

**CITY OF HORTON, KANSAS**  
**Financial Statements**  
**For the Year Ended December 31, 2009**

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CITY OF HORTON, KANSAS  
 Financial Statements  
 For the Year Ended December 31, 2009

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CITY OF HORTON, KANSAS  
Financial Statements  
For the Year Ended December 31, 2009

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# LOWENTHAL, WEBB & ODERMANN, P.A.

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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Mayor and City Commission  
City of Horton, Kansas

We have audited the accompanying primary government financial statements of the City of Horton, Kansas (the City), 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 management of the City of Horton, Kansas. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2008. In our report dated August 17, 2009, on those financial statements, we expressed an adverse opinion as to presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

We conducted our 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 and "Kansas Municipal Audit Guide." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. 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.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the financial data of one of the component units of the City of Horton, Kansas as of December 31, 2009.

As described in Note 1, the City of Horton, Kansas, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the financial data of one, but not all, of the component units of the City of Horton, Kansas, and, because of the City's policy to prepare its financial statements on the basis of accounting 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Horton, Kansas, as of December 31, 2009, or the respective changes in financial position for the year then ended.

Also, in our opinion, the primary government financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Horton, Kansas, as of December 31, 2009, and its cash receipts and expenditures by fund, and fund budget to actual comparisons, for the year then ended, taken as a whole, on the prescribed basis of accounting described in Note 1.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2008, from which such partial information was derived.

In accordance with "Government Auditing Standards," we have also issued our report dated November 1, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole, on the basis of accounting described in Note 1.

*Lowenthal, Welt & Odummann, P.A.*

November 1, 2010

CITY OF HORTON, KANSAS  
Summary of Cash Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2009

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 19,073	\$ -	\$ 1,247,504	\$ 1,215,822	\$ 50,755	\$ -	\$ 50,755
Special Revenue Funds:							
Industrial Fund	4,065	-	6,993	3,200	7,858	-	7,858
Special Highway Fund	15,719	-	45,503	-	61,222	-	61,222
Equipment Reserve Fund	12,475	-	-	-	12,475	-	12,475
Public Building Reserve Fund	1,774	-	-	869	905	-	905
State Grant Fund	200,275	-	5,274,770	4,583,727	891,318	-	891,318
Court Diversion Fund	1,397	-	3,100	240	4,257	-	4,257
Debt Service Fund:							
Bond and Interest Fund	887	-	4,928	5,018	797	-	797
Enterprise Funds:							
Water Fund	189,780	-	276,658	241,514	224,924	543	225,467
Sewer Fund	106,931	-	193,166	152,930	147,167	-	147,167
Sewer Improvement Fund	349	-	-	349	-	-	-
Electric Fund	1,027,130	-	3,047,334	2,956,319	1,118,145	4,980	1,123,125
Solid Waste Fund	15,104	-	109,704	106,058	18,750	-	18,750
Private-Purpose Trust Funds	10,121	-	1,247	1,329	10,039	-	10,039
Total Primary Government	1,605,080	-	10,210,907	9,267,375	2,548,612	5,523	2,554,135
Component Units:							
Horton Free Public Library	87,449	-	67,000	63,950	90,499	-	90,499
Total Reporting Entity	<u>\$ 1,692,529</u>	<u>\$ -</u>	<u>\$ 10,277,907</u>	<u>\$ 9,331,325</u>	<u>\$ 2,639,111</u>	<u>\$ 5,523</u>	<u>\$ 2,644,634</u>

## COMPOSITION OF CASH:

Horton National Bank:	
Checking	\$ 1,807,307
Certificates of Deposit	3,769
Union State Bank:	
Certificates of Deposit	100,000
Savings - Library	24,753
United Bank of Kansas:	
Checking	45,055
Certificates of Deposit	200,000
State of Kansas Municipal Investment Pool	396,177
Horton National Bank - Library:	
Checking	17,851
Savings	36,248
Certificates of Deposit	11,647
Total Cash	<u>2,642,807</u>
Less: Agency Funds	<u>1,827</u>
Total (Excluding Agency Funds)	<u>\$ 2,644,634</u>

## STATEMENT 2

CITY OF HORTON, KANSAS  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year Budget</u>	<u>Variance Positive [Negative]</u>
General Fund	\$ 1,285,117	\$ -	\$ 1,285,117	\$ 1,215,822	\$ 69,295
Special Revenue Funds:					
Industrial	9,973	-	9,973	3,200	6,773
Special Highway	65,000	-	65,000	-	65,000
Equipment Reserve	-	-	-	-	-
Public Building Reserve	900	-	900	869	31
Court Diversion	3,000	-	3,000	240	2,760
Debt Service Fund:					
Bond and Interest	5,018	-	5,018	5,018	-
Enterprise Funds:					
Water	259,281	-	259,281	241,514	17,767
Sewer	196,055	-	196,055	152,930	43,125
Electric	1,764,185	1,620,000	3,384,185	2,956,319	427,866
Solid Waste	106,500	-	106,500	106,058	442

