

**CITY OF HILL CITY, KANSAS**  
Audit Report  
January 1, 2010 to December 31, 2010

**MAPES & MILLER**  
Certified Public Accountants

CITY OF HILL CITY, KANSAS  
Financial Statements  
January 1, 2010 to December 31, 2010

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# MAPES & MILLER

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A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

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## INDEPENDENT AUDITOR'S REPORT

To Honorable Mayor and City Council  
City of Hill City  
Hill City, Kansas 67642

We have audited the accompanying financial statements of the City of Hill City, Kansas, as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Hill City, Kansas' 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, the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and the guidance in 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.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City has prepared these financial statements in conformity with 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.

In our opinion, because of the omission of the component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hill City, Kansas, as of December 31, 2010, or the changes in financial position 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 primary government of the City of Hill City, Kansas, as of December 31, 2010, and its cash receipts and expenditures, and budgetary comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2011, on our consideration of the City of Hill City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hill City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the governing body and management of the City of Hill City, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and other federal and state agencies to whose jurisdiction the City is subject and is not intended to be and should not be used by any one other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by the City Council, is a matter of public record.

# Mapes & Miller

Certified Public Accountants

Norton, Kansas  
September 27, 2011

CITY OF HILL CITY, KANSAS

STATEMENT 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash

For the Year Ended December 31, 2010

Funds	Beginning	Cash	Expenditures	Ending	Add	Ending
	Unencumbered			Unencumbered	Outstanding	
	Cash Balance	Receipts		Cash Balance	and Accounts Payable	Cash Balance
Governmental Type Funds:						
General Fund	\$ 232,788	812,325	708,097	337,016	3,659	340,675
Special Revenue Funds						
Airport Fund	46,922	41,144	41,541	46,525	8	46,533
Special City Highway Fund	17,084	36,239	47,952	5,371	0	5,371
Employee Benefits Fund	6,316	112,443	99,684	19,075	0	19,075
Special Parks and Recreation Fu	89,625	48,792	433	137,984	0	137,984
Equipment Reserve Fund	70,920	117,834	53,709	135,045	0	135,045
Capital Improvements Fund	227,317	208,889	46,065	390,141	0	390,141
Recreation Commission Fund	0	199	0	199	0	199
LE Seizure Trust Fund	509	0	0	509	0	509
Municipal Judge Training Fund	19	7	15	11	0	11
Crime Prevention Fund	392	1,050	885	557	0	557
Tree and Park Fund	189	0	0	189	0	189
Law Enforcement Training Fund	587	269	551	305	0	305
Ball Complex Lights Fund	20,471	0	0	20,471	0	20,471
Housing Grant Fund	16	0	0	16	0	16
Meth Lab Fund	529	0	0	529	0	529
Dane G. Hansen Fund	0	15,000	0	15,000	0	15,000
Bike Safety Program Fund	80	0	69	11	0	11
Fema Disaster #1885 Fund	0	15,242	13,135	2,107	0	2,107

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

CITY OF HILL CITY, KANSAS

STATEMENT 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash

Page 2

For the Year Ended December 31, 2010

Funds	Beginning	Cash	Expenditures	Ending	Add	Ending
	Unencumbered			Unencumbered	Outstanding	
	Cash Balance	Receipts		Cash Balance	Encumbrances and Accounts Payable	Cash Balance
Special Revenue Funds						
Diversion Fund	450	100	0	550	0	550
Tort Liability Fund	58,470	0	0	58,470	0	58,470
Debt Service Fund						
Airport Bond and Interest Fund	1,199	52,320	48,477	5,042	0	5,042
Capital Projects Fund						
Airport Runway Fund	0	718,765	718,765	0	0	0
Proprietary Type Funds:						
Enterprise Funds						
Light Utility Fund	222,993	1,812,985	1,722,530	313,448	75,553	389,001
Water Utility Fund	243,781	866,083	388,133	721,731	828	722,559
Sewer Utility Fund	68,433	158,130	203,887	22,676	332	23,008
Golf Course Fund	11,588	44,606	43,977	12,217	0	12,217
Emergency Maintenance Fund	95,000	0	0	95,000	0	95,000
Light and Water Surplus Fund	5,584	0	260	5,324	0	5,324
Sewer Reserve Fund	73,600	63,294	0	136,894	0	136,894
Water Improvement Project Fund	19,968	50,000	0	69,968	0	69,968
Customer Deposits Fund	200	14,106	14,106	200	20,278	20,478
 Total Reporting Entity	 \$ <u>1,515,030</u>	 <u>5,189,822</u>	 <u>4,152,271</u>	 <u>2,552,581</u>	 <u>100,658</u>	 <u>2,653,239</u>

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

CITY OF HILL CITY, KANSAS  
Composition of Cash  
For the Year Ended December 31, 2010

STATEMENT 1  
Page 3

Cash on Hand	\$	100
<u>First State Bank, Hill City, Kansas</u>		
Checking Account		1,400
NOW Account		707,173
Certificate of Deposits		360,186
<u>Farmers and Merchants Bank, Hill City, Kansas</u>		
NOW Account		25,764
Certificate of Deposits		570,371
<u>Citizens State Bank, Hill City, Kansas</u>		
NOW Account		<u>988,245</u>
 Total Reporting Entity	\$	<u><u>2,653,239</u></u>

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

CITY OF HILL CITY, KANSAS  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2010

STATEMENT 2

Description	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance- Over (Under)
Governmental Type Funds:					
General Fund	\$ 850,152	0	850,152	708,097	(142,055)
Special Revenue Funds					
Airport Fund	73,105	0	73,105	41,541	(31,564)
Special City Highway Fund	48,114	0	48,114	47,952	(162)
Employee Benefits Fund	123,000	0	123,000	99,684	(23,316)
Special Parks and Recreation Fund	90,971	0	90,971	433	(90,538)
Equipment Reserve Fund	133,816	0	133,816	53,709	*
Capital Improvements Fund	315,889	0	315,889	46,065	**
Recreation Commission Fund	0	0	0	0	0
LE Seizure Trust Fund	355	0	355	0	***
Debt Service Fund					
Airport Bond and Interest Fund	52,513	0	52,513	48,477	(4,036)
Proprietary Type Funds:					
Enterprise Funds					
Light Utility Fund	1,734,488	0	1,734,488	1,722,530	(11,958)
Water Utility Fund	483,014	0	483,014	388,133	(94,881)
Sewer Utility Fund	212,354	0	212,354	203,887	(8,467)
Golf Course Fund	60,000	0	60,000	43,977	(16,023)
Emergency Maintenance Fund	47,500	0	47,500	0	****

\* Exempt from the Budget Law K.S.A. 12-1,117.

