

CITY OF FLORENCE

FLORENCE, KANSAS

Special Financial Statements

December 31, 2010

City of Florence, Kansas

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December 31, 2010

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of Florence
Florence, Kansas 66851

We have audited the accompanying primary government financial statements of the individual funds of the City of Florence, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2009 financial statements and, in our report dated April 28, 2010, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City prepares its financial statements using the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

The financial statements referred to above include only the primary government of the City of Florence, Kansas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the data of the City's primary government.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the third and fourth paragraphs above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City, as of December 31, 2010, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the various funds of the City, as of December 31, 2010, and its cash receipts and expenditures for the year then ended, taken as a whole on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants

March 4, 2011

City of Florence, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2010

<u>Funds</u>	Unencumbered Cash Balance <u>12-31-09</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>12-31-10</u>	<u>Encumbrances</u>	Cash Balance <u>12-31-10</u>
Governmental Fund Types:						
General	\$ 48,562	273,348	314,288	7,622	13,592	21,214
Special Revenue						
Library	882	10,757	11,456	183	-	183
Special parks and recreation	5,745	-	-	5,745	-	5,745
Rural fire	3,224	3,660	221	6,663	-	6,663
Special highway	44,878	15,939	17,895	42,922	-	42,922
Fire special	4,119	6,043	1,606	8,556	-	8,556
Fire grant	6,235	-	-	6,235	-	6,235
Capital improvement	66,914	3,900	5,442	65,372	-	65,372
Equipment reserve	41,938	-	-	41,938	-	41,938
Community building	64,435	550	11,453	53,532	230	53,762
Debt Service						
Bond and interest	14,322	29,348	27,326	16,344	-	16,344
Proprietary Fund Types:						
Enterprise, page 3	<u>190,223</u>	<u>217,230</u>	<u>227,040</u>	<u>180,413</u>	<u>15,430</u>	<u>195,843</u>
Total primary government	<u>\$ 491,477</u>	<u>560,775</u>	<u>616,727</u>	<u>435,525</u>	<u>29,252</u>	<u>464,777</u>

City of Florence, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2010

<u>Funds</u>	Unencumbered Cash Balance <u>12-31-09</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>12-31-10</u>	<u>Encumbrances</u>	Cash Balance <u>12-31-10</u>
Enterprise						
Ambulance	\$ 7,565	-	1,702	5,863	-	5,863
Sewer	21,423	33,576	31,756	23,243	85	23,328
Sewer reserve	35,500	20,000	21,500	34,000	-	34,000
Solid waste	14,005	71,977	73,064	12,918	1,919	14,837
Solid waste reserve	27,500	-	-	27,500	-	27,500
Water	24,230	91,677	99,018	16,889	13,426	30,315
Water reserve	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Total enterprise funds	<u>\$ 190,223</u>	<u>217,230</u>	<u>227,040</u>	<u>180,413</u>	<u>15,430</u>	<u>195,843</u>

City of Florence, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

<u>Funds</u>	Certified <u>Budget</u>	Adjustments for Qualifying <u>Budget Credits</u>	Total Budget for <u>Comparison</u>	Expenditures Chargeable to <u>Current Year</u>	Variance Over <u>(Under)</u>
General	\$ 373,751	-	373,751	314,288	(59,463)
Special Revenue					
Library	11,916	-	11,916	11,456	(460)
Special parks and recreation	1,820	-	1,820	-	(1,820)
Rural fire	3,362	-	3,362	221	(3,141)
Special highway	18,971	-	18,971	17,895	(1,076)
Debt Service					
Bond and interest	44,420	-	44,420	27,326	(17,094)
Enterprise					
Ambulance	3,613	-	3,613	1,702	(1,911)
Sewer	35,000	-	35,000	31,756	(3,244)
Solid waste	75,000	-	75,000	73,064	(1,936)
Water	110,168	-	110,168	99,018	(11,150)
Expenditures subject to current budget	<u>\$ 678,021</u>	<u>-</u>	<u>678,021</u>	576,726	<u>(101,295)</u>
Expenditures not subject to budget				<u>40,001</u>	
Total expenditures, statement 1				<u>\$ 616,727</u>	