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

CITY OF HORTON, KANSAS  
 General Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 730,151	\$ 756,801	\$ 758,860	\$ [2,059]
Intergovernmental	19,730	19,702	20,000	[298]
Franchise tax	61,282	57,290	70,000	[12,710]
Licenses	3,102	5,179	1,550	3,629
Fines and fees	68,192	59,480	112,300	[52,820]
Interest	36,917	24,716	69,000	[44,284]
Use of property	11,200	17,050	-	17,050
Charges for services	50,383	60,113	19,850	40,263
Grants	3,533	3,533	-	3,533
Transfer in	185,140	185,000	185,000	-
Reimbursement	150,052	58,640	-	58,640
Miscellaneous	-	-	55,000	[55,000]
Total Cash Receipts	<u>1,319,682</u>	<u>1,247,504</u>	<u>\$ 1,291,560</u>	<u>\$ [44,056]</u>
Expenditures and Transfers Subject to Budget				
General Government				
Personnel	173,058	178,464	\$ 188,185	\$ 9,721
Contractual services	56,480	51,002	54,650	3,648
Commodities	22,276	14,653	21,885	7,232
Capital outlay	1,389	6,840	19,100	12,260
Miscellaneous	3,759	7,562	7,791	229
Law Enforcement				
Personnel	193,612	194,232	198,189	3,957
Contractual services	12,493	11,854	14,000	2,146
Commodities	33,664	23,858	32,000	8,142
Capital outlay	5,242	3,925	11,000	7,075
Parks and Recreation				
Personnel	14,974	13,668	11,932	[1,736]
Contractual services	8,719	8,826	8,500	[326]
Commodities	15,775	15,719	21,000	5,281
Capital outlay	14,939	-	16,000	16,000
Streets				
Personnel	105,661	102,431	105,843	3,412
Contractual services	112,205	20,612	25,000	4,388
Commodities	110,077	96,981	40,000	[56,981]
Capital outlay	4,921	-	41,000	41,000
Debt service	-	-	15,446	15,446

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

CITY OF HORTON, KANSAS  
General Fund (Continued)  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Library				
Contractual services	\$ 38,000	\$ 40,000	\$ 40,000	\$ -
Capital outlay	2,000	4,000	4,000	-
Cemetery	5,548	10,056	12,000	1,944
Airport	2,272	2,697	2,200	[497]
Firing Range				
Contractual services	118	198	1,000	802
Commodities	4,745	3,225	1,000	[2,225]
Pool				
Personnel	23,130	25,355	17,740	[7,615]
Contractual services	4,548	8,364	9,400	1,036
Commodities	7,191	8,096	12,600	4,504
Capital outlay	-	-	11,961	11,961
Communications				
Personnel	123,874	127,249	119,497	[7,752]
Contractual services	9,865	8,318	13,000	4,682
Commodities	9,081	10,568	8,000	[2,568]
Capital outlay	4,729	-	9,000	9,000
Court				
Personnel	5,862	5,167	7,291	2,124
Contractual services	6,427	10,560	6,300	[4,260]
Commodities	14,821	11,879	11,000	[879]
Fire Department				
Personnel	9,390	12,857	13,905	1,048
Contractual services	7,558	8,118	6,800	[1,318]
Commodities	8,747	12,313	8,000	[4,313]
Capital outlay	2,559	8,261	10,986	2,725
Employee benefits	104,927	110,006	109,722	[284]
Transfer out	2,000	-	2,000	2,000
Debt service	<u>36,965</u>	<u>37,908</u>	<u>16,194</u>	<u>[21,714]</u>
 Total Expenditures and Transfers Subject to Budget	 <u>1,323,601</u>	 <u>1,215,822</u>	 <u>\$ 1,285,117</u>	 <u>\$ 69,295</u>
 Receipts Over [Under] Expenditures	 [3,919]	 31,682		
 Unencumbered Cash, Beginning	 <u>22,992</u>	 <u>19,073</u>		
 Unencumbered Cash, Ending	 <u>\$ 19,073</u>	 <u>\$ 50,755</u>		