\*\* Exempt from the Budget Law K.S.A. 12-1,118.

\*\*\* Exempt from the Budget Law K.S.A. 60-4114d (2)

\*\*\*\* Exempt from the Budget Law K.S.A. 12-825d.

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property Tax	\$ 283,171	277,251	5,920
Delinquent Tax	599	0	599
Motor Vehicle Tax	50,753	42,480	8,273
Recreational Vehicle Tax	1,525	1,246	279
16/20M Vehicle Tax	860	808	52
Sales and Compensating Use Tax	419,296	277,500	141,796
Local Liquor Tax	5,265	5,332	(67)
Licenses, Permits, and Fines			
Franchise Fees	21,799	24,000	(2,201)
Licenses and Permits	2,555	1,600	955
Court Fines	1,712	6,000	(4,288)
Dog Pound Fees	225	0	225
Charges for Services			
Swimming Pool	5,369	5,000	369
Cemetery	2,790	2,500	290
Copies and Maps	0	0	0
Interest on Idle Funds	3,641	10,000	(6,359)
Miscellaneous	6,481	25,000	(18,519)
Recycling Center	2,125	3,500	(1,375)
Reimbursed Expenses	4,159	0	4,159
	<u>812,325</u>	<u>682,217</u>	<u>130,108</u>
Total Cash Receipts			

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
Expenditures:			
General Administration			
Personal Services	\$ 10,844	121,095	(110,251)
Contractual Services	57,603	41,410	16,193
Commodities	9,758	21,000	(11,242)
Miscellaneous	462	3,000	(2,538)
Alcohol Appropriation	1,900	1,700	200
	<u>80,567</u>	<u>188,205</u>	<u>(107,638)</u>
Total General Administration			
Police Department			
Personal Services	139,256	133,000	6,256
Contractual Services	49,963	36,199	13,764
Commodities	18,130	15,000	3,130
Capital Outlay	0	2,000	(2,000)
Miscellaneous	831	500	331
	<u>208,180</u>	<u>186,699</u>	<u>21,481</u>
Total Police Department			
Legal			
Personal Services	18,650	37,000	(18,350)
Contractual Services	1,364	800	564
Commodities	179	500	(321)
	<u>20,193</u>	<u>38,300</u>	<u>(18,107)</u>
Total Legal			
Airport, Parks, and Cemetery			
Personal Services	9,445	18,000	(8,555)
Contractual Services	4,323	3,000	1,323
Commodities	16,389	21,000	(4,611)
	<u>30,157</u>	<u>42,000</u>	<u>(11,843)</u>
Total Airport, Parks, and Cemetery			

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
Fire Department			
Personal Services	\$ 10,550	15,000	(4,450)
Contractual Services	5,591	9,000	(3,409)
Commodities	1,255	6,500	(5,245)
Capital Outlay	<u>0</u>	<u>4,000</u>	<u>(4,000)</u>
Total Fire Department	<u>17,396</u>	<u>34,500</u>	<u>(17,104)</u>
Street Department			
Personal Services	43,614	49,000	(5,386)
Contractual Services	30,649	17,500	13,149
Commodities	<u>45,118</u>	<u>66,140</u>	<u>(21,022)</u>
Total Street Department	<u>119,381</u>	<u>132,640</u>	<u>(13,259)</u>
Oil Museum			
Contractual Services	<u>1,122</u>	<u>1,000</u>	<u>122</u>
Swimming Pool			
Personal Services	28,511	26,522	1,989
Contractual Services	6,643	3,500	3,143
Commodities	<u>14,272</u>	<u>6,500</u>	<u>7,772</u>
Total Swimming Pool	<u>49,426</u>	<u>36,522</u>	<u>12,904</u>
Scout House			
Contractual Services	<u>1,465</u>	<u>1,000</u>	<u>465</u>

