

CITY OF GALVA, KANSAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

**CITY OF GALVA, KANSAS
CITY OF THE THIRD CLASS
For The Year Ended December 31, 2010**

H. W. Ford, Mayor

CITY COUNCIL

LeAnn Sommers

G. David Andes

Myrna Walline

Barbara Roe

Larry Tredway

CITY OFFICERS

Lori Tector, Clerk

Harry Weelborg, Attorney

Treva J. Norstrom, Treasurer

Hadley Sizemore, Police Judge

Mark Hoppes, Superintendent

CITY OF GALVA, KANSAS
FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

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SWINDOLL
JANZEN
HAWK &
LOYD, LLC

Certified Public Accountants

Celebrating *75th*
Our Anniversary
1936 - 2011

B. Carver Swindoll, CPA
Keith S. Janzen, CPA
Kyle J. Hawk, CPA, CMAP
D. Scot Loyd, CPA, CGFM
Chet L. Buchman, CPA, CVA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Galva, Kansas 67443

We have audited the accompanying financial statements of the City of Galva, 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 (and summarized) comparative information has been derived from the City's December 31, 2009 financial statements and, in our report dated May 6, 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 and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2010, and its cash receipts and expenditures or disbursements and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

Swindoll, Janzen, Hawk & Loyd, LLC

Certified Public Accountants

March 24, 2011

CITY OF GALVA, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

For the Year Ended December 31, 2010

	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
GENERAL FUND	\$ 314,139	\$ -	\$ 447,511	\$ 373,801	\$ 387,848	\$ -	\$ 387,848
SPECIAL REVENUE FUND: Special Highway Fund	15,519	-	21,580	20,227	16,872	-	16,872
DEBT SERVICE FUND: Bond and Interest Fund	71,569	-	10,282	73,923	7,928	-	7,928
CAPITAL PROJECT FUND: Capital Improvement Fund	35,636	-	25,000	15,358	45,278	-	45,278
ENTERPRISE FUNDS:							
Electric Fund	26,260	-	488,859	502,931	12,188	-	12,188
Sewer Fund	104,618	-	32,154	33,800	102,972	-	102,972
Water Fund	64,248	-	77,808	84,481	57,575	-	57,575
Total Enterprise Funds	195,126	-	598,821	621,212	172,735	-	172,735
Total Reporting Entity (Excluding Agency Funds)	\$ 631,989	\$ -	\$ 1,103,193	\$ 1,104,522	\$ 630,661	\$ -	\$ 630,661

COMPOSITION OF CASH:

Checking Account - Farmers State Bank
Checking Account - Farmers State Bank
Certificates of Deposit - Farmers State Bank

Total Cash	\$ 211,282
Less Agency Funds per Statement 4	1,545
	420,000
	632,827
	(2,166)
Total Reporting Entity (Excluding Agency Funds)	\$ 630,661

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

CITY OF GALVA, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

(Budgeted Funds Only)

For the Year Ended December 31, 2010

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
GENERAL FUND	\$ 671,210	\$ -	\$ 671,210	\$ 373,801	\$ 297,409
SPECIAL REVENUE FUND:					
Special Highway Fund	<u>42,612</u>	<u>-</u>	<u>42,612</u>	<u>20,227</u>	<u>22,385</u>
DEBT SERVICE FUND:					
Bond and Interest Fund	<u>82,085</u>	<u>-</u>	<u>82,085</u>	<u>73,923</u>	<u>8,162</u>
CAPITAL PROJECT FUND:					
Capital Improvement Fund	<u>110,636</u>	<u>-</u>	<u>110,636</u>	<u>15,358</u>	<u>95,278</u>
ENTERPRISE FUNDS:					
Electric Fund	507,728	-	507,728	502,931	4,797
Sewer Fund	131,187	-	131,187	33,800	97,387
Water Fund	<u>169,879</u>	<u>-</u>	<u>169,879</u>	<u>84,481</u>	<u>85,398</u>
Total Enterprise Funds	<u>808,794</u>	<u>-</u>	<u>808,794</u>	<u>621,212</u>	<u>187,582</u>
Total Reporting Entity	<u>\$ 1,715,337</u>	<u>\$ -</u>	<u>\$ 1,715,337</u>	<u>\$ 1,104,522</u>	<u>\$ 610,815</u>