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

CITY OF HORTON, KANSAS  
 Industrial Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 7,457	\$ 6,993	\$ 7,379	\$ [386]
Total Cash Receipts	<u>7,457</u>	<u>6,993</u>	<u>\$ 7,379</u>	<u>\$ [386]</u>
Expenditures and Transfers Subject to Budget				
Contractual	-	-	\$ 7,973	\$ 7,973
Commodities	<u>6,536</u>	<u>3,200</u>	<u>2,000</u>	<u>[1,200]</u>
Total Expenditures and Transfers Subject to Budget	<u>6,536</u>	<u>3,200</u>	<u>\$ 9,973</u>	<u>\$ 6,773</u>
Receipts Over [Under] Expenditures	921	3,793		
Unencumbered Cash, Beginning	<u>3,144</u>	<u>4,065</u>		
Unencumbered Cash, Ending	<u>\$ 4,065</u>	<u>\$ 7,858</u>		

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

## STATEMENT 3-3

CITY OF HORTON, KANSAS  
Special Highway Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 52,487	\$ 45,503	\$ 54,690	\$ [9,187]
Total Cash Receipts	<u>52,487</u>	<u>45,503</u>	<u>\$ 54,690</u>	<u>\$ [9,187]</u>
Expenditures and Transfers Subject to Budget				
Contractual services	-	-	\$ 20,000	\$ 20,000
Commodities	-	-	40,000	40,000
Transfer out	95,000	-	-	-
Capital outlay	-	-	5,000	5,000
Total Expenditures and Transfers Subject to Budget	<u>95,000</u>	<u>-</u>	<u>\$ 65,000</u>	<u>\$ 65,000</u>
Receipts Over [Under] Expenditures	[42,513]	45,503		
Unencumbered Cash, Beginning	<u>58,232</u>	<u>15,719</u>		
Unencumbered Cash, Ending	<u>\$ 15,719</u>	<u>\$ 61,222</u>		

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

CITY OF HORTON, KANSAS  
 Equipment Reserve Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Transfer in	\$ 2,000	\$ -	\$ 2,000	\$ [2,000]
Total Cash Receipts	<u>2,000</u>	<u>-</u>	<u>2,000</u>	<u>[2,000]</u>
Expenditures and Transfers Subject to Budget				
Commodities	-	-	\$ -	\$ -
Total Expenditures and Transfers Subject to Budget	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts Over [Under] Expenditures	2,000	-		
Unencumbered Cash, Beginning	<u>10,475</u>	<u>12,475</u>		
Unencumbered Cash, Ending	<u>\$ 12,475</u>	<u>\$ 12,475</u>		

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

## STATEMENT 3-5

CITY OF HORTON, KANSAS  
 Public Building Reserve Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Transfer in	\$ -	\$ -	\$ -	\$ -
Total Cash Receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	<u>1,580</u>	<u>869</u>	<u>\$ 900</u>	<u>\$ 31</u>
Total Expenditures and Transfers Subject to Budget	<u>1,580</u>	<u>869</u>	<u>\$ 900</u>	<u>\$ 31</u>
Receipts Over [Under] Expenditures	[1,580]	[869]		
Unencumbered Cash, Beginning	<u>3,354</u>	<u>1,774</u>		
Unencumbered Cash, Ending	<u>\$ 1,774</u>	<u>\$ 905</u>		

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

CITY OF HORTON, KANSAS  
 Grants Fund  
 Statement of Cash Receipts and Expenditures - Actual\*  
 For the Year Ended December 31, 2009 and 2008

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Cash Receipts		
Grants	\$ 1,230,147	\$ 115,051
Interest income	-	1,791
Use of property	36,218	55,258
Miscellaneous	8,405	63,077
Bond proceeds	<u>4,000,000</u>	<u>1,495,000</u>
Total Cash Receipts	<u>5,274,770</u>	<u>1,730,177</u>
Expenditures and Transfers		
Contractual	2,641,014	295,612
Commodities	227,063	129,624
Bond payment	1,549,624	207,500
Capital outlay	<u>166,026</u>	<u>932,833</u>
Total Expenditures and Transfers	<u>4,583,727</u>	<u>1,565,569</u>
Receipts Over [Under] Expenditures	691,043	164,608
Unencumbered Cash, Beginning	<u>200,275</u>	<u>35,667</u>
Unencumbered Cash, Ending	<u>\$ 891,318</u>	<u>\$ 200,275</u>

\* This fund is not required to be budgeted.

## STATEMENT 3-7

CITY OF HORTON, KANSAS  
 Court Diversion Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 4,050	\$ 3,100	\$ 3,000	\$ 100
Total Cash Receipts	<u>4,050</u>	<u>3,100</u>	<u>\$ 3,000</u>	<u>\$ 100</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	3,127	-	\$ 2,000	\$ 2,000
Commodities	-	240	1,000	760
Transfer out	10,714	-	-	-
Total Expenditures and Transfers Subject to Budget	<u>13,841</u>	<u>240</u>	<u>\$ 3,000</u>	<u>\$ 2,760</u>
Receipts Over [Under] Expenditures	[9,791]	2,860		
Unencumbered Cash, Beginning	<u>11,188</u>	<u>1,397</u>		
Unencumbered Cash, Ending	<u>\$ 1,397</u>	<u>\$ 4,257</u>		