City of Florence, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 95,768	94,280	97,298	(3,018)
Delinquent tax	6,031	3,957	3,500	457
Vehicle tax	26,891	17,912	18,972	(1,060)
Machinery and equipment tax	1,214	-	-	-
Sales tax	77,096	71,585	75,000	(3,415)
In lieu of taxes	3,499	4,085	1,900	2,185
Franchise tax	22,514	21,709	20,000	1,709
Fines	71,017	41,018	85,000	(43,982)
Police other	375	385	250	135
Swimming pool	4,573	3,663	4,000	(337)
Cemetery fees and charges	4,570	4,495	5,000	(505)
Miscellaneous	27,338	6,222	21,000	(14,778)
Parks	514	362	-	362
Licenses and permits	840	845	1,000	(155)
Interest on investments	5,182	2,461	4,500	(2,039)
Transportation Federal aid	2,000	-	-	-
State of Kansas	242	369	-	369
Reimbursements				
FEMA	12,788	-	-	-
	<u>362,452</u>	<u>273,348</u>	<u>337,420</u>	<u>(64,072)</u>
EXPENDITURES, page 6	<u>353,749</u>	<u>314,288</u>		
Receipts over (under) expenditures	8,703	(40,940)		
UNENCUMBERED CASH, beginning	<u>39,859</u>	<u>48,562</u>		
UNENCUMBERED CASH, ending	<u>\$ 48,562</u>	<u>7,622</u>		

City of Florence, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over Over (Under)
		Actual	Budget	
EXPENDITURES				
Administration	\$ 68,354	88,503	75,000	13,503
Special utilities	15,518	15,251	12,500	2,751
Public safety	95	3,686	5,000	(1,314)
Police	91,696	73,205	85,000	(11,795)
Street	26,410	28,116	18,000	10,116
Fire	10,879	11,353	8,500	2,853
FEMA	11,233	-	-	-
Park	18,855	18,826	15,000	3,826
Historical society	1,300	1,300	1,300	-
Cemetery	10,903	9,742	8,600	1,142
Dike	1,650	1,296	3,000	(1,704)
Swimming pool	17,358	15,089	16,000	(911)
Recreation	-	-	1,500	(1,500)
Economic development	350	-	5,000	(5,000)
Employee benefits	49,148	47,921	45,000	2,921
Standards board	-	-	15,000	(15,000)
Transfers to other funds	30,000	-	59,351	(59,351)
Total expenditures	<u>\$ 353,749</u>	<u>314,288</u>	<u>373,751</u>	<u>(59,463)</u>

City of Florence, Kansas
Special Revenue Funds
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over Under
		Actual	Budget	
<u>LIBRARY</u>				
RECEIPTS				
Ad valorem property tax	\$ 8,852	8,763	9,044	(281)
Delinquent tax	538	353	-	353
Vehicle tax	1,675	1,641	1,754	(113)
	<u>11,065</u>	<u>10,757</u>	<u>10,798</u>	<u>(41)</u>
EXPENDITURES				
Appropriations to Library Board	11,732	11,000	10,519	481
Insurance	327	324	500	(176)
Utilities and other	132	132	897	(765)
	<u>12,191</u>	<u>11,456</u>	<u>11,916</u>	<u>(460)</u>
Receipts over (under) expenditures	(1,126)	(699)		
UNENCUMBERED CASH, beginning	<u>2,008</u>	<u>882</u>		
UNENCUMBERED CASH, ending	<u>\$ 882</u>	<u>183</u>		
 <u>SPECIAL PARKS AND RECREATION</u>				
RECEIPTS				
	\$ -	-	-	-
EXPENDITURES				
	-	-	1,820	(1,820)
Receipts over (under) expenditures	-	-		
UNENCUMBERED CASH, beginning	<u>5,745</u>	<u>5,745</u>		
UNENCUMBERED CASH, ending	<u>\$ 5,745</u>	<u>5,745</u>		