CITY OF GALVA, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes -				
Ad valorem property tax	\$ 171,201	\$ 232,512	\$ 238,036	\$ (5,524)
Back tax collections	2,776	1,970	200	1,770
Motor vehicle tax	25,734	27,001	27,567	(566)
Recreational vehicle tax	872	962	743	219
16/20M vehicle tax	100	197	182	15
M&E slider tax	2,864	-	-	-
Local sales tax	97,736	97,448	85,000	12,448
Total Taxes	301,283	360,090	351,728	8,362
Intergovernmental Revenues -				
Economic development	1,570	1,634	1,500	134
Licenses and Permits -				
Utility franchise taxes	10,336	13,827	9,500	4,327
City licenses - beer	857	1,265	55	1,210
Building permits	-	-	900	(900)
Dog tags	-	-	100	(100)
Total Licenses and Permits	11,193	15,092	10,555	4,537
Charges for Services -				
Sanitation services	45,507	47,837	40,000	7,837
Fines, Forfeitures and Penalties -				
Police fines	1,438	1,118	800	318
Other -				
Reimbursements	895	574	500	74
Miscellaneous	3,106	4,429	1,000	3,429
Rents	6,761	10,700	2,000	8,700
Interest income	7,516	5,720	11,000	(5,280)
Donations	175	317	-	317
Total Other	18,453	21,740	14,500	7,240
Total Cash Receipts	379,444	447,511	\$ 419,083	\$ 28,428

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

CITY OF GALVA, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Expenditures				
General Administrative -				
Personal services	\$ 29,122	\$ 40,720	\$ 23,000	\$ (17,720)
Contractual services	90,323	108,550	85,000	(23,550)
Commodities	20,309	16,936	20,000	3,064
Capital outlay	13,499	2,475	15,000	12,525
Economic development	-	3,500	1,000	(2,500)
Building lease	31,146	31,146	31,146	-
Returned checks and fees	2,001	1,037	-	(1,037)
Post office lease	14,736	17,683	17,683	-
Miscellaneous	100	50	-	(50)
Transfer to Capital Improvement Fund	25,000	25,000	50,000	25,000
Total General Administrative	<u>226,236</u>	<u>247,097</u>	<u>242,829</u>	<u>(4,268)</u>
Police -				
Personal services	55,635	62,408	54,100	(8,308)
Contractual services	2,557	2,781	2,200	(581)
Commodities	419	5,665	3,000	(2,665)
Capital outlay	3,402	14,024	-	(14,024)
Total Police	<u>62,013</u>	<u>84,878</u>	<u>59,300</u>	<u>(25,578)</u>
Street -				
Contractual services	-	13,435	15,000	1,565
Commodities	4,260	13,600	16,000	2,400
Capital outlay	2,090	-	312,881	312,881
Total Street	<u>6,350</u>	<u>27,035</u>	<u>343,881</u>	<u>316,846</u>
Recreation Committee -				
Personal services	8,612	9,239	8,200	(1,039)
Contractual services	10,845	92	8,000	7,908
Commodities	3,952	5,460	8,000	2,540
Capital outlay	-	-	500	500
Appropriation	-	-	500	500
Total Recreation Committee	<u>23,409</u>	<u>14,791</u>	<u>25,200</u>	<u>10,409</u>

CITY OF GALVA, KANSAS

GENERAL FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	<u>2009 Actual</u>	<u>2010</u>		<u>Variance - Favorable (Unfavorable)</u>
		<u>Actual</u>	<u>Budget</u>	
Expenditures (cont.)				
Total Expenditures	<u>\$ 318,008</u>	<u>\$ 373,801</u>	<u>\$ 671,210</u>	<u>\$ 297,409</u>
Receipts Over (Under) Expenditures	61,436	73,710		
Unencumbered Cash, Beginning	<u>252,703</u>	<u>314,139</u>		
Unencumbered Cash, Ending	<u>\$ 314,139</u>	<u>\$ 387,848</u>		