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

CITY OF HORTON, KANSAS  
 Bond and Interest Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Taxes	\$ 25,632	\$ 4,928	\$ 4,131	\$ 797
Total Cash Receipts	<u>25,632</u>	<u>4,928</u>	<u>\$ 4,131</u>	<u>\$ 797</u>
Expenditures and Transfers Subject to Budget				
Principal	25,000	-	\$ -	\$ -
Interest	338	-	-	-
Fees	375	5,018	5,018	-
Total Expenditures and Transfers Subject to Budget	<u>25,713</u>	<u>5,018</u>	<u>\$ 5,018</u>	<u>\$ -</u>
Receipts Over [Under] Expenditures	[81]	[90]		
Unencumbered Cash, Beginning	<u>968</u>	<u>887</u>		
Unencumbered Cash, Ending	<u>\$ 887</u>	<u>\$ 797</u>		

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

CITY OF HORTON, KANSAS  
 Water Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 262,124	\$ 275,784	\$ 225,000	\$ 50,784
Transfer in	690	-	-	-
Miscellaneous	5,194	874	4,000	[3,126]
Total Cash Receipts	<u>268,008</u>	<u>276,658</u>	<u>\$ 229,000</u>	<u>\$ 47,658</u>
Expenditures and Transfers Subject to Budget				
Personnel	93,809	100,087	\$ 117,261	\$ 17,174
Contractual	63,953	71,381	45,000	[26,381]
Commodities	35,494	27,716	64,800	37,084
Capital outlay	17,481	16,307	5,200	[11,107]
Debt service	26,448	26,023	26,020	[3]
Transfer out	120,000	-	1,000	1,000
Total Expenditures and Transfers Subject to Budget	<u>357,185</u>	<u>241,514</u>	<u>\$ 259,281</u>	<u>\$ 17,767</u>
Receipts Over [Under] Expenditures	[89,177]	35,144		
Unencumbered Cash, Beginning	<u>278,957</u>	<u>189,780</u>		
Unencumbered Cash, Ending	<u>\$ 189,780</u>	<u>\$ 224,924</u>		

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

CITY OF HORTON, KANSAS  
Sewer Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 186,299	\$ 191,969	\$ 191,020	\$ 949
Transfer in	-	349	-	349
Miscellaneous	<u>4,517</u>	<u>848</u>	<u>-</u>	<u>848</u>
Total Cash Receipts	<u>190,816</u>	<u>193,166</u>	<u>\$ 191,020</u>	<u>\$ 2,146</u>
Expenditures and Transfers Subject to Budget				
Personnel	56,774	60,172	\$ 90,840	\$ 30,668
Contractual	22,704	32,122	25,000	[7,122]
Commodities	20,578	15,768	40,000	24,232
Capital outlay	986	10,653	5,000	[5,653]
Debt service	34,838	34,215	34,215	-
Transfer out	-	-	1,000	1,000
Total Expenditures and Transfers Subject to Budget	<u>135,880</u>	<u>152,930</u>	<u>\$ 196,055</u>	<u>\$ 43,125</u>
Receipts Over [Under] Expenditures	54,936	40,236		
Unencumbered Cash, Beginning	<u>51,995</u>	<u>106,931</u>		
Unencumbered Cash, Ending	<u>\$ 106,931</u>	<u>\$ 147,167</u>		

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

CITY OF HORTON, KANSAS  
Sewer Improvement Fund  
Statement of Cash Receipts and Expenditures - Actual\*  
For the Year Ended December 31, 2009 and 2008

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Cash Receipts		
Bond proceeds	\$ -	\$ -
Total Cash Receipts	<u>-</u>	<u>-</u>
Expenditures and Transfers Subject to Budget		
Transfer out	349	10,000
Capital outlay	-	34,482
Total Expenditures and Transfers Subject to Budget	<u>349</u>	<u>44,482</u>
Receipts Over [Under] Expenditures	[349]	[44,482]
Unencumbered Cash, Beginning	<u>349</u>	<u>44,831</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 349</u>

\* This fund is not required to be budgeted.

