McPherson Area Solid Waste Utility

The City along with McPherson County and seven other cities located within McPherson County entered into an interlocal agreement, authorized by State Statute, to form the McPherson Area Solid Waste Utility (the Utility) effective July 17, 1991. The purpose of the Utility is to assist its Members in planning, technical and financial matters for comprehensive solid waste management and accomplish the desired objectives of an effective county-wide solid waste management program, including the operation of a cooperative solid waste management program and the operation of a cooperative solid waste processing and disposal system for the benefit of its Members.

6. JOINTLY GOVERNED ORGANIZATION (CONT.)

McPherson Area Solid Waste Utility (cont.)

Management of the Utility is carried out by an appointed three member Board of Directors. The City of McPherson appoints one member to the Board of Directors, McPherson County appoints a second Director and the third Director is appointed collectively by the other seven Members of the Utility.

The agreement and the Utility may be terminated by written consent of at least two-thirds of the Members, provided that prior to such termination all contractual obligations and indebtedness of the Utility have been paid in full or sufficient resources have been escrowed for the payment of such obligations in full when due. Upon such termination, the Board of Directors shall liquidate the Utility and distribute the assets in a manner that, in its discretion, it deems appropriate. Accordingly, any ongoing financial interest or access to the Utility's resources is indeterminable until such action is taken by its Board of Directors. In addition, no Member shall be permitted to withdraw for twenty years or such sooner time as provision is made for the payment or discharge of the debt incurred by the County or assumed by the Utility. Any withdrawing Member shall not be entitled to distribution of any real or personal property of the Utility by reason of its withdrawal.

The Board of Directors shall determine the methods of obtaining financing for the Utility. The County provided the initial financing for the acquisition of land to be used as a site for disposal of refuse, constructing structures and acquiring equipment necessary for the sanitary disposal of refuse in McPherson County. Effective January 1, 1992, the fiscal accounting and operations of the Utility were transferred from McPherson County to management of the Utility.

Condensed financial information of the McPherson Area Solid Waste Utility as of and for the year ended December 31, 2008 is as follows:

Total Assets	\$	11,510,623
Total Liabilities		5,727,964
Total Net Assets		5,782,659
Total Revenues		5,108,860
Total Expenses		4,629,723
Change in Net Assets		479,137

Complete financial statements for the McPherson Area Solid Waste Utility may be obtained from the administrative offices of the entity at 1431 17th Ave, McPherson, Kansas 67460.

7. CLAIMS AND JUDGMENTS

The City participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of March 2, 2010, grant expenditures have not been audited, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

The City is exposed to various risks of loss related to property loss; torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2008 to 2009 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations, the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material impact on the City.

8. RELATED PARTY

A Council member is an officer of one of the financial institutions where the City has funds deposited. At December 31, 2009, funds deposited at this institution totaled \$498,463.

9. INTERFUND TRANSFERS

A summary of operating transfers by fund are as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Special Equipment	K.S.A. 12-1, 117	\$ 7,500
Sewer	Special Equipment	K.S.A. 12-1, 117	2,500
Water	Special Equipment	K.S.A. 12-1, 117	<u>2,500</u>
Total			<u>\$ 12,500</u>