

# **The City of McCune, Kansas**

Independent Auditors' Report &  
Financial Statements

December 31, 2009

***Monica R. Kellogg, CPA, LLC***

# The City of McCune, Kansas

December 31, 2009

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Monica R. Kellogg, CPA, LLC

104 West 6th  
P.O. Box 1901  
Pittsburg, KS 66762

Ph: (620) 235-0920  
Fax: (620) 231-0725  
Email: monicacpa@sbcglobal.net

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of McCune, KS

We have audited the accompanying financial statements of the City of McCune, 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 of McCune, Kansas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 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 opinions.

As described more fully in Note 1, the City prepares its financial statements using accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects 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 of McCune, Kansas, as of December 31, 2009, the changes in its financial position, or, where applicable, its cash flows 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 of McCune, Kansas, as of December 31, 2009, and its respective cash receipts and disbursements, and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

The financial statement information is 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, 2009, from which such partial information was derived.

A handwritten signature in cursive script that reads "Monica R. Kellogg CPA LLC".  
Monica R. Kellogg, CPA, LLC

Pittsburg, Kansas  
August 4, 2010



City of McCune, Kansas

Summary of Cash Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2009

Funds	Beginning Unencumbered Cash and Investment Balance December 31, 2008	Cash Receipts	Transfer In	Transfer Out	Expenditures	Ending Unencumbered Cash and Investment Balance, December 31, 2009	Plus Encumbrances and Accounts Payable	Ending Cash and Investment Balance December 31, 2009
General Fund	\$ 51,606	\$ 163,679			\$ 183,086	\$ 32,199	\$ 13,107	\$ 45,306
Special Revenue Funds								
Special Highway	\$ 1,351	\$ 12,176			\$ 13,527	\$ -		\$ -
Debt Service Funds								
Water Reserve	\$ 19,948	\$ 452			\$ -	\$ 20,400		\$ 20,400
Water and Sewer Bond and Interest	\$ 6,565	\$ -	\$ 19,113		\$ 19,113	\$ 6,565		\$ 6,565
Enterprise Funds								
Trash	\$ 3,123	\$ 28,933			\$ 30,006	\$ 2,050	\$ 2,126	\$ 4,176
Water Utility	\$ 12,566	\$ 98,794		\$ 27,592	\$ 71,422	\$ 12,346	\$ 3,326	\$ 15,672
Sewer Utility	\$ 4,438	\$ 39,668	\$ 8,479		\$ 52,009	\$ 576		\$ 576
<b>Total</b>	<b>\$ 99,597</b>	<b>\$ 343,702</b>	<b>\$ 27,592</b>	<b>\$ 27,592</b>	<b>\$ 369,163</b>	<b>\$ 74,136</b>	<b>\$ 18,559</b>	<b>\$ 92,695</b>

Composition of Cash and

Investments:

Checking Account-Unreserved	\$ 59,041
Checking Account-Water Reserve	\$ 625
CD-Water Reserve	\$ 19,775
CD-Capital Projects	\$ 12,904
Petty Cash	\$ 350
	<u>\$ 92,695</u>

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

## City of McCune, Kansas

### Summary of Expenditures - Actual and Budget For the Year Ended December 31, 2009

Funds	Certified Budget	Expenditures and Transfers Out in Current Year	Variance- Favorable (Unfavorable)
<b>General Funds</b>	\$ 168,000	\$ 163,679	\$ 4,321
<b>Special Revenue Funds</b>			
Highway	\$ 10,000	\$ 13,527	\$ (3,527)
<b>Debt Service Funds</b>			
Water Bond & Interest	\$ 19,113	\$ 19,113	\$ -
Sewer Bond & Interest	\$ -	\$ -	\$ -
<b>Enterprise Funds</b>			
Water	\$ 109,550	\$ 99,014	\$ 10,536
Sewer	\$ 47,410	\$ 52,009	\$ (4,599)
Trash	\$ 24,000	\$ 30,006	\$ (6,006)
<b>Total</b>	<u>\$ 378,073</u>	<u>\$ 377,348</u>	<u>\$ 725</u>