City of Florence, Kansas
Special Revenue Funds
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>RURAL FIRE</u>				
RECEIPTS				
Contractual services	\$ 2,660	3,660	2,500	1,160
Contributions and other	-	-	500	(500)
	<u>2,660</u>	<u>3,660</u>	<u>3,000</u>	<u>660</u>
EXPENDITURES				
Public safety	<u>298</u>	<u>221</u>	<u>3,362</u>	<u>(3,141)</u>
Receipts over (under) expenditures	2,362	3,439		
UNENCUMBERED CASH, beginning	<u>862</u>	<u>3,224</u>		
UNENCUMBERED CASH, ending	<u>\$ 3,224</u>	<u>6,663</u>		
<u>SPECIAL HIGHWAY</u>				
RECEIPTS				
Gasoline tax	\$ 15,137	15,939	<u>17,540</u>	<u>(1,601)</u>
EXPENDITURES				
Maintenance	<u>-</u>	<u>17,895</u>	<u>18,971</u>	<u>(1,076)</u>
Receipts over (under) expenditures	15,137	(1,956)		
UNENCUMBERED CASH, beginning	<u>29,741</u>	<u>44,878</u>		
UNENCUMBERED CASH, ending	<u>\$ 44,878</u>	<u>42,922</u>		

City of Florence, Kansas
Special Revenue Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>FIRE SPECIAL</u>				
RECEIPTS				
Other	\$ 8,581	6,043		
EXPENDITURES				
Operating expense	5,297	1,606		NOT APPLICABLE
Receipts over (under) expenditures	3,284	4,437		
UNENCUMBERED CASH, beginning	835	4,119		
UNENCUMBERED CASH, ending	<u>\$ 4,119</u>	<u>8,556</u>		
<u>FIRE GRANT</u>				
RECEIPTS				
Homeland Security grant	\$ 1,165	-		
EXPENDITURES				
Safety equipment	4,008	-		NOT APPLICABLE
Receipts over (under) expenditures	(2,843)	-		
UNENCUMBERED CASH, beginning	9,078	6,235		
UNENCUMBERED CASH, ending	<u>\$ 6,235</u>	<u>6,235</u>		

City of Florence, Kansas
Special Revenue Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Other	\$ -	3,900		
Transfers from other funds	<u>20,000</u>	<u>-</u>		
	20,000	3,900		
EXPENDITURES				
City building	<u>18,020</u>	<u>5,442</u>		NOT APPLICABLE
Receipts over (under) expenditures	1,980	(1,542)		
UNENCUMBERED CASH, beginning	<u>64,934</u>	<u>66,914</u>		
UNENCUMBERED CASH, ending	<u>\$ 66,914</u>	<u>65,372</u>		
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 10,000	-		
EXPENDITURES				
Capital outlay	<u>32,335</u>	<u>-</u>		NOT APPLICABLE
Receipts over (under) expenditures	(22,335)	-		
UNENCUMBERED CASH, beginning	<u>64,273</u>	<u>41,938</u>		
UNENCUMBERED CASH, ending	<u>\$ 41,938</u>	<u>41,938</u>		

City of Florence, Kansas
Special Revenue Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>COMMUNITY BUILDING</u>				
RECEIPTS				
Rent	\$ 35,000	550		
EXPENDITURES				
Insurance and other	11,456	11,453		NOT APPLICABLE
Receipts over (under) expenditures	23,544	(10,903)		
UNENCUMBERED CASH, beginning	40,891	64,435		
UNENCUMBERED CASH, ending	<u>\$ 64,435</u>	<u>53,532</u>		

City of Florence, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Ad valorem property tax	\$ 21,374	24,511	25,296	(785)
Delinquent tax	1,216	800	-	800
Vehicle tax	4,356	4,037	4,234	(197)
Machinery and equipment tax	121	-	-	-
	<u>27,067</u>	<u>29,348</u>	<u>29,530</u>	<u>(182)</u>
EXPENDITURES				
Bond principal	20,000	25,000	25,000	-
Interest	3,225	2,326	2,325	1
Commission	1	-	10	(10)
Cash basis reserve	-	-	17,085	(17,085)
	<u>23,226</u>	<u>27,326</u>	<u>44,420</u>	<u>(17,094)</u>
Receipts over (under) expenditures	3,841	2,022		
UNENCUMBERED CASH, beginning	<u>10,481</u>	<u>14,322</u>		
UNENCUMBERED CASH, ending	<u>\$ 14,322</u>	<u>16,344</u>		

City of Florence, Kansas
Enterprise Fund
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>AMBULANCE</u>				
RECEIPTS	\$ -	-	-	-
EXPENDITURES				
Operating expense	1,122	1,702	3,613	(1,911)
Receipts over (under) expenditures	(1,122)	(1,702)		
UNENCUMBERED CASH, beginning	8,687	7,565		
UNENCUMBERED CASH, ending	<u>\$ 7,565</u>	<u>5,863</u>		