CITY OF GALVA, KANSAS

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

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State of Kansas - fuel tax	\$ 20,197	\$ 21,498	\$ 23,110	\$ (1,612)
Miscellaneous	-	82	-	82
Total Cash Receipts	<u>20,197</u>	<u>21,580</u>	<u>\$ 23,110</u>	<u>\$ (1,530)</u>
Expenditures				
Contractual services	-	2,410	\$ 400	\$ (2,010)
Commodities	14,882	17,817	3,600	(14,217)
Capital outlay	<u>1,628</u>	<u>-</u>	<u>38,612</u>	<u>38,612</u>
Total Expenditures	<u>16,510</u>	<u>20,227</u>	<u>\$ 42,612</u>	<u>\$ 22,385</u>
Receipts Over (Under) Expenditures	3,687	1,353		
Unencumbered Cash, Beginning	<u>11,832</u>	<u>15,519</u>		
Unencumbered Cash, Ending	<u>\$ 15,519</u>	<u>\$ 16,872</u>		

CITY OF GALVA, KANSAS

DEBT SERVICE FUNDBOND AND INTEREST FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Ad valorem property tax	\$ 57,911	\$ 28	\$ -	\$ 28
Back tax collections	1,037	154	200	(46)
Motor vehicle tax	9,263	9,681	9,326	355
Recreational vehicle tax	328	336	251	85
16/20M vehicle tax	21	83	62	21
M&E slider tax	969	-	-	-
Total Cash Receipts	<u>69,529</u>	<u>10,282</u>	<u>\$ 9,839</u>	<u>\$ 443</u>
Expenditures				
Principal	70,000	70,000	\$ 70,000	\$ -
Interest	7,840	3,920	3,920	-
Commissions and postage	3	3	10	7
Cash basis reserve	-	-	8,155	8,155
Total Expenditures	<u>77,843</u>	<u>73,923</u>	<u>\$ 82,085</u>	<u>\$ 8,162</u>
Receipts Over (Under) Expenditures	(8,314)	(63,641)		
Unencumbered Cash, Beginning	<u>79,883</u>	<u>71,569</u>		
Unencumbered Cash, Ending	<u>\$ 71,569</u>	<u>\$ 7,928</u>		

CITY OF GALVA, KANSAS

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

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Lease purchase proceeds	\$ 80,000	\$ -	\$ -	\$ -
Transfer from General Fund	25,000	25,000	50,000	(25,000)
Total Cash Receipts	105,000	25,000	\$ 50,000	\$ (25,000)
Expenditures				
Contractual services	-	15,358	\$ -	\$ (15,358)
Capital outlay	81,765	-	60,636	60,636
Waterwell	-	-	50,000	50,000
Total Expenditures	81,765	15,358	\$ 110,636	\$ 95,278
Receipts Over (Under) Expenditures	23,235	9,642		
Unencumbered Cash, Beginning	12,401	35,636		
Unencumbered Cash, Ending	\$ 35,636	\$ 45,278		

CITY OF GALVA, KANSAS

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

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Electricity charges	\$ 437,152	\$ 480,792	\$ 450,000	\$ 30,792
Penalties	1,983	3,825	2,500	1,325
Installation charges	5,891	1,025	1,500	(475)
Reimbursements	-	2,523	200	2,323
Miscellaneous	-	694	-	694
Total Cash Receipts	<u>445,026</u>	<u>488,859</u>	<u>\$ 454,200</u>	<u>\$ 34,659</u>
Expenditures				
Personal services	183,165	171,502	\$ 187,200	\$ 15,698
Contractual services	310,331	314,274	300,000	(14,274)
Commodities	19,598	17,155	15,000	(2,155)
Capital outlay	-	-	5,528	5,528
Total Expenditures	<u>513,094</u>	<u>502,931</u>	<u>\$ 507,728</u>	<u>\$ 4,797</u>
Receipts Over (Under) Expenditures	(68,068)	(14,072)		
Unencumbered Cash, Beginning	<u>94,328</u>	<u>26,260</u>		
Unencumbered Cash, Ending	<u>\$ 26,260</u>	<u>\$ 12,188</u>		