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

## City of McCune, Kansas

### GENERAL FUND

#### Summary 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 Actual	2009 Budget	Variance - Favorable (Unfavorable)
Cash Receipts				
Taxes and Shared Revenue:				
Ad Valorem Property Tax	\$ 61,057	\$ 59,749	\$ 63,021	\$ (3,272)
Delinquent Tax	\$ 2,618	\$ 3,638	\$ 3,600	\$ 38
Motor Vehicle (& RV) Tax	\$ 16,654	\$ 17,497	\$ 18,040	\$ (543)
Franchise Tax	\$ 12,085	\$ 13,271	\$ 11,000	\$ 2,271
Sales and Use Tax	\$ 37,348	\$ 34,538	\$ 37,500	\$ (2,962)
16 & 20 M Trucks	\$ 181	\$ 253	\$ 289	\$ (36)
Miscellaneous	\$ 6,818	\$ 4,357	\$ 2,000	\$ 2,357
Investment Income	\$ 1,581	\$ 1,081	\$ 1,000	\$ 81
Cemetery	\$ 7,623	\$ 6,425	\$ 7,000	\$ (575)
Federal and State Aid	\$ -	\$ 22,870	\$ -	\$ 22,870
Transfer from Other Funds	\$ 3,935	\$ -	\$ -	\$ -
Total Cash Receipts	\$ 149,900	\$ 163,679	\$ 143,450	\$ 20,229
Expenditures:				
Personnel Services	\$ 61,917	\$ 63,218	\$ 56,000	\$ (7,218)
Contractual Services	\$ 29,623	\$ 42,440	\$ 38,000	\$ (4,440)
Commodities	\$ 42,921	\$ 53,772	\$ 40,000	\$ (13,772)
Cemetery	\$ 11,645	\$ 3,910	\$ 7,500	\$ 3,590
Police	\$ 8,428	\$ 7,946	\$ 13,000	\$ 5,054
Capital Outlay	\$ -	\$ 6,631	\$ 10,000	\$ 3,369
Miscellaneous	\$ 9,504	\$ 5,169	\$ 3,500	\$ (1,669)
Transfer to Other Funds	\$ 325	\$ -	\$ -	\$ -
Total Expenditures	\$ 164,363	\$ 183,086	\$ 168,000	\$ (15,086)
Receipts Over (Under) Expenditures	\$ (14,463)	\$ (19,407)	\$ (24,550)	\$ 5,143
Unencumbered Cash, Beginning Restated	\$ 66,069	\$ 51,606		
Unencumbered Cash, Ending	\$ 51,606	\$ 32,199		

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

## City of McCune, Kansas

### SPECIAL HIGHWAY FUND

#### Summary 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>Actual</u>	<u>2009</u> <u>Budget</u>	<u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u>
Cash Receipts:				
Taxes and Shared Revenue:				
State allocations	\$ 12,196	\$ 10,716	\$ 12,510	\$ (1,794)
County allocations	\$ 1,608	\$ 1,460	\$ 1,640	\$ (180)
Total Cash Receipts	<u>\$ 13,804</u>	<u>\$ 12,176</u>	<u>\$ 14,150</u>	<u>\$ (1,974)</u>
Expenditures:				
Capital Outlay and Commodities	\$ 18,494	\$ 13,527	\$ 10,000	\$ (3,527)
Total Expenditures	<u>\$ 18,494</u>	<u>\$ 13,527</u>	<u>\$ 10,000</u>	<u>\$ (3,527)</u>
Receipts Over (Under) Expenditures	\$ (4,690)	\$ (1,351)	<u>\$ 4,150</u>	<u>\$ (5,501)</u>
Unencumbered Cash, Beginning	<u>\$ 6,041</u>	<u>\$ 1,351</u>		
Unencumbered Cash, Ending	<u>\$ 1,351</u>	<u>\$ -</u>		