City of Florence, Kansas

Enterprise Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over (Under)
		Actual	Budget	
<u>SEWER</u>				
RECEIPTS				
User fees	\$ 34,423	33,576	30,000	3,576
EXPENDITURES				
Operating expense	24,482	23,756	27,000	(3,244)
Transfers to other funds	9,000	8,000	8,000	-
	33,482	31,756	35,000	(3,244)
Receipts over (under) expenditures	941	1,820		
UNENCUMBERED CASH, beginning	20,482	21,423		
UNENCUMBERED CASH, ending	\$ 21,423	23,243		
<u>SEWER RESERVE</u>				
RECEIPTS				
Transfers from other funds	\$ 29,000	20,000		
EXPENDITURES				
	-	21,500		NOT APPLICABLE
Receipts over (under) expenditures	29,000	(1,500)		
UNENCUMBERED CASH, beginning	6,500	35,500		
UNENCUMBERED CASH, ending	\$ 35,500	34,000		

City of Florence, Kansas
Enterprise Fund
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over Over (Under)
		Actual	Budget	
<u>SOLID WASTE</u>				
RECEIPTS				
User fees	\$ 57,725	64,997	68,000	(3,003)
Container rent	5,102	6,748	6,000	748
Other	129	232	-	232
	<u>62,956</u>	<u>71,977</u>	<u>74,000</u>	<u>(2,023)</u>
EXPENDITURES				
Operating expense	56,665	73,064	60,000	13,064
Transfers to other funds	-	-	15,000	(15,000)
	<u>56,665</u>	<u>73,064</u>	<u>75,000</u>	<u>(1,936)</u>
Receipts over (under) expenditures	6,291	(1,087)		
UNENCUMBERED CASH, beginning	<u>7,714</u>	<u>14,005</u>		
UNENCUMBERED CASH, ending	<u>\$ 14,005</u>	<u>12,918</u>		
<u>SOLID WASTE RESERVE</u>				
RECEIPTS				
	\$ -	-		
EXPENDITURES				
	-	-	NOT APPLICABLE	
Receipts over (under) expenditures	-	-		
UNENCUMBERED CASH, beginning	<u>27,500</u>	<u>27,500</u>		
UNENCUMBERED CASH, ending	<u>\$ 27,500</u>	<u>27,500</u>		

City of Florence, Kansas

Enterprise Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance Over Under (Under)
		Actual	Budget	
<u>WATER</u>				
RECEIPTS				
Sales	\$ 84,744	85,429	100,000	(14,571)
Fees	8,342	6,248	6,500	(252)
	<u>93,086</u>	<u>91,677</u>	<u>106,500</u>	<u>(14,823)</u>
EXPENDITURES				
Operating expense	46,086	75,850	57,000	18,850
Transfers to other funds	30,000	12,000	42,000	(30,000)
KDHE-SRF loan	11,168	11,168	11,168	-
	<u>87,254</u>	<u>99,018</u>	<u>110,168</u>	<u>(11,150)</u>
Receipts over (under) expenditures	5,832	(7,341)		
UNENCUMBERED CASH, beginning	18,398	24,230		
UNENCUMBERED CASH, ending	<u>\$ 24,230</u>	<u>16,889</u>		
<u>WATER RESERVE</u>				
RECEIPTS				
Transfers from other funds	\$ 10,000	-		
EXPENDITURES				
	-	-		NOT APPLICABLE
Receipts over (under) expenditures	10,000	-		
UNENCUMBERED CASH, beginning	50,000	60,000		
UNENCUMBERED CASH, ending	<u>\$ 60,000</u>	<u>60,000</u>		

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Florence is a municipal corporation governed by an elected five-member council. These financial statements present the City of Florence (the primary government) as the only component unit.

In addition to the primary government, the City has two component units.

1. Housing Authority – The City of Florence 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.
2. Library Board – The City of Florence 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.

Their financial activities are not, however, included in the accompanying financial statements.

Basis of Accounting

These financial statements are presented on a statutory 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. 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 would be charged in the fund from which the transfer is made. The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of presentation described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash 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 generally accepted 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, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. FUND DESCRIPTION

In governmental accounting, 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 for the year of 2010:

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.