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
Other			
Golf Course	0	12,522	(12,522)
Neighborhood Revitalization Rebate	<u>3,446</u>	<u>0</u>	<u>3,446</u>
Total Other	<u>3,446</u>	<u>12,522</u>	<u>(9,076)</u>
Operating Transfers			
Transfer to Capital Improvements Fund	116,764	116,764	0
Transfer to Equipment Reserve Fund	50,000	50,000	0
Transfer to Airport Fund	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Total Operating Transfers	<u>176,764</u>	<u>176,764</u>	<u>0</u>
Total Expenditures	<u>708,097</u>	<u>850,152</u>	<u>(142,055)</u>
Cash Receipts Over (Under) Expenditures	104,228		
Unencumbered Cash, Beginning	<u>232,788</u>		
Unencumbered Cash, Ending	<u>\$ 337,016</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Airport Fund</b>			
Cash Receipts:			
Rent	\$ 3,535	500	3,035
Farm Income	1,784	4,400	(2,616)
Fuel	25,364	22,000	3,364
Miscellaneous	17	0	17
Reimbursed Expenses	444	0	444
Transfer from General Fund	10,000	10,000	0
	<u>41,144</u>	<u>36,900</u>	<u>4,244</u>
Total Cash Receipts			
Expenditures:			
Personal Services	0	8,000	(8,000)
Contractual Services	15,326	9,000	6,326
Commodities	22,361	29,000	(6,639)
Capital Outlay	0	27,105	(27,105)
Reimbursement	3,809	0	3,809
Miscellaneous	45	0	45
	<u>41,541</u>	<u>73,105</u>	<u>(31,564)</u>
Total Expenditures			
Cash Receipts Over (Under) Expenditures	(397)		
Unencumbered Cash, Beginning	<u>46,922</u>		
Unencumbered Cash, Ending	<u>\$ 46,525</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Special City Highway Fund</b>			
Cash Receipts:			
Intergovernmental	\$ 36,239	<u>40,590</u>	<u>(4,351)</u>
Expenditures:			
Contractual Services	14,851	27,000	(12,149)
Commodities	<u>33,101</u>	<u>21,114</u>	<u>11,987</u>
Total Expenditures	<u>47,952</u>	<u>48,114</u>	<u>(162)</u>
Cash Receipts Over (Under) Expenditures	(11,713)		
Unencumbered Cash, Beginning	<u>17,084</u>		
Unencumbered Cash, Ending	<u>\$ 5,371</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Employee Benefits Fund</b>			
Cash Receipts:			
Taxes			
Ad Valorem Property Tax	\$ 88,199	86,462	1,737
Delinquent Tax	145	0	145
Motor Vehicle Tax	13,492	11,496	1,996
Recreational Vehicle Tax	404	337	67
16/20M Vehicle Tax	203	218	(15)
Reimbursed Expense	0	10,000	(10,000)
Transfer from Sewer Utility Fund	<u>10,000</u>	<u>10,000</u>	<u>0</u>
 Total Cash Receipts	 <u>112,443</u>	 <u>118,513</u>	 <u>(6,070)</u>
Expenditures:			
Social Security Tax	15,875	22,500	(6,625)
Medicare Tax	3,713	5,500	(1,787)
KPERS	11,168	13,000	(1,832)
Health Insurance Premiums	67,196	81,000	(13,804)
Unemployment Tax	657	1,000	(343)
Neighborhood Revitalization Rebate	<u>1,075</u>	<u>0</u>	<u>1,075</u>
 Total Expenditures	 <u>99,684</u>	 <u>123,000</u>	 <u>(23,316)</u>
 Cash Receipts Over (Under) Expenditures	 <u>12,759</u>		
Unencumbered Cash, Beginning	<u>6,316</u>		
 Unencumbered Cash, Ending	 <u>\$ 19,075</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Special Parks and Recreation Fund</b>			
Cash Receipts:			
Taxes			
Ad Valorem Property Tax	\$ 35,578	34,819	759
Delinquent Tax	67	0	67
Motor Vehicle Tax	7,638	7,281	357
Recreational Vehicle Tax	225	214	11
16/20M Vehicle Tax	19	138	(119)
Local Liquor Tax	<u>5,265</u>	<u>5,332</u>	<u>(67)</u>
 Total Cash Receipts	 <u>48,792</u>	 <u>47,784</u>	 <u>1,008</u>
 Expenditures:			
Personal Services	0	20,000	(20,000)
Contractual Services	0	37,971	(37,971)
Commodities	0	1,000	(1,000)
Capital Outlay	0	32,000	(32,000)
Neighborhood Revitalization Rebate	<u>433</u>	<u>0</u>	<u>433</u>
 Total Expenditures	 <u>433</u>	 <u>90,971</u>	 <u>(90,538)</u>
 Cash Receipts Over (Under) Expenditures	 48,359		
Unencumbered Cash, Beginning	<u>89,625</u>		
 Unencumbered Cash, Ending	 <u>\$ 137,984</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

	<u>Actual</u>	<u>*Budget</u>	Variance- Over (Under)
<b>Equipment Reserve Fund</b>			
Cash Receipts:			
Transfer from General Fund	\$ 50,000	50,000	0
Transfer from Light Utility Fund	58,667	64,000	(5,333)
Transfer from Sewer Utility Fund	<u>9,167</u>	<u>10,000</u>	<u>(833)</u>
Total Cash Receipts	<u>117,834</u>	<u>124,000</u>	<u>(6,166)</u>
Expenditures:			
Sewer Equipment	0	86,700	(86,700)
Police Equipment	0	1,800	(1,800)
Airport Equipment	0	15,000	(15,000)
Light Equipment	0	30,316	(30,316)
Golf Course Equipment	22,983	0	22,983
Other Equipment	11,702	0	11,702
Loader Lease	<u>19,024</u>	<u>0</u>	<u>19,024</u>
Total Expenditures	<u>53,709</u>	<u>133,816</u>	<u>(80,107)</u>
Cash Receipts Over (Under) Expenditures	64,125		
Unencumbered Cash, Beginning	<u>70,920</u>		
Unencumbered Cash, Ending	<u>\$ 135,045</u>		

\* Exempt from the Budget Law K.S.A. 12-1,117.

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

	<u>Actual</u>	<u>*Budget</u>	Variance- Over (Under)
<b>Capital Improvements Fund</b>			
Cash Receipts:			
Transfer from General Fund	\$ 116,764	116,764	0
Transfer from Light Utility Fund	<u>92,125</u>	<u>100,500</u>	<u>(8,375)</u>
 Total Cash Receipts	 <u>208,889</u>	 <u>217,264</u>	 <u>(8,375)</u>
Expenditures:			
Street Repair	0	75,389	(75,389)
Curb, Gutter, and Sidewalks	4,674	40,000	(35,326)
Airport Improvements	41,391	80,000	(38,609)
Light Improvements	0	100,500	(100,500)
Swimming Pool	<u>0</u>	<u>20,000</u>	<u>(20,000)</u>
 Total Expenditures	 <u>46,065</u>	 <u>315,889</u>	 <u>(269,824)</u>
 Cash Receipts Over (Under) Expenditures	 <u>162,824</u>		
Unencumbered Cash, Beginning	<u>227,317</u>		
 Unencumbered Cash, Ending	 <u>\$ 390,141</u>		

\* Exempt from the Budget Law K.S.A. 12-1,118.