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

## City of McCune, Kansas

### WATER UTILITY BOND & INTEREST FUND

#### Summary 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 Actual	2009 Budget	Variance- Favorable (Unfavorable)
<b>Cash Receipts:</b>				
Operating Transfer from Water Utility Fund	\$ 19,229	\$ 19,113	\$ 19,550	\$ (437)
Interest Income	\$ -		\$ -	
Transfers From Other Funds				
Total Cash Receipts	\$ 19,229	\$ 19,113	\$ 19,550	\$ (437)
<b>Expenditures:</b>				
Bond Principal and Interest	\$ 19,229	\$ 19,113	\$ 20,229	\$ 1,116
Transfer to Other Funds-General Fund	\$ 3,935	\$ -	\$ -	\$ (3,935)
Total Expenditures	\$ 23,164	\$ 19,113	\$ 20,229	\$ (2,819)
Receipts Over (Under) Expenditures	\$ (3,935)	\$ -	\$ (679)	\$ (3,256)
Unencumbered Cash, Beginning, restated	\$ 10,500	\$ 6,565		
Unencumbered Cash, Ending	\$ 6,565	\$ 6,565		

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

## City of McCune, Kansas

### WATER UTILITY RESERVE FUND

Summary 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 Actual</u>	<u>2009 Actual</u>	<u>2009 Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts:				
Transfers From Other Funds	\$ 325	\$ 452	\$ -	\$ -
Total Cash Receipts	<u>\$ 325</u>	<u>\$ 452</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Debt Service	\$ -	\$ -	\$ -	\$ -
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	<u>\$ 325</u>	<u>\$ 452</u>	<u>\$ -</u>	<u>\$ -</u>
Unencumbered Cash, Beginning	<u>\$ 19,623</u>	<u>\$ 19,948</u>		
Unencumbered Cash, Ending	<u><u>\$ 19,948</u></u>	<u><u>\$ 20,400</u></u>		

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

## City of Frontenac, Kansas

### TRASH COLLECTION FUND

#### Summary 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>2009</u>	<u>Variance-</u>
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
<b>Cash Receipts:</b>				
Utility Charges	\$ 29,706	\$ 28,933	\$ 25,000	\$ 3,933
Total Cash Receipts	<u>\$ 29,706</u>	<u>\$ 28,933</u>	<u>\$ 25,000</u>	<u>\$ 3,933</u>
<b>Expenditures:</b>				
Contractual service	\$ 31,256	\$ 30,006	\$ 24,000	\$ (6,006)
Total Expenditures	<u>\$ 31,256</u>	<u>\$ 30,006</u>	<u>\$ 24,000</u>	<u>\$ (6,006)</u>
Receipts Over (Under) Expenditures	\$ (1,550)	\$ (1,073)	<u>\$ 1,000</u>	<u>\$ (2,073)</u>
Unencumbered Cash, Beginning	<u>\$ 4,673</u>	<u>\$ 3,123</u>		
Unencumbered Cash, Ending	<u>\$ 3,123</u>	<u>\$ 2,050</u>		

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

## City of McCune, Kansas

### WATER FUND

#### Summary 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)

	2007 Actual	2008 Actual	2009 Budget	Variance- Favorable (Unfavorable)
Cash Receipts:				
Utility charges	\$ 98,757	\$ 98,794	\$ 113,000	\$ (14,206)
Total Cash Receipts	\$ 98,757	\$ 98,794	\$ 113,000	\$ (14,206)
Expenditures:				
Utility Operations	\$ 43,629	\$ 48,830	\$ 90,000	\$ 41,170
Capital Outlay	\$ 53,867	\$ 22,592	\$ -	\$ 6,133
Operating Transfer to Water & Sewer Bond & Interest Fund	\$ 19,229	\$ 19,113	\$ 19,550	\$ 437
Operating Transfer to Sewer Fund	\$ -	\$ 8,479	\$ -	
Total Expenditures	\$ 116,725	\$ 99,014	\$ 109,550	\$ 47,740
Receipts Over (Under) Expenditures	\$ (17,968)	\$ (220)	\$ 3,450	\$ 33,534
Unencumbered Cash, Beginning	\$ 30,534	\$ 12,566		
Unencumbered Cash, Ending	\$ 12,566	\$ 12,346		

