CITY OF TOWANDA, KANSAS

Financial Statements
December 31, 2009

with
Independent Auditors' Report

CITY OF TOWANDA, KANSAS
Financial Statements
December 31, 2009

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Towanda, Kansas

We have audited the accompanying financial statements of the individual funds of the City of Towanda, Kansas as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 opinion.

As described in Note 1, the City's policy is to prepare 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 generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Towanda, Kansas, as of December 31, 2009 and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the City Council and management of the City of Towanda, Kansas and for filing with the Kansas Department of Administration, Division of Accounts and Reports and should not be used for any other purpose.

Peterson Peterson & Goss LC

July 20, 2010

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

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Fund Types:						
General	$ 8,343	$ 476,612	$ 481,147	$ 3,808	$ 2,586	$ 6,394
Special Revenue:						
Library	-	41,894	40,894	1,000		1,000
Fire Rescue	22,767	99,992	85,107	37,652		37,652
Fire Rescue Reserve	77,683	33,447	34,298	76,832		76,832
Special Parks/Recreation	14,302	52,612	54,433	12,481		12,481
Equipment Reserve	38,617	-	14,143	24,474		24,474
Consolidated Streets	2,140	44,630	46,042	728		728
Street Reserve	-	360,296	286,970	73,326		73,326
Community Center	(44)	10,150	9,901	205		205
Capital Improvement	1,655	-	1,600	55		55
Storm Damage	-	43,814	43,814	-		-
Capital Project:						
Lagoon Project	82,763	74,701	157,459	5		5
Debt Service:						
Bond and Interest	25,435	51,985	51,425	25,995		25,995
Proprietary Fund Types:						
Water Utility	8,806	268,779	257,859	19,726	839	20,565
Water Utility Reserve	80,499	12,190	56,533	36,156		36,156
Sewer Utility	4,478	252,396	253,327	3,547	110	3,657
Sewer Utility Reserve	77,032	30,786	43,762	64,056		64,056
Sewer Plant Reserve	31,954	31,558	38,450	25,062		25,062
Sewer Debt Service	71,131	67,500	53,459	85,172		85,172
Refuse Utility	12,467	76,831	84,124	5,174		5,174
Total Primary Government	560,028	2,030,173	2,094,747	495,454	3,535	498,989
Component Unit:						
Towanda Library General Fund	35,171	52,896	45,142	42,925		42,925
Total Reporting Entity (Excluding Agency Funds)	$ 595,199	$ 2,083,069	$ 2,139,889	$ 538,379	$ 3,535	$ 541,914

Composition of cash:	
Checking account - Towanda State Bank	$ 498,640
Petty cash	450
Total component unit	42,925
Total Cash	542,015
Agency Funds per Statement 4	(101)
Total Reporting Entity (Excluding Agency Funds)	$ 541,914

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

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

Funds	Amended or Certified Budget	Expenditures Chargeable to Current Year	Variance - Favorable (Unfavorable)
General	$ 557,346	$ 481,147	$ 76,199
Special Revenue:			
Library	42,261	40,894	1,367
Fire Rescue	85,386	85,107	279
Special Parks/Recreation	100,000	54,433	45,567
Consolidated Streets	57,390	46,042	11,348
Community Center	10,450	9,901	549
Debt Service:			
Bond and Interest	51,244	51,425	(181)
Proprietary:			
Water Utility	267,470	257,859	9,611
Sewer Utility	266,911	253,327	13,584
Refuse Utility	89,979	84,124	5,855