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
<b>Recreation Commission Fund</b>			
Cash Receipts:			
Taxes			
Delinquent Tax	\$ 20	0	20
Motor Vehicle Tax	155	0	155
Recreational Vehicle Tax	5	0	5
16/20M Vehicle Tax	<u>19</u>	<u>0</u>	<u>19</u>
 Total Cash Receipts	 <u>199</u>	 <u>0</u>	 <u>199</u>
 Expenditures:			
 Total Expenditures	 <u>0</u>	 <u>0</u>	 <u>0</u>
 Cash Receipts Over (Under) Expenditures	 199		
Unencumbered Cash, Beginning	<u>0</u>		
 Unencumbered Cash, Ending	 <u>\$ 199</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>*Budget</u>	Variance- Over (Under)
<b>LE Seizure Trust Fund</b>			
Cash Receipts	\$ 0	100	(100)
Expenditures:			
Contractual Services	<u>0</u>	<u>355</u>	<u>(355)</u>
Cash Receipts Over (Under) Expenditures	0		
Unencumbered Cash, Beginning	<u>509</u>		
Unencumbered Cash, Ending	<u>\$ 509</u>		

\* Exempt from the Budget Law K.S.A. 60-4114d (2).

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

## Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Municipal Judge Training Fund</b>	
Cash Receipts	
Municipal Court Fines	\$ <u>7</u>
Expenditures	<u>15</u>
Cash Receipts Over (Under) Expenditures	(8)
Unencumbered Cash, Beginning	<u>19</u>
Unencumbered Cash, Ending	\$ <u><u>11</u></u>
<b>Crime Prevention Fund</b>	
Cash Receipts	\$ <u>1,050</u>
Expenditures:	
Training	<u>885</u>
Cash Receipts Over (Under) Expenditures	165
Unencumbered Cash, Beginning	<u>392</u>
Unencumbered Cash, Ending	\$ <u><u>557</u></u>
<b>Tree and Park Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	<u>189</u>
Unencumbered Cash, Ending	\$ <u><u>189</u></u>

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

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Law Enforcement Training Fund</b>	
Cash Receipts:	
Municipal Court Fines	\$ <u>269</u>
Expenditures	<u>551</u>
Cash Receipts Over (Under) Expenditures	(282)
Unencumbered Cash, Beginning	<u>587</u>
Unencumbered Cash, Ending	\$ <u><u>305</u></u>
<b>Ball Complex Lights Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	<u>20,471</u>
Unencumbered Cash, Ending	\$ <u><u>20,471</u></u>
<b>Housing Grant Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	<u>16</u>
Unencumbered Cash, Ending	\$ <u><u>16</u></u>

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

Special Revenue Funds

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Meth Lab Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	<u>529</u>
Unencumbered Cash, Ending	<u><u>\$ 529</u></u>
<b>Dane G. Hansen Fund</b>	
Cash Receipts	
Donation	\$ <u>15,000</u>
Expenditures:	
Capital Outlay	<u>0</u>
Cash Receipts Over (Under) Expenditures	15,000
Unencumbered Cash, Beginning	<u>0</u>
Unencumbered Cash, Ending	<u><u>\$ 15,000</u></u>
<b>Bike Safety Program Fund</b>	
Cash Receipts:	
Donations	\$ <u>0</u>
Expenditures:	
Miscellaneous	<u>69</u>
Cash Receipts Over (Under) Expenditures	(69)
Unencumbered Cash, Beginning	<u>80</u>
Unencumbered Cash, Ending	<u><u>\$ 11</u></u>

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

## Special Revenue Funds

Statement of Cash Receipts and Expenditures - Actual  
For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Diversion Fund</b>	
Cash Receipts:	
Diversion Fines	\$ <u>100</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	100
Unencumbered Cash, Beginning	<u>450</u>
Unencumbered Cash, Ending	<u>\$ 550</u>
<b>Tort Liability Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures	<u>0</u>
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	<u>58,470</u>
Unencumbered Cash, Ending	<u>\$ 58,470</u>
<b>Fema Disaster #1885 Fund</b>	
Cash Receipts	
Federal Aid - FEMA Grant	\$ 13,449
State Aid - FEMA Grant	<u>1,793</u>
Total cash receipts	<u>15,242</u>
Expenditures	
Commodities	<u>13,135</u>
Cash Receipts Over (Under) Expenditures	2,107
Unencumbered Cash, Beginning	<u>0</u>
Unencumbered Cash, Ending	<u>\$ 2,107</u>

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Airport Bond and Interest Fund</b>			
Cash Receipts:			
Taxes			
Ad Valorem Property Tax	\$ 38,877	38,184	693
Delinquent Tax	46	0	46
Motor Vehicle Tax	4,075	3,690	385
Recreational Vehicle Tax	121	108	13
16/20M Vehicle Tax	34	70	(36)
Transfer from Sewer Utility Fund	<u>9,167</u>	<u>10,000</u>	<u>(833)</u>
 Total Cash Receipts	 <u>52,320</u>	 <u>52,052</u>	 <u>268</u>
 Expenditures:			
Principal	35,000	35,000	0
Interest	13,003	13,003	0
Fees	0	10	(10)
Neighborhood Revitalization Rebate	474	0	474
Cash Basis Reserve	<u>0</u>	<u>4,500</u>	<u>(4,500)</u>
 Total Expenditures	 <u>48,477</u>	 <u>52,513</u>	 <u>(4,036)</u>
 Cash Receipts Over (Under) Expenditures	 3,843		
Unencumbered Cash, Beginning	<u>1,199</u>		
 Unencumbered Cash, Ending	 <u>\$ 5,042</u>		