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

## City of McCune, Kansas

### SEWER FUND

Summary 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> Actual	<u>2009</u> Actual	<u>2009</u> Budget	Variance- Favorable (Unfavorable)
<b>Operating Account</b>				
Cash Receipts:				
Utility charges	\$ 40,919	\$ 39,668	\$ 42,500	\$ (2,832)
Transfer From Other Funds	\$ -	\$ 8,479	\$ -	\$ 8,479
Total Cash Receipts	<u>\$ 40,919</u>	<u>\$ 48,147</u>	<u>\$ 42,500</u>	<u>\$ 5,647</u>
Expenditures:				
Personal services and Commodities	\$ 26,288	\$ 20,851	\$ 17,000	\$ (3,851)
Revolving Loan Principal and Interest	\$ 31,158	\$ 31,158	\$ 30,410	\$ (748)
Total Expenditures	<u>\$ 57,446</u>	<u>\$ 52,009</u>	<u>\$ 47,410</u>	<u>\$ (4,599)</u>
Receipts Over (Under) Expenditures	\$(16,527)	\$ (3,862)	<u>\$ (4,910)</u>	<u>\$ 1,048</u>
Unencumbered Cash, Beginning	<u>\$ 20,965</u>	<u>\$ 4,438</u>		
Unencumbered Cash, Ending	<u>\$ 4,438</u>	<u>\$ 576</u>		

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

# THE CITY OF McCUNE, KANSAS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity: The City of McCune is a municipal corporation governed by an elected five-member council. The City has considered whether any other organizations should be included in the reporting entity based upon the significance of their operation or financial relationships with the City, and has determined no other outside organizations should be included as a component unit in the City's financial statements.
- B. 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. 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 inter-fund 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 municipality 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 municipality to use the statutory basis of accounting.
- C. Departures from Generally Accepted Accounting Principles: 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 fund balance are not presented. Under generally accepted accounting principles, 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. Fixed assets that account for land, buildings, and equipment owned by the municipality 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.
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**THE CITY OF McCUNE, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- D. Investments: Investments are recorded at cost. Investment gains and losses are recognized upon disposition of the security or the occurrence of a permanent decline in market value.
- F. Pooled Cash: The City maintains various bank accounts and certificates of deposit for its pooled cash. Each fund's equity in these accounts is presented as "cash and investments" in the statements. Interest income is recorded in the General and Utility Funds.

**NOTE 2: DEPOSITS AND INVESTMENTS**

Collateral is required for demand deposits and certificates of deposit. The market value of the collateral must equal 100% of the deposits in excess of deposit insurance. Obligations that may be pledged as collateral are of the same type as authorized for investment by the City. Obligations pledged to secure deposits are delivered to the safekeeping division of the custodial bank.

At December 31, 2009, the City had deposits, including certificates of deposit, of \$92,695, 100% of which was covered by federal depository insurance and/or collateralized by U.S. Government or agency securities subject to joint custody safekeeping receipts issued by the custodial financial institution, which was not the pledging institution, as required by Kansas statutes.

The City had no investments at December 31, 2009.

State law (KSA 12-1675 to 12-1678) allows monies not otherwise regulated by statute to be invested in:

1. Temporary notes or note fund warrants of the City of McCune
  2. Time deposits, open accounts or certificates of deposit with maturities of not more than two years in commercial banks which have offices located in the City of McCune.
  3. Time certificates of deposit with maturities of not more than two years in state or federally chartered savings and loan associations or federally chartered savings banks which have offices located in the City of McCune.
  4. Repurchase agreements (for direct obligations of or obligations insured as to principal and interest by the U.S. Government or U.S. Government agencies) with commercial banks, state or federally insured chartered savings and loan associations or federally chartered savings banks which have offices located in the City of McCune.
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# THE CITY OF McCUNE, KANSAS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

### NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

5. U.S. Treasury bills or notes with maturities not exceeding two years, purchased from any state or national bank, state or federally chartered savings and loan association or federally chartered savings bank with offices within the State of Kansas or the Federal Reserve Bank of Kansas City, Missouri.
6. The municipal investment pool fund established in K.S.A. 12-1677a.
7. Investments authorized in accordance with the conditions prescribed in K.S.A. 12-1677b.
8. Multiple municipal client investment pools managed by the trust departments of commercial banks which have offices in Crawford County.

Cash and investments at December 31, 2009, were:

Deposits:

Checking accounts	\$ 60,016
Certificates of deposit	\$ <u>32,679</u>
	<u>\$ 92,695</u>

K.S.A. 9-1401 establishes the depositories which may be used by the Government. The statute requires banks eligible to hold the Government's funds have a main or branch bank in the county in which the Government 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 Government has no other policies that would further limit interest rate risk.