CITY OF HORTON, KANSAS  
 Electric Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 1,507,662	\$ 1,427,334	\$ 1,721,480	\$ [294,146]
Bond issuance	-	1,620,000	-	1,620,000
Miscellaneous	-	-	18,800	[18,800]
Total Cash Receipts	<u>1,507,662</u>	<u>3,047,334</u>	<u>\$ 1,740,280</u>	<u>\$ 1,307,054</u>
Expenditures and Transfers Subject to Budget				
Personnel	150,541	146,205	\$ 179,567	\$ 33,362
Contractual	116,061	88,525	188,400	99,875
Commodities	810,914	663,523	855,731	192,208
Capital outlay	5,541	66,256	143,000	76,744
Transfer out	236,674	185,000	185,000	-
Debt service	184,872	1,806,810	212,487	[1,594,323]
Adjustment for qualifying budget credit	-	-	1,620,000	1,620,000
Total Expenditures and Transfers Subject to Budget	<u>1,504,603</u>	<u>2,956,319</u>	<u>\$ 3,384,185</u>	<u>\$ 427,866</u>
Receipts Over [Under] Expenditures	3,059	91,015		
Unencumbered Cash, Beginning	<u>1,024,071</u>	<u>1,027,130</u>		
Unencumbered Cash, Ending	<u>\$ 1,027,130</u>	<u>\$ 1,118,145</u>		

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

CITY OF HORTON, KANSAS  
Solid Waste Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 95,433	\$ 109,704	\$ 107,000	\$ 2,704
Total Cash Receipts	<u>95,433</u>	<u>109,704</u>	<u>\$ 107,000</u>	<u>\$ 2,704</u>
Expenditures and Transfers Subject to Budget				
Contractual	91,520	106,058	\$ 104,500	\$ [1,558]
Commodities	-	-	2,000	2,000
Transfer out	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>96,520</u>	<u>106,058</u>	<u>\$ 106,500</u>	<u>\$ 442</u>
Receipts Over [Under] Expenditures	[1,087]	3,646		
Unencumbered Cash, Beginning	<u>16,191</u>	<u>15,104</u>		
Unencumbered Cash, Ending	<u>\$ 15,104</u>	<u>\$ 18,750</u>		

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

CITY OF HORTON, KANSAS  
Horton Free Public Library  
Statement of Cash Receipts and Cash Disbursements - Actual  
For the Year Ended December 31, 2009

Cash Receipts	
State of Kansas	\$ 1,120
NEKL Association	13,400
City appropriation	44,000
Interest	1,327
Fines and fees	1,536
Grants	1,300
Donations	1,872
Miscellaneous	<u>2,445</u>
 Total Cash Receipts	 <u>67,000</u>
 Expenditures	
Personal service	44,867
Contractual	11,431
Commodities	5,458
Capital outlay	<u>2,194</u>
 Total Expenditures	 <u>63,950</u>
 Receipts Over [Under] Expenditures	 3,050
 Unencumbered Cash, Beginning	 <u>87,449</u>
 Unencumbered Cash, Ending	 <u>\$ 90,499</u>

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

STATEMENT 5

CITY OF HORTON, KANSAS  
 Statement of Cash, Cash Receipts and Cash Disbursements  
 Agency Funds  
 For the Year Ended December 31, 2009

<u>FUNDS</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Payroll Clearing	\$ [752]	\$ 1,211	\$ 1,486	\$ [1,027]
Unreimbursed Medical	<u>[4]</u>	<u>1,415</u>	<u>2,211</u>	<u>[800]</u>
Total Agency Funds	<u>\$ [756]</u>	<u>\$ 2,626</u>	<u>\$ 3,697</u>	<u>\$ [1,827]</u>

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

CITY OF HORTON, KANSAS  
 Summary of Cash Receipts, Expenditures and Unencumbered Cash  
 Private-Purpose Trust Funds  
 For the Year Ended December 31, 2009

<u>FUNDS</u>	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Schneider Poor	\$ 2,428	\$ -	\$ 57	\$ 57	\$ 2,428	\$ -	\$ 2,428
Heart of Horton	483	-	59	172	370	-	370
Restricted Donation (Cemetery Trees)	5,900	-	1,100	1,100	5,900	-	5,900
Cemetery Memorial	1,310	-	31	-	1,341	-	1,341
<b>Total Private-Purpose Trust Fund</b>	<b>\$ 10,121</b>	<b>\$ -</b>	<b>\$ 1,247</b>	<b>\$ 1,329</b>	<b>\$ 10,039</b>	<b>\$ -</b>	<b>\$ 10,039</b>

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Horton (the City) is a municipal corporation governed by an elected five member commission. These financial statements present only the primary government of the City (the primary government) and the Horton Free Public Library component unit. They exclude the Horton Housing Authority component unit for which the City is considered financially accountable.

*Component Units that are Discretely Presented:*

The Horton Free Public Library (Library) serves the citizens within the City's jurisdiction. Acquisition or disposition of real property by the Library must be approved by the City. Bond issues must be approved by the City. The Library has a December 31st year end.

*Component Units that are not Discretely Presented:*

The Housing Authority of the City of Horton (Housing Authority) operates the City's housing projects. The Housing Authority can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the City. The Housing Authority has a March 31st year end. Financial statements for the Housing Authority may be obtained at the Housing Authority of the City of Horton, 1701 Euclid Avenue, Horton, Kansas.

Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, 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.

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, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the 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 accounting principles generally accepted in the United States of America. 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, temporary notes, and compensated absences are not presented in the financial statements.

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the City to use the prescribed basis of accounting.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The City's governmental fund types are:

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

Special Revenue Funds - are used to account for revenues derived from specific taxes, governmental grants or other revenue sources which are restricted to finance particular functions or activities of the City.

The Debt Service Fund is used to account for the accumulation of cash for, and the payment of, principal, interest and other related costs of the City's general obligation bonds.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body 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

Private-Purpose Trust Funds are used to account for assets where both principal and interest may be spent. Private-Purpose trust funds are accounted for in essentially the same manner as the governmental fund types.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. These funds are used to account for assets that the City holds for others in an agency capacity.

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

The statutes allow for the city commission 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. The 2009 budget was amended for the Solid Waste, Bond and Interest, Electric and Public Building Reserve Funds.

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

The statutes permit transferring budgeted amounts between accounts 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.

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. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, agency funds, and certain special revenue funds.

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 city commission.

NOTE 2 - Deposits

The City's cash is considered to be active funds by management and is invested according to KSA 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located or in a county adjacent to the City and the banks provide an acceptable rate for active funds.

Various City investments are considered to be idle funds by management and are invested according to KSA 12-1675. The statute requires that the City invest its idle funds in only temporary notes of the City, bank certificates of deposit, repurchase agreements, and if eligible banks do not offer an acceptable rate for the funds: U.S. Treasury bills or notes or the Kansas Municipal Investment Pool (KMIP). Maturities of the above investments may not exceed two years by statute.

Some of the City's investments are of bond proceeds invested pursuant to KSA 10-131. This statute allows additional investment authority beyond that of KSA 12-1675. Investments of bond proceeds may follow KSA 12-1675 or include other investments such as the KMIP, direct obligations of the U.S. government or any agency thereof, investment agreements with a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's investors service or Standard and Poor's corporation, and various other investments as specified in KSA 10-131.

At December 31, 2009, the City has the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
Kansas Municipal Investment Pool	\$ <u>396,177</u>	S&P AAAf/S1+

The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest by the U.S. government or any agency thereof, with maturities up to four years. No more than 10 percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402.

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 2 - Deposits (Continued)

The City does not have any formal investment policies that would further limit concentration of credit risk, interest rate, or custodial credit risks beyond state statutes.

NOTE 3 - Retirement Plan

Plan Description - The City participates in 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. The report may be obtained by writing to KPERS (611 South Kansas Avenue, Topeka, Kansas 66603) 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 bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The KPERS employer rate was 6.54% from January 1 to February 28, 2009, 5.54% from March 1 to November 30, 2009 and 6.54% from December 1 to December 31, 2009. The City employer contributions to KPERS for the years ending December 31, 2009, 2008, and 2007 were \$42,385, \$37,657, and \$35,938, respectively, equal to the required contributions for each year.

NOTE 4 - Compensated Absences

The City allows certain employees to carryover some of their unused vacation days from one year to the next. These are paid upon termination or retirement if not used. The amount of vacation pay available for use at December 31, 2009, is \$24,978.

NOTE 5 - Related Party Transactions

The city paid \$309 to a company owned by a city commissioner for supplies. The city also paid \$31 to a company owned by the spouse of a member of city management.

NOTE 6 – Lease Agreement

The City, the lessor, entered into a lease agreement with Tri-County Manor Living Center, Inc. on May 1, 2007 for the lease of the manor facility. The lease termination date is March 1, 2023 and requires monthly lease payments of \$1,400 beginning on May 1, 2008 and continuing thereafter until the aggregate amount paid totals \$250,000. Tri-County Manor Living Center, Inc. has the option to purchase the facility upon payment in full of the lease payments totaling \$250,000.

NOTE 7 - Long-Term Debt

Following is a detailed listing of the City's general obligation debt:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding</u>
Improvements	5/2/2005	12/1/2020	3.00 to 4.25%	\$ 300,000	\$ 240,000
Refunding	4/11/2003	12/1/2022	1.25 to 4.75%	615,000	<u>335,000</u>
					<u>\$ 575,000</u>

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 7 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Enterprise Funds</u>
2010	\$ 64,100
2011	62,720
2012	41,270
2013	40,510
2014	39,730
2015-2019	398,263
2020-2022	<u>109,738</u>
Total Principal and Interest	756,333
Less: Interest	<u>181,333</u>
Total	<u>\$ 575,000</u>

Revenue Bonds. The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding</u>
Electric fund refunding bonds	10/22/2009	10/1/2022	2.25 to 4.20%	\$ 1,620,000	\$ 1,620,000
					<u>\$ 1,620,000</u>