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	$ 268,690	$ 255,013	$ (13,677)
Delinquent tax	25,000	15,869	(9,131)
Motor vehicle tax	68,916	64,096	(4,820)
Franchise fees	60,000	62,655	2,655
Licenses, permits and fees	19,050	6,186	(12,864)
Swimming pool	9,000	11,251	2,251
Fines, forfeitures and penalties	35,000	18,160	(16,840)
Interest	30,000	10,688	(19,312)
Cemetery service charges	5,000	3,000	(2,000)
Donations	10,000	-	(10,000)
Other	-	29,694	29,694
Total Cash Receipts	530,656	476,612	(54,044)
Expenditures:			
General government:			
Health insurance premiums	7,056	21,216	(14,160)
Mayor and council	2,000	1,459	541
Administration/finance	164,710	133,062	31,648
Municipal court	1,350	8,197	(6,847)
Legal	18,777	13,420	5,357
Planning and zoning	18,933	27,805	(8,872)
Swimming pool	43,525	44,506	(981)
Recreation	-	202	(202)
Library and museum	5,902	3,564	2,338
Senior Center	13,240	12,347	893
Public Safety:			
Police department	160,141	144,262	15,879
Animal control	1,120	440	680
Public works	72,769	22,844	49,925

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures: (continued)			
Transfers to:			
Street Reserve Fund	$ 10,000	$ 10,000	$ -
Fire Rescue Fund	29,823	29,823	-
Community Center Fund	8,000	8,000	-
Total Expenditures	557,346	481,147	76,199
Receipts Over (Under) Expenditures	(26,690)	(4,535)	22,155
Unencumbered Cash, Beginning	26,690	8,343	(18,347)
Unencumbered Cash, Ending	$ -	$ 3,808	$ 3,808

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Library Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	$ 35,440	$ 33,635	$ (1,805)
Delinquent tax	-	1,536	1,536
Motor vehicle tax	6,272	6,723	451
Total Cash Receipts	41,712	41,894	182
Expenditures:			
Appropriation to Library Board	42,261	40,894	1,367
Receipts Over (Under) Expenditures	(549)	1,000	1,549
Unencumbered Cash, Beginning	549	-	(549)
Unencumbered Cash, Ending	$ -	$ 1,000	$ 1,000

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Fire Rescue Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Township distributions	$ 61,210	$ 70,169	$ 8,959
Transfer from General Fund	29,823	29,823	-
Total Cash Receipts	91,033	99,992	8,959
Expenditures:			
Personal services	7,886	6,595	1,291
Contractual services	24,400	24,396	4
Commodities	13,100	26,116	(13,016)
Transfer to Fire Rescue Reserve Fund	40,000	28,000	12,000
Total Expenditures	85,386	85,107	279
Receipts Over (Under) Expenditures	5,647	14,885	9,238
Unencumbered Cash, Beginning	7,332	22,767	15,435
Unencumbered Cash, Ending	$ 12,979	$ 37,652	$ 24,673

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Fire Rescue Reserve Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Other	$ 5,447
Transfer from Fire Rescue Fund	28,000
Total Cash Receipts	33,447
Expenditures:	
Lease payments - fire truck	34,298
Receipts Over (Under) Expenditures	(851)
Unencumbered Cash, Beginning	77,683
Unencumbered Cash, Ending	$ 76,832

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Special Parks/Recreation Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Recreation fees	$ 85,000	$ 49,529	$ (35,471)
Concessions	10,000	2,046	(7,954)
Donations	-	1,037	1,037
Total Cash Receipts	95,000	52,612	(42,388)
Expenditures:			
Concessions	2,500	1,172	1,328
Contractual services	9,000	-	9,000
Commodities	25,000	53,261	(28,261)
Capital outlay	63,500	-	63,500
Total Expenditures	100,000	54,433	45,567
Receipts Over (Under) Expenditures	(5,000)	(1,821)	3,179
Unencumbered Cash, Beginning	16,536	14,302	(2,234)
Unencumbered Cash, Ending	$ 11,536	$ 12,481	$ 945

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Equipment Reserve Fund
For The Year Ended December 31, 2009

	Actual
Expenditures:	
Capital outlay	$ 14,143
Receipts Over (Under) Expenditures	(14,143)
Unencumbered Cash, Beginning	38,617
Unencumbered Cash, Ending	$ 24,474