### NOTE 3: BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempt 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<sup>st</sup>.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

**THE CITY OF McCUNE, KANSAS****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2009****NOTE 3: BUDGETARY INFORMATION (Continued)**

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 newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The budget information for the general fund in the accompanying financial statements is from amended budget amounts.

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.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, 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 budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds and trust funds.

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# THE CITY OF McCUNE, KANSAS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

### NOTE 4: LONG-TERM DEBT

Following is a detailed listing of the municipality's long-term debt including:

Debt Issue	Date Issued	Original Amount	Interest Rate
Kansas Water Pollution Revolving Loan Fund	03/01/2001	\$ 450,527	3.24%
US Dept of Ag Water System Revenue Bonds	03/28/1990	\$ 300,000	5.75%

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

	Beginning Principal Outstanding	Additions to Principal	Reductions of Principal	Ending Principal Outstanding
Kansas Water Pollution Revolving Loan Fund	\$ 303,358	-	\$ 20,751	\$ 282,607
US Dept of Ag Water System Revenue Bonds	<u>\$ 237,800</u>	-	<u>\$ 5,600</u>	<u>\$ 232,200</u>
	<u>\$ 541,158</u>	=	<u>\$ 26,351</u>	<u>\$ 514,807</u>

### NOTE 5 : DEFINED BENEFIT PENSION PLAN

Plan Description: The City of McCune, KS, participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit plan as provided by K.S.A. 74-4901 et seq. KPERs provides retirement benefits, group 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) 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. Member-employees' contributions are withheld by their employer and paid to KPERs according to 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

# THE CITY OF McCUNE, KANSAS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

### NOTE 5 : DEFINED BENEFIT PENSION PLAN (Continued)

rate for Jan. 1, 2009, to Dec. 31, 2009, is 5.31 % of covered salary. The City of McCune, KS employer contributions to KPERS for the year ended December 31, 2009, was \$5,040, equal to the required contributions for the year.

### NOTE 6: COMPLIANCE WITH KANSAS STATUTES

Actual expenditures exceeded budget in the following funds for the year ended December 31, 2009:

	Actual Expenditures	Budgeted Expenditures
Highway	\$ 13,517	\$ 10,000
Sewer	\$ 52,009	\$ 47,410
Trash	\$ 30,006	\$ 24,000
General	\$ 183,086	\$ 168,000

Actual expenditures in the General, Highway, Sewer and Trash Highway Fund exceeded the budget as noted above, and therefore the City was in violation of Kansas State Statute (K.S.A) 79-2935 which states that expenditures, including encumbrances, in any lawfully budgeted fund should not exceed the adopted budget of expenditures plus any reimbursements of current year expenditures for such fund for that budget year.

### Compliance with Bond Covenants

The City is required, under ordinances of the Water System Revenue Bonds, to maintain certain restricted accounts. The ordinances provide that the following reserve accounts be set up in amounts as described below. The City has maintained the reserve account within the Water Utility Bond and Interest Fund and Water Utility Reserve fund as follows:

<u>Reserve Account</u>	<u>Required</u>	<u>Actual</u>
Water Utility Bond and Interest Fund requires monthly transfers of 1/6 of the next maturing interest and 1/12 of the next maturing principal.	\$ 6,565	\$ 6,565
Water Utility Reserve Fund requires monthly transfers of \$161 per month until the fund equals \$19,314	\$19,314	\$20,400

**THE CITY OF McCUNE, KANSAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 6: COMPLIANCE WITH KANSAS STATUTES (Continued)**

The 1990 Bond Ordinance requires the City to fix and establish water rates sufficient to produce a net income after the payment of operation and maintenance expenses, in an amount equal to the 110% of the succeeding year's principal and interest requirements. For the year ended December 31, 2009, the net income after the payment of operation and maintenance expenses for the Water Utility Fund was \$27,372. 110 % of the debt service requirements for 2010 will be \$21,024. The City complied with this covenant.

**NOTE 7: CONCENTRATIONS OF CREDIT RISK**

The City purchased 100% of its water for resale from one major supplier.

**NOTE 8: RISK MANAGEMENT**

The City is exposed to various risks of loss from torts; theft of, damage to; and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 9: RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009, the Mayor was reimbursed \$9,403 for materials and services performed for the City, as reported on the annual 1099 report.