CITY OF GALVA, KANSAS

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

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sewer charges	\$ 31,542	\$ 30,579	\$ 30,000	\$ 579
Sewer tap	200	1,175	1,000	175
Reimbursements	-	400	500	(100)
Total Cash Receipts	<u>31,742</u>	<u>32,154</u>	<u>\$ 31,500</u>	<u>\$ 654</u>
Expenditures				
Personal services	10,775	19,148	\$ 11,100	\$ (8,048)
Contractual services	1,231	11,120	6,000	(5,120)
Commodities	2,405	3,532	2,000	(1,532)
Capital outlay	-	-	112,087	112,087
Total Expenditures	<u>14,411</u>	<u>33,800</u>	<u>\$ 131,187</u>	<u>\$ 97,387</u>
Receipts Over (Under) Expenditures	17,331	(1,646)		
Unencumbered Cash, Beginning	<u>87,287</u>	<u>104,618</u>		
Unencumbered Cash, Ending	<u>\$ 104,618</u>	<u>\$ 102,972</u>		

CITY OF GALVA, KANSAS

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

For the Year Ended December 31, 2010

(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	2009 Actual	2010		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Water charges	\$ 68,985	\$ 75,458	\$ 70,000	\$ 5,458
Installation charges	1,600	2,350	2,000	350
Miscellaneous	-	-	500	(500)
Total Cash Receipts	<u>70,585</u>	<u>77,808</u>	<u>\$ 72,500</u>	<u>\$ 5,308</u>
Expenditures				
Personal services	21,549	21,184	\$ 22,000	\$ 816
Contractual services	20,138	34,136	15,000	(19,136)
Commodities	28,682	29,161	15,000	(14,161)
Capital outlay	12,847	-	67,879	67,879
Waterwell	-	-	50,000	50,000
Total Expenditures	<u>83,216</u>	<u>84,481</u>	<u>\$ 169,879</u>	<u>\$ 85,398</u>
Receipts Over (Under) Expenditures	(12,631)	(6,673)		
Unencumbered Cash, Beginning	<u>76,879</u>	<u>64,248</u>		
Unencumbered Cash, Ending	<u>\$ 64,248</u>	<u>\$ 57,575</u>		

CITY OF GALVA, KANSAS

AGENCY FUNDSSTATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

For the Year Ended December 31, 2010

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Payroll Clearing Fund	\$ -	\$ 323,574	\$ 323,574	\$ -
Recreation Committee Fund	1,422	5,407	5,283	1,546
Sales Tax Fund	-	8,614	7,994	620
Total	<u>\$ 1,422</u>	<u>\$ 337,595</u>	<u>\$ 336,851</u>	<u>\$ 2,166</u>

CITY OF GALVA, KANSAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The City of Galva is a municipal corporation governed by an elected mayor and an elected five-member council. These financial statements present the City of Galva. The City has no component units.

(b) Basis of Presentation - Fund Accounting

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

Governmental Fund Types

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

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

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

Debt Service Funds - These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds and Special Assessment Funds.

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Statutory Basis of Accounting

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

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

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

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

(e) Budgetary Information

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

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(e) Budgetary Information (Cont.)

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

A legal operating budget is not required for Capital Project Funds and Agency Funds.

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The City did not remit to the state fiscal agent at least 20 days prior to maturity principal and interest payments that are due on bond issues of the municipality as required by K.S.A. 10-113, 10-118, 10-130.

3. DEPOSITS AND INVESTMENTS

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

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

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2010.