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

CITY OF HILL CITY, KANSAS  
 Capital Projects Fund  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2010

STATEMENT 3  
 Page 18

	<b>Actual</b>
<b>Airport Runway Fund</b>	
Cash Receipts:	
State Aid	\$ 0
Reimbursed Expenses	33,832
FAA Grant	684,933
Total Receipts	718,765
Expenditures:	
Capital Outlay	718,765
Cash Receipts Over (Under) Expenditures	0
Unencumbered Cash, Beginning	0
Unencumbered Cash, Ending	\$ 0

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Light Utility Fund</b>			
Cash Receipts:			
Charges for Services	\$ 1,765,486	1,550,000	215,486
Other Sales and Services	1,935	5,000	(3,065)
Refunds	2,700	0	2,700
Miscellaneous	17,226	20,000	(2,774)
Reimbursed Expenses	4,555	0	4,555
Transfer from Sewer Utility Fund	<u>21,083</u>	<u>23,000</u>	<u>(1,917)</u>
 Total Cash Receipts	 <u>1,812,985</u>	 <u>1,598,000</u>	 <u>214,985</u>
Expenditures:			
General and Administration			
Personal Services	\$ 215,990	76,312	139,678
Contractual Services	37,358	40,000	(2,642)
Commodities	12,130	25,000	(12,870)
Sales Tax	47,777	28,000	19,777
Miscellaneous	<u>5,068</u>	<u>0</u>	<u>5,068</u>
 Total General and Administration	 <u>318,323</u>	 <u>169,312</u>	 <u>149,011</u>
Production			
Personal Services	121,706	142,569	(20,863)
Contractual Services	33,644	53,000	(19,356)
Commodities	78,780	38,857	39,923
Purchased Power	<u>854,938</u>	<u>1,025,000</u>	<u>(170,062)</u>
 Total Production	 <u>1,089,068</u>	 <u>1,259,426</u>	 <u>(170,358)</u>

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

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Light Utility Fund (Continued)</b>			
Distribution			
Personal Services	\$ 80,151	80,250	(99)
Contractual Services	20,996	31,000	(10,004)
Commodities	<u>63,200</u>	<u>30,000</u>	<u>33,200</u>
Total Distribution	<u>164,347</u>	<u>141,250</u>	<u>23,097</u>
Operating Transfers			
Transfer to Capital Improvements Fund	92,125	100,500	(8,375)
Transfer to Equipment Reserve Fund	<u>58,667</u>	<u>64,000</u>	<u>(5,333)</u>
Total Operating Transfers	<u>150,792</u>	<u>164,500</u>	<u>(13,708)</u>
Total Expenditures	<u>1,722,530</u>	<u>1,734,488</u>	<u>(11,958)</u>
Cash Receipts Over (Under) Expenditures	90,455		
Unencumbered Cash, Beginning	<u>222,993</u>		
Unencumbered Cash, Ending	<u>\$ 313,448</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Water Utility Fund</b>			
Cash Receipts:			
Charges for Services	\$ 441,745	300,000	141,745
Other Sales and Services	1,356	2,000	(644)
Miscellaneous	1,590	0	1,590
Land Sale	418,154	0	418,154
Reimbursed Expenses	<u>3,238</u>	<u>0</u>	<u>3,238</u>
 Total Cash Receipts	 <u>866,083</u>	 <u>302,000</u>	 <u>564,083</u>
Expenditures:			
General and Administration	\$		
Taxes and Water Fees	2,915	3,000	(85)
2009 GO Bond Payment	51,582	0	51,582
KDHE Loan Principal	88,017	88,017	0
KDHE Loan Interest	75,997	75,997	0
Miscellaneous	<u>849</u>	<u>0</u>	<u>849</u>
 Total General and Administration	 <u>219,360</u>	 <u>167,014</u>	 <u>52,346</u>
Distribution			
Personal Services	57,928	105,000	(47,072)
Contractual Services	72,031	62,000	10,031
Commodities	38,814	50,000	(11,186)
Capital Outlay	<u>0</u>	<u>99,000</u>	<u>(99,000)</u>
 Total Distribution	 <u>168,773</u>	 <u>316,000</u>	 <u>(147,227)</u>

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

Statement of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over <u>(Under)</u>
<b>Water Utility Fund (Continued)</b>			
Total Expenditures	<u>388,133</u>	<u>483,014</u>	<u>(94,881)</u>
Cash Receipts Over (Under) Expenditures	<u>477,950</u>		
Unencumbered Cash, Beginning	<u>243,781</u>		
Unencumbered Cash, Ending	<u>\$ 721,731</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Sewer Utility Fund</b>			
Cash Receipts:			
Charges for Services	\$ 154,173	134,000	20,173
Other Sales and Services	125	0	125
Miscellaneous	2,918	0	2,918
Reimbursed Expenses	<u>914</u>	<u>0</u>	<u>914</u>
 Total Cash Receipts	 <u>158,130</u>	 <u>134,000</u>	 <u>24,130</u>
Expenditures:			
Personal Services	48,702	40,000	8,702
Contractual Services	22,406	37,000	(14,594)
Commodities	18,944	32,354	(13,410)
Capital Outlay	0	20,000	(20,000)
Miscellaneous	1,124	0	1,124
Transfer to Equipment Reserve Fund	9,167	10,000	(833)
Transfer to Light Utility Fund	21,083	23,000	(1,917)
Transfer to Employee Benefits Fund	10,000	10,000	0
Transfer to Sewer Reserve Fund	63,294	30,000	33,294
Transfer to Airport Bond and Interest Fund	<u>9,167</u>	<u>10,000</u>	<u>(833)</u>
 Total Expenditures	 <u>203,887</u>	 <u>212,354</u>	 <u>(8,467)</u>
 Cash Receipts Over (Under) Expenditures	 <u>(45,757)</u>		
Unencumbered Cash, Beginning	<u>68,433</u>		
 Unencumbered Cash, Ending	 <u>\$ 22,676</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Over (Under)
<b>Golf Course Fund</b>			
Cash Receipts:			
Rent	\$ 9,450	8,500	950
Membership Dues	26,835	21,000	5,835
Charges for Services	8,321	7,000	1,321
Reimbursements	<u>0</u>	<u>17,357</u>	<u>(17,357)</u>
 Total Cash Receipts	 <u>44,606</u>	 <u>53,857</u>	 <u>(9,251)</u>
Expenditures:			
Personal Services	15,105	26,200	(11,095)
Contractual Services	1,851	6,200	(4,349)
Commodities	27,021	17,000	10,021
Capital Outlay	<u>0</u>	<u>10,600</u>	<u>(10,600)</u>
 Total Expenditures	 <u>43,977</u>	 <u>60,000</u>	 <u>(16,023)</u>
 Cash Receipts Over (Under) Expenditures	 629		
Unencumbered Cash, Beginning	<u>11,588</u>		
 Unencumbered Cash, Ending	 <u>\$ 12,217</u>		