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Consolidated Streets Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
State of Kansas gas tax	$ 40,630	$ 34,219	$ (6,411)
County highway distribution	6,760	8,536	1,776
Other	-	1,875	1,875
Transfer from Water Utility Fund	10,000	-	(10,000)
Total Cash Receipts	57,390	44,630	(12,760)
Expenditures:			
Personal services	43,970	28,737	15,233
Contractual services	5,048	3,777	1,271
Commodities	8,372	13,528	(5,156)
Total Expenditures	57,390	46,042	11,348
Receipts Over (Under) Expenditures	-	(1,412)	(1,412)
Unencumbered Cash, Beginning	-	2,140	2,140
Unencumbered Cash, Ending	$ -	$ 728	$ 728

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Street Reserve Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Bond proceeds	$ 283,624
Transfer from General Fund	10,000
Transfer from Water Utility Fund	10,000
Transfer from Refuse Utility Fund	15,000
Transfer from Sewer Utility Fund	41,672
Total Cash Receipts	360,296
Expenditures:	
Contractual services	286,970
Receipts Over (Under) Expenditures	73,326
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 73,326

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Community Center Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Donations	$ -	$ 150	$ 150
Rent	2,100	1,750	(350)
Miscellaneous	-	250	250
Transfer from General Fund	8,000	8,000	-
Total Cash Receipts	10,100	10,150	50
Expenditures:			
Contractual	5,600	6,175	(575)
Commodities	4,850	3,726	1,124
Total Expenditures	10,450	9,901	549
Receipts Over (Under) Expenditures	(350)	249	599
Unencumbered Cash, Beginning	495	(44)	(539)
Unencumbered Cash, Ending	$ 145	$ 205	$ 60

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Capital Improvement Fund
For The Year Ended December 31, 2009

	Actual
Expenditures:	
Street repairs	$ 1,600
Receipts Over (Under) Expenditures	(1,600)
Unencumbered Cash, Beginning	1,655
Unencumbered Cash, Ending	$ 55

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Storm Damage Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
FEMA reimbursement	$ 34,640
Insurance reimbursement	9,174
Total Cash Receipts	43,814
Expenditures:	
Storm repairs	43,814
Receipts Over (Under) Expenditures	-
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ -

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Lagoon Project Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Sewer lagoon fee	$ 15,611
Revolving loan	59,090
Total Cash Receipts	74,701
Expenditures:	
Contractual services	59,085
Residual equity transfer to Sewer Utility Fund	98,374
Total Expenditures	157,459
Receipts Over (Under) Expenditures	(82,758)
Unencumbered Cash, Beginning	82,763
Unencumbered Cash, Ending	$ 5

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Bond and Interest Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Special assessments	$ 51,244	$ 51,985	$ 741
Expenditures:			
Principal	21,500	35,000	(13,500)
Interest	29,744	16,425	13,319
Total Expenditures	51,244	51,425	(181)
Receipts Over (Under) Expenditures	-	560	560
Unencumbered Cash, Beginning	17,614	25,435	7,821
Unencumbered Cash, Ending	$ 17,614	$ 25,995	$ 8,381

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Water Utility Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	$ 264,200	$ 267,176	$ 2,976
Tapping fees	3,600	700	(2,900)
Miscellaneous	-	903	903
Total Cash Receipts	267,800	268,779	979
Expenditures:			
Personal services	68,335	74,465	(6,130)
Contractual services	145,735	169,759	(24,024)
Commodities	22,400	1,972	20,428
Lease payments	6,000	1,663	4,337
Transfers to:			
Street Reserve Fund	-	10,000	(10,000)
Water Utility Reserve Fund	15,000	-	15,000
Consolidated Streets Fund	10,000	-	10,000
Total Expenditures	267,470	257,859	9,611
Receipts Over (Under) Expenditures	330	10,920	10,590
Unencumbered Cash, Beginning	42	8,806	8,764
Unencumbered Cash, Ending	$ 372	$ 19,726	$ 19,354