3. DEPOSITS AND INVESTMENTS (CONT.)

At December 31, 2010, the City's carrying amount of deposits was \$632,827 and the bank balance was \$676,849. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$426,849 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

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

4. LONG-TERM DEBT

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

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Capital Leases:										
Building	4.75%	8-15-04	\$ 247,000	9-01-14	\$ 130,138	\$ -	\$ 25,516	\$ (25,516)	\$ 104,622	\$ 5,604
Post Office Building	4.00%	3-05-09	80,000	3-05-14	67,764	-	15,251	(15,251)	52,513	2,431
Total Capital Leases					197,902	-	40,767	(40,767)	157,135	8,035
General Obligation Bond:										
Series 2000	5.00 to 5.60%	6-15-00	575,000	8-01-10	70,000	-	70,000	(70,000)	-	3,920
Total Long-Term Debt					\$ 267,902	\$ -	\$ 110,767	\$ (110,767)	\$ 157,135	\$ 11,955

Current maturities of long-term debt and interest for the next four years are as follows:

	Year				
	2011	2012	2013	2014	Total
Principal:					
Capital Leases:					
Building	\$ 26,649	\$ 27,943	\$ 29,299	\$ 20,731	\$ 104,622
Post Office Building	15,819	16,459	17,134	3,101	52,513
Total Capital Leases	42,468	44,402	46,433	23,832	157,135
Interest:					
Capital Leases:					
Building	4,497	3,204	1,847	33	9,581
Post Office Building	1,864	1,223	395	-	3,482
Total Capital Leases	6,361	4,427	2,242	33	13,063
Total Interest	6,361	4,427	2,242	33	13,063
Total Principal and Interest	\$ 48,829	\$ 48,829	\$ 48,675	\$ 23,865	\$ 170,198

5. PENSION COSTS AND EMPLOYEE BENEFITS

(a) *Defined Benefit Pension Plan*

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

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2010 is 7.14%. (Included in this rate is the contribution for Group Death and Disability Insurance of 1.0% from April 1, 2010 through June 30, 2010). The City employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008, were \$18,380, \$16,937, and \$14,576, respectively, equal to the required contributions for each year as set forth by the legislature.

(b) *Other Employee Benefits*

Vacation - Vacation leave shall be accrued from the employee's date of employment as stipulated hereinafter. All vacation leave must be used by the end of the year and shall not carry over to the following year. No vacation leave shall be taken until a new employee has completed the probationary period.

- (a) Vacations apply only to full-time regular employees.
- (b) Vacations will be allowed for full-time employees in the following manner:

<u>Years of Service</u>	<u>Per Year</u>
1 year of service	5 working days
2 to 9 years of service	10 working days
10 to 14 years of service	15 working days
15 plus years of service	20 working days

Sick leave - All full-time and part-time employees shall be entitled to sick leave with pay for absences resulting from personal illness, injuries, accidents or other physical incapacities, occurring either on or off the job.

<u>Years of Completed Service</u>	<u>Annual Sick Leave Benefits</u>
Upon completion of probationary period-	
90 days but less than 1 year	5 days
After 1 year	10 days

Sick leave may be accumulated up to a total of 50 days. An employee terminating his or her employment with the City, whether with or without notice, or whether terminated for cause, shall not be paid for any unused sick leave.

6. JOINTLY GOVERNED ORGANIZATION

McPherson Area Solid Waste Utility

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

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

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

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

Condensed financial information of the McPherson Area Solid Waste Utility as of and for the year ended December 31, 2009 is as follows:

Total Assets	\$ 11,688,127
Total Liabilities	5,398,963
Total Net Assets	6,289,164
Total Revenues	5,305,347
Total Expenses	4,798,842
Change in Net Assets	506,505

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

7. CLAIMS AND JUDGMENTS

The City participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of March 24, 2011, grant expenditures have not been audited, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

7. CLAIMS AND JUDGMENTS (CONT.)

The City is exposed to various risks of loss related to property loss; torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2009 to 2010 and there were no settlements that exceeded insurance coverage in the past three years.

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

8. INTERFUND TRANSFERS

A summary of operating transfers by fund are as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Capital Improvement	K.S.A. 12-1,118	<u>\$ 25,000</u>

9. SUBSEQUENT EVENTS

On March 7, 2011, the Council approved the issuance of General Obligation Bonds, Series 2011 not to exceed \$480,000. The bond proceeds will be used for the improvement or reimprovement of certain main trafficways within the City.

Management has evaluated the effects of the financial statements of subsequent events occurring through March 24, 2011 which is the date at which the financial statements were available to be issued.