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

Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>*Budget</u>	Variance- Over (Under)
<b>Emergency Maintenance Fund</b>			
Cash Receipts	\$ 0	<u>0</u>	<u>0</u>
Expenditures:			
Maintenance	<u>0</u>	<u>47,500</u>	<u>(47,500)</u>
Cash Receipts Over (Under) Expenditures	0		
Unencumbered Cash, Beginning	<u>95,000</u>		
Unencumbered Cash, Ending	\$ <u>95,000</u>		

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

## Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Light and Water Surplus Fund</b>	
Cash Receipts	\$ <u>0</u>
Expenditures:	
Industrial Park Project	260
Contractual Services	<u>0</u>
Total Expenditures	<u>260</u>
Cash Receipts Over (Under) Expenditures	(260)
Unencumbered Cash, Beginning	<u>5,584</u>
Unencumbered Cash, Ending	<u><u>\$ 5,324</u></u>

<b>Sewer Reserve Fund</b>	
Cash Receipts:	
Transfer from Sewer Utility Fund	\$ <u>63,294</u>
Expenditures	
	<u>0</u>
Cash Receipts Over (Under) Expenditures	63,294
Unencumbered Cash, Beginning	<u>73,600</u>
Unencumbered Cash, Ending	<u><u>\$ 136,894</u></u>

\* Exempt from the Budget Law K.S.A. 12-825d.

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

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2010

	<u>Actual</u>
<b>Water Improvement Project Fund</b>	
Cash Receipts:	
Miscellaneous	4,000
KDHE Loan Proceeds	\$ <u>46,000</u>
 Total Cash Receipts	 <u>50,000</u>
Expenditures:	
Capital Outlay	<u>0</u>
 Cash Receipts Over (Under) Expenditures	 50,000
Unencumbered Cash, Beginning	<u>19,968</u>
 Unencumbered Cash, Ending	 <u><u>\$ 69,968</u></u>

\* Exempt from the Budget Law K.S.A. 12-825d.

<b>Customer Deposits Fund</b>	
Cash Receipts:	
Customer Deposits	\$ <u>14,106</u>
Expenditures:	
Customer Refunds	<u>14,106</u>
 Cash Receipts Over (Under) Expenditures	 0
Unencumbered Cash, Beginning	<u>200</u>
 Unencumbered Cash, Ending	 <u><u>\$ 200</u></u>

\* Exempt from the Budget Law K.S.A. 12-825d.

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

**CITY OF HILL CITY, KANSAS**  
Notes to the Financial Statements  
2010

1. **Summary of Significant Accounting Policies**

Reporting Entity

The City of Hill City, Kansas, operates as a third-class city in accordance with the laws of the State of Kansas. The City operates under a mayor-council form of government and provides the following services: public safety (police and fire protection), highways and streets, electricity, water, sewer, culture and recreation services, planning and zoning, public improvements, and general administrative services.

Accounting principles generally accepted in the United States of America require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Hill City Housing Authority is a component unit of the City.

Financial information for the Hill City Housing Authority has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with accounting principles generally accepted in the United States of America.

Housing Authority of the City of Hill City. The Housing Authority of the City of Hill City operates the city's public housing facilities. A five member board is appointed by the city council to oversee the operation. The Housing Authority must obtain approval from the City Council for bond issuances. The audited financial statements for the Hill City Housing Authority may be obtained from the Executive Director, Hill City Housing Authority, Hill City, KS 67642.

Fund Accounting

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 ended December 31, 2010:

Governmental Type Funds:

General Fund--To account for all unrestricted financial 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 be expended for specified purposes.

Debt Service Fund--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.

Capital Projects Fund--To account for financial resources segregated for the acquisition of major capital facilities (other than those financed by Enterprise Funds).

Proprietary Type 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 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.

Reimbursements

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

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 adopted 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 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 the fund balances 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, building, and equipment owned by the municipality 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.

## 2. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper 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 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. There were no such budget amendments for the year ended December 31, 2010.

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 purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, and the following special revenue funds: Equipment Reserve Fund, Capital Improvements Fund, LE Seizure Trust Fund, Municipal Judge Training Fund, Crime Prevention Fund, Tree and Park Fund, Law Enforcement Training Fund, Ball Complex Lights Fund, Housing Grant Fund, Meth Lab Fund, Dane G. Hansen Fund, Bike Safety Program Fund, Diversion Fund, and Tort Liability Fund; and the following enterprise funds: Emergency Maintenance Fund, Light and Water Surplus Fund, Sewer Reserve Fund, Water Improvement Project Fund, and Customer Deposits Fund.

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

3. **Property Taxes**

Property taxes are levied November 1st of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due 1/2 on December 20th and 1/2 the following May 10th. Any taxes unpaid at the due dates are considered delinquent.