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Water Utility Reserve Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Antenna rental	$ 12,190
Expenditures:	
Contractual services	32,957
Commodities	23,576
Total Expenditures	56,533
Receipts Over (Under) Expenditures	(44,343)
Unencumbered Cash, Beginning	80,499
Unencumbered Cash, Ending	$ 36,156

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Sewer Utility Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	$ 196,100	$ 154,022	$ (42,078)
Tapping fees	500	-	$ (500)
Residual equity transfer from Lagoon Project Fund	24,593	98,374	73,781
Total Cash Receipts	221,193	252,396	31,203
Expenditures:			
Personal services	59,658	112,553	(52,895)
Contractual services	9,000	10,015	(1,015)
Commodities	8,425	24,719	(16,294)
Capital outlay	53,228	-	53,228
Lagoon loan payment	82,000	54,368	27,632
Transfers to:			
Equipment Reserve Fund	1,000	-	1,000
Street Reserve Fund	32,700	41,672	(8,972)
Capital Improvement Fund	4,400	-	4,400
Sewer Utility Reserve Fund	16,500	10,000	6,500
Total Expenditures	266,911	253,327	13,584
Receipts Over (Under) Expenditures	(45,718)	(931)	44,787
Unencumbered Cash, Beginning	45,718	4,478	(41,240)
Unencumbered Cash, Ending	$ -	$ 3,547	$ 3,547

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Utility Reserve Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Sales tax	$ 20,786
Transfer from Sewer Utility Fund	10,000
Total Cash Receipts	30,786
Expenditures:	
Contractual services	43,762
Receipts Over (Under) Expenditures	(12,976)
Unencumbered Cash, Beginning	77,032
Unencumbered Cash, Ending	$ 64,056

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Plant Reserve Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Sewer plant reserve fees	$ 31,558
Expenditures:	
Bond principal	15,000
Bond interest	12,650
Financial services	10,800
Total Expenditures	38,450
Receipts Over (Under) Expenditures	(6,892)
Unencumbered Cash, Beginning	31,954
Unencumbered Cash, Ending	$ 25,062

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Sewer Debt Service Fund
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
Sales tax	$ 67,500
Expenditures:	
Debt service - revolving loan	53,459
Receipts Over (Under) Expenditures	14,041
Unencumbered Cash, Beginning	71,131
Unencumbered Cash, Ending	$ 85,172

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

CITY OF TOWANDA, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Refuse Utility Fund
For The Year Ended December 31, 2009

	Budget	Actual	Variance - Favorable (Unfavorable)
Cash Receipts:			
Charges for service	$ 75,000	$ 76,831	$ 1,831
Expenditures:			
Collection service/landfill charges	64,979	64,124	855
Billing and overhead	-	5,000	(5,000)
Transfer to Street Reserve Fund	25,000	15,000	10,000
Total Expenditures	89,979	84,124	5,855
Receipts Over (Under) Expenditures	(14,979)	(7,293)	7,686
Unencumbered Cash, Beginning	14,979	12,467	(2,512)
Unencumbered Cash, Ending	$ -	$ 5,174	$ 5,174

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

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

Funds	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Cemetery	$ 1,100	$ 200	$ 1,300	$ -
Senior Center	-	-	-	-
Police Forfeitures	48	53	-	101
Total	$ 1,148	$ 253	$ 1,300	$ 101

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

CITY OF TOWANDA, KANSAS
TOWANDA PUBLIC LIBRARY BOARD (Component Unit)
Statement of Cash Receipts and Expenditures - Actual
General Fund - Library
For The Year Ended December 31, 2009

	Actual
Cash Receipts:	
State of Kansas	$ 838
Interest	384
Memorial, donations, etc.	46
City of Towanda appropriation	40,894
SCKLS	6,982
Fundraising	600
Miscellaneous	3,152
Total Cash Receipts	52,896
Expenditures:	
Personal services	30,094
Supplies, books, subscriptions, etc.	15,048
Other	
Total Expenditures	45,142
Receipts Over (Under) Expenditures	7,754
Unencumbered Cash, Beginning	35,171
Unencumbered Cash, Ending	$ 42,925

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

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Towanda, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The City of Towanda is a municipal corporation governed by an elected five-member council. These financial statements present the City of Towanda (the primary government) and its component unit. The component unit is included in the City's reporting entity because of its significance of its operational or financial relationship with the City.