**NOTE 10: INTERFUND TRANSFERS**

In compliance with K.S.A. 12-101(a) and K.S.A. 12-825(d), the following operating transfers, were as follows for the year ended December 31, 2009:

<b>From</b>	<b>To</b>	<b>Amount</b>
Water Fund	Water Bond and Interest Fund	\$19,113
Water Fund	Sewer Fund	\$ 8,479



*Monica R. Kellogg, CPA, LLC*

104 West 6th  
P.O. Box 1901  
Pittsburg, KS 66762

Ph: (620) 235-0920  
Fax: (620) 231-0725  
Email: [monicacpa@sbcglobal.net](mailto:monicacpa@sbcglobal.net)

City of McCune, Kansas  
Honorable Mayor and City Council

In planning and performing our audit of the financial statements of the City of McCune, Kansas, as of, and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit Guide, we considered the Organization's internal control over financial reporting (internal control) 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies listed below to also be material weaknesses in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

**Material Weakness Number 1: Actual Expenditures Exceeded Budget**

The City's actual expenditures exceeded budgeted expenditures within the following funds for year ended December 31, 2009:

	Actual Expenditures	Budgeted Expenditures
Highway	\$13,517	\$ 10,000
Sewer	\$52,009	\$ 47,410
Trash	\$30,006	\$ 24,000
General	\$183,086	\$168,000

The City needs to closely monitor and periodically review it's expenditures throughout the year and if unexpected costs or expenses are incurred, the Council needs to amend its budget to ensure it does not exceed its budgetary spending authority.

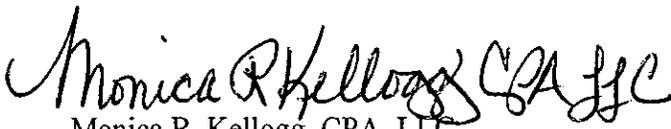
**Material Weakness Number 2: Sewer Fund Requires Annual Transfer from Water**

For the year ended December 31, 2009, \$8,479 had to be transferred from the Water Utility Fund to cover Sewer Fund operations and debt service expense. The Sewer Fund needs to be a self sustaining fund and should not require annual transfers of money from other funds to cover its expenditures.

The City has not raised its sewer rates in several years. It should review the Sewer Fund's operations and expenses, as well as study the current sewer rates, to determine if they should be raised in order for this fund to be financially sound, and not require funding from other funds.

**Should you need assistance with these recommendations, please contract our office and we can help you with these matters.**

This communication is intended solely for the information and use of management and the Mayor and City Council and is not intended to be, and should not be, used by anyone other than those specified parties.

  
Monica R. Kellogg, CPA, LLC  
Pittsburg, Kansas

August 4, 2010



Monica R. Kellogg, CPA, LLC

104 West 6th  
P.O. Box 1901  
Pittsburg, KS 66762

Ph: (620) 235-0920  
Fax: (620) 231-0725  
Email: monicacpa@sbcglobal.net

City of McCune  
McCune, Kansas  
Mayor and City Council

We have audited the financial statements of the City of McCune, Kansas, for the year ended December 31, 2009. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with the statutory basis of accounting, another comprehensive basis of accounting, other than generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of McCune, Kansas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the organization's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted by the City and the application of existing policies was not changed during 2009. We noted no transactions entered into by the City during 2009 that were both significant and unusual, and of which, under professional standards, we are

required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Corrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have been informed that management has corrected all such misstatements. In addition, none of the misstatements, detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the Auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 4, 2010.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

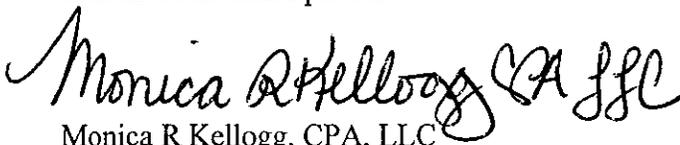
**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters including the application of the accounting principles and auditing standards, with management each year prior to retention as the City's retention as auditor. However, this discussion occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This communication is intended solely for the information and use of the City of McCune, Kansas and grantor agencies assisting the Organization and should be not used by anyone other than these intended parties.



Monica R Kellogg, CPA, LLC  
Pittsburg, Kansas

August 4, 2010