Debt Service Funds – to account for the accumulation of resources for and the payment of interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

Proprietary Funds

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises – 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.

3. 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. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
2. Public hearing on or before August 15th, but at least ten days after publication on notice of hearing.
3. 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. The 2010 budget was not amended.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

3. BUDGETARY INFORMATION (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 cash 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. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds, enterprise reserve accounts and the following special revenue funds:

Capital Improvement Equipment reserve	Fire Special Fire Grant	Community Building
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Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

4. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2010.

5. DEPOSITS AND INVESTMENTS

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

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2010, the City's investments included only bank certificates of deposit with a fair value of \$240,000, which are not subject to investment rating.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

City of Florence, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

5. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has not designated peak periods. All deposits were legally secured at December 31, 2010.

At December 31, 2010, the carrying amount of the City's deposits was \$464,477. The bank balance totaled \$471,749. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$221,749 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2010

Cash on hand \$ 300

Amount on deposit with financial institution:

Checking and money market accounts	224,477
Time deposits	<u>240,000</u>
	<u>\$ 464,777</u>

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2010 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Balance 12-31-09</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12-31-10</u>	<u>Interest Paid 2010</u>
General Obligation Bonds:									
2001 Street Bonds	3.40-4.70%	09/01/01	\$ 192,000	09/01/11	\$ 50,000	-	25,000	25,000	2,326
Other:									
KDHE Loan	4.22%	02/01/03	200,000	02/01/19	113,179	-	5,841	107,338	5,327
					<u>\$ 163,179</u>	<u>-</u>	<u>30,841</u>	<u>132,338</u>	<u>7,653</u>

City of Florence, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG-TERM DEBT (Continued)

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31							
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>	<u>2021-2023</u>	<u>Total</u>
Principal								
General Obligation Bonds	\$ 25,000	-	-	-	-	-	-	25,000
KDHE Loan	6,123	6,419	6,729	7,053	7,394	42,679	30,941	107,338
Total principal	<u>31,123</u>	<u>6,419</u>	<u>6,729</u>	<u>7,053</u>	<u>7,394</u>	<u>42,679</u>	<u>30,941</u>	<u>132,338</u>
Interest								
General Obligation Bonds	1,175	-	-	-	-	-	-	1,175
KDHE Loan	4,675	4,401	4,114	3,813	3,497	12,194	2,435	35,129
Total interest	<u>5,850</u>	<u>4,401</u>	<u>4,114</u>	<u>3,813</u>	<u>3,497</u>	<u>12,194</u>	<u>2,435</u>	<u>36,304</u>
Total principal and interest	<u>\$ 36,973</u>	<u>10,820</u>	<u>10,843</u>	<u>10,866</u>	<u>10,891</u>	<u>54,873</u>	<u>33,376</u>	<u>168,642</u>

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Florence contributes to 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. This report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary, depending when eligibility began. 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 rates 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 employer contribution rates. The employer rate established by statute was 6.14% at December 31, 2010. The City of Florence contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 were \$6,247, \$4,258, and \$4,335 respectively, equal to the required contribution for each year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

8. COMPENSATED ABSENCES

Full-time employees earn one week of paid vacation upon completion of one year of employment and two weeks of vacation after completing three or more years of service through ten years of service. After ten years of service, employees earn three weeks of paid vacation per year. Unused vacation time has not been recorded as a liability in the accompanying financial statements.

Full-time employees earn 5 days of paid sick leave in one year of service which can be accumulated to a maximum of 30 days. Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded in the accompanying financial statements.

9. OPERATING LEASE

On May 25, 1920, the City of Florence, Kansas entered into an agreement with R. G. and Amanda Robinson to lease approximately four acres of land for 99 years at \$500 per year. On this land is much of the building and equipment used by the City for its water system. It also includes the springs used by the City for its water supply. The City renews this lease annually by paying \$500 advance rental. The lease terminates if the City fails to pay annual rent in advance.

10. INTERFUND TRANSACTIONS

Transfers between funds consisted of the following during the year ended December 31, 2010:

Transfers to	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Sewer reserve	<u>\$ 8,000</u>	<u>12,000</u>	<u>20,000</u>

11. MANAGEMENT'S DATE OF REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through March 4, 2011, which is the date at which the financial statements were available to be issued.