Discretely Presented Component Unit: The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit (The Library) is reported separately to emphasize that it is legally separate from the City. The governing body of the component unit is appointed by the City. The Towanda Public Library Board operates the City's public library. Acquisition or disposition of real property by the board must be approved by the City. Bond issuances must also be approved by the City. Appropriations from the City account for over 75% of the Board's receipts.

Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or 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.

The following types of funds comprise the financial activities of the City of Towanda, Kansas for the year 2009:

1. Summary of Significant Accounting Policies (continued)

Governmental Funds:

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Capital Projects Fund - to account for financial resources segregated for the acquisition of major capital facilities.

Debt Service Fund – to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

Proprietary Funds:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to a private business enterprise, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The city operates the water utility, sewer utility and refuse utility.

Basis of Accounting

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

The City has approved a waiver from generally accepted accounting principles, allowed by the State of Kansas, which permits the City to use the statutory basis of accounting.

1. Summary of Significant Accounting Policies (continued)

Departure 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 the 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. General fixed assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements. Capital assets and related depreciation are not reflected in the enterprise funds.

2. Budget and Tax Cycle

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 on or before August 5th of the proposed budget and notice of public hearing on the budget.
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 governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

2. Budget and Tax Cycle (continued)

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 project funds, agency funds and certain special revenue funds and reserve funds.

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

The Library annually prepares a budget of expenditures in order to determine its appropriations request from the City. The Library is not a tax levy authority and is not required to publish its budget.

3. Defined Benefit Pension Plan

Plan Description

The City of Towanda contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq*. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefits 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.

3. Defined Benefit Pension Plan (continued)

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statutes for 1/1/09 to 12/31/06 is 6.54%. The City of Towanda employer contributions to KPERS for the years ending December 31, 2009, 2008 and 2007 were $15,610, $17,528, and $14,982 respectively, equal to the required contributions for each year.

4. Compliance with Kansas Statutes

The City was in violation of K.S.A. 79-2935, regarding the budget law, in the following fund at December 31, 2009:

Fund	Violation Amount
Bond and Interest Fund	$ 181

Management is aware of no other statutory violations for the year ended December 31, 2009.

5. Interfund Transfers

Operating transfers were as follows:

From	To	Amount
General Fund	Fire Rescue Fund	$29,823
General Fund	Street Reserve Fund	10,000
General Fund	Community Center Fund	8,000
Fire Rescue Fund	Fire Rescue Reserve Fund	28,000
Water Utility Fund	Street Reserve Fund	10,000
Sewer Utility Fund	Street Reserve Fund	41,672
Sewer Utility Fund	Sewer Utility Reserve Fund	10,000
Refuse Utility Fund	Street Reserve Fund	15,000

Residual equity transfer was as follows:

From	To	Amount
Lagoon Project Fund	Sewer Utility Fund	$98,374

6. Compensated Absences

Full-time employees may earn between 10-20 vacation days during a calendar year, depending on their years of service, but no more than 5 days may be carried over from one year to the next. Upon termination or retirement, employees shall be compensated for all unused vacation days at their final pay rate. The cost of accumulated vacation is recorded at the time the benefits are paid to the employees. The estimated liability at December 31, 2009 if all employees with accumulated vacation were to terminate employment would be $4,032.

7. Capital Projects

At year-end, there were no significant city-funded capital project authorizations outstanding.

8. Deposits

At year-end the carrying amounts of the City's deposits, including certificates of deposit, were $542,015. The bank statement balances were $556,823. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, $250,000 was covered by FDIC insurance and the remaining $306,823 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank and the independent third-party bank holding the pledged securities.