Revenue bond debt service requirements to maturity:

<u>Year Ending December 31,</u>	
2010	\$ 158,794
2011	163,730
2012	161,255
2013	163,230
2014	164,780
2015-2019	539,270
2020-2022	<u>753,720</u>
Total Principal and Interest	2,104,779
Less: Interest	<u>484,779</u>
Total	<u>\$ 1,620,000</u>

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 7 - Long-Term Debt (Continued)

The City has entered into lease agreements as lessee for financing the acquisition of equipment.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2009, were as follows:

<u>Year Ending December 31,</u>	
2010	\$ 64,948
2011	45,499
2012	37,707
2013	37,707
2014	<u>37,707</u>
Total minimum lease payments	223,568
Less: amount representing interest	<u>23,358</u>
Present value of minimum lease payments	<u>\$ 200,210</u>

The City issued \$995,000 in temporary notes on March 1, 2009 to refinance the Series 2008 Temporary Notes. The interest rate on the new temporary notes is 4.00% with a final maturity of March 15, 2010. The City has issued \$3,005,000 in temporary notes to refund series 2008-2 temporary notes and to finance the Mission Lake Dredging and Water Facility Improvement project. The notes were issued on July 1, 2009 with a final maturity of January 1, 2011 and an interest rate of 1.90%. A federal loan in the amount of \$4,123,000 and a federal grant, not to exceed \$2,115,400, has been obligated for this project to retire the temporary note obligations.

Following is a summary of changes in long-term debt for the year ended December 31, 2009:

<u>Type of Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Adjustments/ Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Revenue Bonds	\$ 1,655,000	\$ 1,635,700	\$ 1,670,700	\$ 1,620,000
Temporary Notes	1,495,000	4,000,000	1,495,000	4,000,000
General Obligation Bonds	610,000	-	35,000	575,000
Capital Leases	<u>212,912</u>	<u>52,500</u>	<u>65,202</u>	<u>200,210</u>
Total	<u>\$ 3,972,912</u>	<u>\$ 5,688,200</u>	<u>\$ 3,265,902</u>	<u>\$ 6,395,210</u>

NOTE 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks of loss with the exception of loss from damage to or destruction of the electrical distribution system, including related lost revenue. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

CITY OF HORTON, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2009

NOTE 9 - Interfund Transfers

A reconciliation of operating transfers by fund type for 2009 follows:

Fund	To	From
General	\$ 185,000	\$ -
Sewer	349	-
Sewer Improvement	-	349
Electric	-	185,000
 Total	 \$ 185,349	 \$ 185,349

NOTE 10 - Revenue Bond Requirements

The City's electric revenue bond covenants require certain reservations and rate coverage. The reserved portions are as follows:

Reserved for revenue bond principal and interest	\$ 53,147
Reserved for depreciation and repair	158,549
Total reservations as required by bond covenants	\$ 211,696

Rate coverage met bond covenant requirements.

The number of customers served by the electricity system at January 1, 2009 and December 31, 2009 were 1,014 and 999, respectively. The following is a summary of insurance coverage carried on the City's property:

<u>Carrier</u>	<u>Type</u>	<u>Coverage</u>	<u>Premium</u>
EMC Insurance Company Term: 4/1/09 to 4/1/10	Commercial Property	\$7,938,600 Aggregate Limit	\$ 25,255
EMC Insurance Company Term: 4/1/09 to 4/1/10	Inland Marine	\$294,656 Aggregate Limit	3,288
EMC Insurance Company Term: 4/1/09 to 4/1/10	Liability	\$1,000,000 Aggregate Limit \$500,000 Per Occurrence	2,926
EMC Insurance Company Term: 4/1/09 to 4/1/10	Commercial Output	\$8,492,121 Aggregate Limit	23,839
EMC Insurance Company Term: 4/1/09 to 4/1/10	Linebacker	\$1,000,000 Aggregate Limit \$500,000 Per Occurrence	1,416

Similar coverage was in place prior to April 1, 2009.

NOTE 11 – Subsequent Events

On March 15, 2010 the City authorized the issuance of General Obligation Bond Series 2010-1 for a total of \$151,400 in order to finance the purchase of a fire truck and two storm sirens.