Collection of current year property tax by the County Treasurer is not completed, apportioned or distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore, are not susceptible to accrual.

It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the audit period, and further, the amounts thereof are not material to the financial statements taken as a whole.

4. **Inventories and Prepaid Expenses**

Inventories and prepaid expenses which benefit future periods are recorded as expenditures during the year of purchase.

5. **Defined Benefit Pension Plan**

Plan Description. The City of Hill City, Kansas, 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) 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 employer contribution rates. The KPERs employer rate established for calendar year 2010 was 6.14%. The City's employer contributions to KPERs for the years ending December 31, 2010, 2009, and 2008 were \$38,108, \$35,161, and \$29,064, respectively, equal to the required contributions for each year.

6. **Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

**7. Compensated Absences****Vacation Leave**

Full-time City employees earn one day of vacation leave for each month worked. Employees who have been employed by the City for ten or more years earn one and one quarter (1 1/4) days per month. No vacation shall be taken until an employee has worked 12 consecutive, uninterrupted months. Permanent part-time employees who work 20 hours or more per week earn one half (1/2) day of vacation leave for each month worked.

Carryover of vacation leave from one year to the next is not permitted without authorization by the City Superintendent.

See Note 13 – Long-Term Debt for additional information.

**Sick Leave**

Full-time City employees earn one day of sick leave for each month worked. Permanent part-time employees who work 20 hours or more per week earn one half (1/2) day of sick leave for each month worked. Accumulation of sick leave is limited to 120 days.

Unused sick leave is not paid upon termination of employment with the City except upon retirement. All full-time City employees who retire and receive benefits pursuant to the Kansas Public Retirement System are entitled to a lump-sum cash payment equal to \$20 for each day of unused sick leave. Due to the immaterial amounts involved, sick leave upon retirement has not been quantified in these financial statements.

**8. Deposits and Investments**

K.S.A. 9-1401 establishes the depositories that 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 the 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 policies 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. The City's investments consist solely of certificates of deposits.

**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 any "peak periods" with eligible depositories.

At December 31, 2010, the City's carrying amount of deposits was \$2,653,040 and the bank balance was \$2,689,304. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$1,356,859 was covered by federal depository insurance, \$746,310 was collateralized with securities held by the pledging financial institutions' agents in the City's name, \$377,995 was covered by an irrevocable letter of credit by FHL Bank Topeka, and the balance of \$208,140 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized \$208,140

9. **Statutory Compliance**

Depository Security Violation. K.S.A 75-4218 requires that all bank balances should be properly secured. The Citizens State bank balance is under secured by \$208,140. This appears to be a violation of this statute.

10. **Capital Projects**

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows:

Project	Project Authorization	Cash Disbursements and Accounts Payable to Date
Airport Runway	\$2,974,495	\$2,974,495

11. **Interfund Transactions**

Operating transfers were as follows:

From	To	Statutory Authority	Amount
General Fund	Capital Improvements Fund	K.S.A. 12-1,118	116,764
General Fund	Equipment Reserve Fund	K.S.A. 12-1,117	50,000
General Fund	Airport Fund	K.S.A. 3-121	10,000
Light Utility Fund	Capital Improvements Fund	K.S.A. 12-825d	92,125
Light Utility Fund	Equipment Reserve Fund	K.S.A. 12-825d	58,667
Sewer Utility Fund	Employee Benefits Fund	K.S.A. 12-825d	10,000
Sewer Utility Fund	Equipment Reserve Fund	K.S.A. 12-825d	9,167
Sewer Utility Fund	Airport Bond and Interest Fund	K.S.A. 12-825d	9,167
Sewer Utility Fund	Light Utility Fund	K.S.A. 12-825d	21,083
Sewer Utility Fund	Sewer Reserve Fund	K.S.A. 12-825d	63,294

440,267

12. **Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has been unable to obtain worker's compensation insurance at a cost it considered to be economically justifiable. For this reason, the City joined together with other cities in the State to participate in the Kansas Municipal Insurance Trust (KMIT), a public entity risk pool currently operating as a common risk management and insurance program for 141 participating members.

The City pays an annual premium to KMIT for its workers' compensation insurance coverage. The agreement to participate provides that KMIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Additional premiums may be due if total claims for the pool are different than what has been anticipated by KMIT's management.

The City continues to carry commercial insurance for all other risks of loss, including property, liability, and automobile. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Long-term Debt

Changes in long-term liabilities for the City of Hill City, Kansas, 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>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General Obligation Bonds:										
Airport Improvement Bonds	3.25-5.50%	08/15/02	\$ 500,000	09/01/17	\$ 310,000	0	35,000		275,000	13,003
Water Improvement Bonds	1.51-4.99%	08/15/09	560,000	09/01/24	560,000	0	30,000		530,000	21,582
KDHE Loan:										
Water Improvement Loan	3.44%	12/05/05	2,360,731	02/01/28	2,231,046	0	88,017		2,143,029	75,997
Water Improvement Loan	3.47%	11/18/09	421,125	08/01/31	0	46,000	0		46,000	0
Capital Leases Payable:										
Loader Lease	4.35%	05/05/09	87,500	05/06/13	68,486	0	16,045		52,441	2,979
Total Contractual Indebtedness					3,169,532	46,000	169,062		3,046,470	113,561
Compensated Absences					28,474		607		27,867	
Total Long-Term Debt					\$ 3,198,006	46,000	169,669	0	3,074,337	113,561