9. Risk Management

The City manages risks primarily through the purchase of insurance coverage from commercial insurers.

10. Long-term Debt

Changes in long-term debt for the year ended December 31, 2009 and future debt payments are as follows:

Changes in Long-term Debt

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Internal improvements - Series 2002A	3.30% - 5.00%	7/15/2002	$ 542,909	10/1/2017	$ 380,000	$ -	$ 35,000	$ -	$ 345,000	$ 16,425
Internal improvements - Series 2007A	3.85% - 4.05%	6/15/2007	$ 315,000	10/1/2022	305,000	-	15,000	-	290,000	12,650
Internal improvements - Series 2009A	1.75% - 4.40%	5/15/2009	$ 209,000	10/1/2024	-	209,000	-	-	209,000	
Internal improvements - Series 2009B	3.50% - 5.25%	11/4/2009	$ 66,400	9/1/2025	-	66,400	-	-	66,400	
Total General Obligation Bonds					685,000	275,400	50,000	-	910,400	29,075
Revolving Loan Program:										
KWPCRLF Project No. C20-1446-01	3.32%	9/1/1997	776,788	3/1/2017	393,097	-	41,431	-	351,666	12,028
KWPCRLF Project No. C20-1737-01	2.52%	4/4/2007	1,700,000	9/1/2029	1,178,879	73,587	** 79,158	-	1,173,308	29,577
Total Revolving Loan Program					1,571,976	73,587	120,589	-	1,524,974	41,605
Capital Leases:										
Community Center	4.00%	11/19/1999	32,000	11/19/2014	16,533	-	2,482	-	14,051	588
Telemetry Equipment	5.50%	6/1/2002	51,000	6/1/2012	21,103	-	5,622	-	15,481	1,020
Fire Truck	4.85%	2/6/2003	270,483	1/1/2013	137,175	-	27,980	-	109,195	6,318
Total Capital Leases					174,811	-	36,084	-	138,727	7,926
Total Contractual Indebtedness					2,431,787	348,987	206,673	-	2,574,101	78,606
Compensated Absences	NA	NA	NA	NA	4,198	-	-	(166)	4,032	-
Total Long-Term Debt					$ 2,435,985	$ 348,987	$ 206,673	$ (166)	$ 2,578,133	$ 78,606

**The amount approved on the revolving loan was $1,700,000. The amount above represents what had been advanced as of December 31, 2009.

10. Long-term Debt, continued

Future Debt Payments

	YEAR								
	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-thereafter	Total
Principal:									
General obligation bonds	$ 59,000	$ 71,400	$ 72,000	$ 73,000	$ 85,000	$ 360,000	$ 185,000	$ 5,000	$ 910,400
Revolving loan program	110,100	113,233	116,458	119,777	123,191	531,899	459,418	411,280	1,985,356 *
Capital leases	37,846	39,726	38,341	19,621	2,995	198	-	-	138,727
Total Principal	206,946	224,359	226,799	212,398	211,186	892,097	644,418	416,280	3,034,483
Interest:									
General obligation bonds	37,349	37,804	32,713	29,967	27,123	83,490	23,542	263	272,251
Revolving loan program	51,240	48,213	45,098	41,893	38,595	144,250	84,257	23,660	477,206
Capital leases	6,164	4,284	2,348	598	75	26	-	-	13,495
Total Interest	94,753	90,301	80,159	72,458	65,793	227,766	107,799	23,923	762,952
Total Principal and Interest	$ 301,699	$ 314,660	$ 306,958	$ 284,856	$ 276,979	$ 1,119,863	$ 752,217	$ 440,203	$ 3,797,435

* Represented by:

The $776,788 revolving loan has a remaining balance of $351,666 at December 31, 2009 as indicated on the changes in long-term debt schedule.

The amortization for the $1,7000,000 revolving loan is represented at the full amount authorized with $1,173,308 advanced as of December 31, 2009 as indicated on the changes in long-term debt schedule.