CITY OF HORTON, KANSAS

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u> Passed Through Kansas Department of Commerce CDBG Economic Development	14.228	\$ <u>262,179</u>
<u>U.S. Department of Agriculture</u> Community Facility Loans and Grants	10.766	14,000
Water and Waste Disposal Systems for Rural Communities	10.760	1,409,707
Passed Through Kansas State University Public Assistance Grant	10.766	<u>4,592</u> <u>1,428,299</u>
<u>U.S. Department of Transportation</u> Passed Through Kansas Department of Transportation State and Community Highway Safety (STEP)	20.600	<u>1,558</u>
Total Expenditures of Federal Awards		<u>\$ 1,692,036</u>

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of the City. All expenditures of federal financial assistance received directly from federal agencies, if any, as well as federal financial assistance passed through other government agencies is included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on

CITY OF HORTON, KANSAS

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Adverse (GAAP)  
Unqualified (Prescribed Basis)

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified?            Yes    X    No

Significant deficiency (ies) identified that are not considered to be material weaknesses?    X    Yes            No

Noncompliance material to financial statements noted?            Yes    X    No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?            Yes    X    No

Significant deficiency (ies) identified that are not considered to be material weaknesses?            Yes    X    None reported

Type of auditor's report issued on compliance for major programs:           Unqualified          

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?            Yes    X    No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs:           \$300,000          

Auditee qualified as low-risk auditee?            Yes    X    No

CITY OF HORTON, KANSAS

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2009

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>
Not applicable	2009-1	The municipal court receipting function currently lacks a proper separation of duties. The court clerk is also the individual that prepares, reconciles and reviews the outstanding fines and fees list.	Recommend Practices	Not determined	Municipal Court cash receipt procedures should provide for separation between the cash and accounting functions. Specifically, the same person should not be receipting cash, depositing cash into the bank and recording the receipt into the accounting system. We also recommend that the City track all ticket numbers issued to the officers in sequential order. We also recommend that a reconciliation be performed between all tickets issued and the tickets receipted into the accounting system. We recommend that the chief review the status of the tickets issued and review and approve the reconciliation between the ticket log and the receipts recorded into the system.	Agrees

Prior Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	<u>Status</u>
Not applicable	2008-1	The municipal court receipting function currently lacks a proper separation of duties. The court clerk is also the individual that prepares, reconciles and reviews the outstanding fines and fees list.	Recommend Practices	Not determined	Municipal Court cash receipt procedures should provide for separation between the cash and accounting functions. Specifically, the same person should not be receipting cash, depositing cash into the bank and recording the receipt into the accounting system. We also recommend that the City track all ticket numbers issued to the officers in sequential order. We also recommend that a reconciliation be performed between all tickets issued and the tickets receipted into the accounting system. We recommend that the chief review the status of the tickets issued and review and approve the reconciliation between the ticket log and the receipts recorded into the system.	Agrees	Repeated at 2009-1
Not applicable	2008-2	City administrator has not consistently noted approvals on payments.	Internal Policy	Not determined	During the audit we were informed that the city administrator reviews and approves all requisitions. Of the sixty disbursements tested, twenty-six were missing city administrator signature approval on the requisition. We also noted checks for one of the sixty disbursements tested were only signed by two authorized signers. City procedures require that three individuals sign the checks. We recommend that the City enforce current procedures in place regarding the approval of requisitions and the signing of checks.	Agrees	Resolved
Not applicable	2008-3	Journal entries are not properly supported and approved by an individual who is independent of the preparation of journal entries.	Recommend Practices	Not determined	During the audit we were informed that journal entries are not reviewed. We recommend that an individual independent of the journal entry process review journal entries for supporting documentation and reasonableness.	Agrees	Resolved

Section III - Federal Award Findings and Questioned Costs

Current Year Findings

None Noted

Prior Year Findings

None Noted

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# LOWENTHAL, WEBB & ODERMANN, P.A.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Mayor and City Commission  
City of Horton, Kansas

We have audited the financial statements of the City of Horton (City) as of and for the year ended December 31, 2009, and have issued our report thereon dated November 1, 2010 which is a special report on the financial statements prepared in accordance with a basis of accounting prescribed by the State of Kansas. We conducted our 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the schedule of findings and questioned costs, as Finding 2009-1, that we consider to be a significant deficiency in internal control over financial reporting. The City's response to this finding in that same section has not been audited by us and accordingly, we express no opinion on them. 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 charge with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards."

However, we noted certain other matters that we have reported to management in a separate letter dated November 1, 2010.

This communication is intended solely for the information and use of the city administrator, city commission, other members of management, federal awarding agencies and pass through entities, is not intended to be, and should not be used by anyone other than these specified parties.

*Lowenthal, Wett & Odenmann, P.A.*

November 1, 2010

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# LOWENTHAL, WEBB & ODERMANN, P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Commission  
City of Horton, Kansas

#### Compliance

We have audited the compliance of the City of Horton, Kansas (the City), with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended December 31, 2009. Major federal financial programs are identified in the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

#### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the city administrator, mayor, city commission, other members of management, federal awarding agencies and pass through entities, is not intended to be, and should not be used by anyone other than these specified parties.

*Lowenthal, Wett & Odermann, P.A.*

November 1, 2010