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031</u>	<u>Total</u>
<b>Principal:</b>										
General Obligation Bonds	\$ 65,000	65,000	65,000	75,000	75,000	275,000	185,000	0	0	805,000
KDHE Loan	91,071	109,121	112,912	116,835	120,893	670,454	795,279	518,959	28,629	2,564,154
Capital Leases Payable	<u>16,743</u>	<u>17,467</u>	<u>18,231</u>	<u>-</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>52,441</u>
Total Principal	<u>172,814</u>	<u>191,588</u>	<u>196,143</u>	<u>191,835</u>	<u>195,893</u>	<u>945,454</u>	<u>980,279</u>	<u>518,959</u>	<u>28,629</u>	<u>3,421,595</u>
<b>Interest:</b>										
General Obligation Bonds	31,901	29,948	27,867	25,661	22,995	73,779	22,989	0	0	235,140
KDHE Loan	72,944	84,269	80,479	76,556	72,497	296,498	171,673	37,959	747	893,622
Capital Leases Payable	<u>2,281</u>	<u>1,557</u>	<u>793</u>	<u>-</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,631</u>
Total Interest	<u>107,126</u>	<u>115,774</u>	<u>109,139</u>	<u>102,217</u>	<u>95,492</u>	<u>370,277</u>	<u>194,662</u>	<u>37,959</u>	<u>747</u>	<u>1,133,393</u>
Total Principal and Interest	\$ <u>279,940</u>	<u>307,362</u>	<u>305,282</u>	<u>294,052</u>	<u>291,385</u>	<u>1,315,731</u>	<u>1,174,941</u>	<u>556,918</u>	<u>29,376</u>	<u>4,554,988</u>

# MAPES & MILLER

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THOMAS CARPENTER, CPA  
DON TILTON, CPA

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

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Honorable Mayor and City Council  
City of Hill City  
Hill City, KS 67642

We have audited the financial statements of the City of Hill City, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents, and have issued our report thereon dated September 27, 2011. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the City of Hill City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the guidance in the Kansas Municipal Audit Guide.

### Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies (2010-1 and 2010-2).

#### Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Hill City in a separate letter dated September 27, 2011.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

# Mapes & Miller

Certified Public Accountants

Norton, Kansas  
September 27, 2011

# MAPES & MILLER

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THOMAS CARPENTER, CPA  
DON TILTON, CPA

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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Honorable Mayor and City Council  
City of Hill City  
Hill City, KS 67642

### Compliance

We have audited the compliance of the City of Hill City, Kansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. The City of Hill City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements referred to above is the responsibility of the City of Hill City's management. Our responsibility is to express an opinion on the City of Hill City's compliance based on our audit.

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

In our opinion, the City of Hill City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2010.

### **Internal Control Over Compliance**

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Hill City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Hill City's response and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

# **Mapes & Miller**

Certified Public Accountants

Norton, Kansas  
September 27, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Transportation Passed through the Federal Aviation Administration Airport Improvement Program	20.106	<u>684,933</u>
U.S. Department of Homeland Security Passed through the Kansas Division of Emergency Management Disaster Grant - Public Assistance	97.036	<u>13,449</u>
Total Expenditures of Federal Awards		<u><u>\$ 698,382</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

**Note A - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hill City, Kansas, under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**Note B - Summary of Significant Accounting Policies**

Expenditures reported on the schedule of expenditures of federal awards is prepared using the statutory basis of accounting to comply with the cash basis laws of the State of Kansas. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

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FINANCIAL STATEMENTS

Type of auditors’ report issued:

In accordance with the statutory basis of accounting described in Note 1 to the financial statements

Unqualified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_ Yes      x   No
- Significant deficiencies identified that are not considered to be material weaknesses?   x   Yes    \_\_\_ No
- Noncompliance material to financial statements noted? \_\_\_ Yes      x   No

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified? \_\_\_ Yes      x   No
- Significant deficiencies identified that are not considered to be material weaknesses?   x   Yes    \_\_\_ No

Type of auditors’ report issued on compliance for major programs:

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

  x   Yes    \_\_\_ No

Identification of major programs:

Unqualified

CFDA NUMBER  
20.106

NAME OF FEDERAL PROGRAM  
Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_ Yes      x   No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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SECTION II – FINANCIAL STATEMENT FINDINGS

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2010-1 Segregation of Duties

Condition: The limited staff size does not provide for adequate segregating of duties.

Criteria: Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.

Cause: Because the entity is small, management does not feel it is feasible to hire more staff.

Effect: Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.

Recommendation: Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation. However, the size of the entity does not make it practical to have a sufficient number of employees to achieve the optimum level of internal controls.

2010-2 Financial Statement Preparation

Condition: Management does not have the qualifications and training necessary to prepare the financial statements which would include the related footnote disclosures.

Criteria: Management must have controls over the preparation of the financial statements including footnote disclosures which would prevent or detect an omission/misstatement in the financial statements.

Cause: There are no procedures in place that require management to obtain the necessary qualifications and training.

Effect: The control deficiency allows for omission/misstatements in the financial statements including footnotes that may not be prevented, detected, or corrected.

Recommendation: Management would need to attend training classes and annual continuing education classes to gain an understanding on proper and complete preparation of the financial statements and footnote disclosures and to be aware of all of the current accounting standards by purchasing annual accounting subscriptions.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation. However, the cost of annual subscription services and the continuing education/training classes do not make it practical to obtain the competency and expertise required to correct the deficiency.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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UNITED STATES DEPARTMENT OF TRANSPORTATION

Airport Improvement Program – CFDA No. 20.106 for the year ended December 31, 2010.

2010-3 Segregation of Duties

Condition: The limited staff size does not provide for adequate segregating of duties.

Criteria: Segregation of duties should be maintained to strengthen internal control over accounting and compliance functions.

Cause: Because the entity is small, management does not feel it is feasible to hire more staff.

Effect: Lack of segregation of duties increases the risk of errors and noncompliance occurring and not being detected in a timely manner.

Recommendation: Duties of key financial and compliance personnel should be evaluated to determine if duties could be segregated.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation. However, the size of the entity does not make it practical to have a sufficient number of employees to achieve the optimum level of internal controls.

Compliance findings – None found.

Questioned costs – None found.

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SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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Not applicable