CITY OF SEVERY, KANSAS

Financial Statements
and
Supplemental Information

with Independent Auditor's Report

For the Year Ended December 31, 2010

City of Severy, Kansas
Special Financial Statements
For the Year Ended December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Severy, Kansas

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

As described more fully in Note 1, the City of Severy, Kansas, 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 accounting principles generally accepted in the United States of America. The effect on the financial statements of the differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

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

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding two paragraphs, 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 City of Severy, Kansas as of December 31, 2010, or changes in 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 City of Severy, Kansas, as of December 31, 2010, and the revenues it received and expenditures it paid for the year then ended, on the basis of accounting described in Note 1.

Respectfully Submitted,

Schlotterbeck and Burns, LLC

May 2, 2011

City of Severy, Kansas
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2010

	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General	$ 35,240	69,484	79,495	25,229	2,438	27,667
Special Revenue:						
Cemetery	5,124	8,776	9,620	4,280	120	4,400
Cemetery Upkeep Reserve	6,922	405		7,327		7,327
Employee Benefits	1,097	10,703	11,978	(178)	292	114
Fire Reserve	2,072	3,466	4,091	1,447	51	1,498
Park	1,665	1,476	1,508	1,633	107	1,740
Special Equipment Reserve	195			195		195
Special Highway	760	18,941	14,379	5,322	299	5,621
Capital Projects:						
Sewer Construction	(4,251)	6,246	1,995			
Enterprise:						
Sewer Utility	41,835	29,688	23,356	48,167	787	48,954
Water Utility	10,611	80,937	77,455	14,093	3,828	17,921
Solid Waste Disposal	24,268	25,678	21,903	28,043	1,740	29,783
Expendable Trusts:						
Health Care Trust	3,759	4,800	2,110	6,449		6,449
Total Primary Government (1)	129,297	260,600	247,890	142,007	9,662	151,669

Composition of Cash:	
Cash and Cash Items on Hand	324
Certificates of Deposit	51,604
Demand Deposit	100,835
Less: Agency Funds per Statement 4	(1,093)
Adjustment for Rounding	(1)
Total Primary Government (1)	151,669

(1) Excluding Agency Funds

See accompanying notes to financial statements

City of Severy, Kansas
Summary of Expenditures - Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2010

	Certified Budget	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Type Funds:			
General	$ 101,444	79,495	21,949
Special Revenue:			
Cemetery	12,500	9,620	2,880
Employee Benefits	12,300	11,978	322
Park	2,178	1,508	670
Special Highway	9,680	14,379	(4,699)
Enterprise:			
Sewer Utility	68,021	23,356	44,665
Water Utility	110,020	77,455	32,565
Solid Waste Disposal	40,737	21,903	18,834
Totals	356,880	239,694	117,186

See accompanying notes to financial statements

City of Severy, Kansas
General Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Taxes				
Ad Valorem Tax	$ 37,905	41,998	44,234	(2,236)
Motor Vehicle Tax	10,378	8,844	8,761	83
Recreational Vehicle Tax	208	168	108	60
Delinquent Tax	3,795	2,918	1,573	1,345
16/20 M Truck Tax	115	24	87	(63)
Total Taxes	52,401	53,952	54,763	(811)
Intergovernmental				
Federal Financial Assistance	1,320			
State Grant	176			
Machinery and Equipment State Aid	465			
Total Intergovernmental	1,961			
Licenses, Fees, and Permits				
Franchise Fee	10,599	12,068	9,400	2,668
Licenses and Permits	200	200	200	
Total Licenses, Fees, and Permits	10,799	12,268	9,600	2,668
Use of Money and Property				
Interest on Investments	244	178	500	(322)
Miscellaneous				
Other	4,927	3,086		3,086
Total Cash Receipts	70,332	69,484	64,863	4,621
Expenditures and Transfers				
General Government				
Personal Services	29,679	29,392	35,000	5,608
Contractual Services	18,708	19,211	20,000	789
Commodities	2,420	3,257	5,000	1,743
Capital Outlay	244		16,500	16,500
Total General Government	51,051	51,860	76,500	24,640
Public Works				
Contractual Services	5,900	6,832	12,500	5,668
Commodities	2,137			
Total Public Works	8,037	6,832	12,500	5,668
Capital Expenditures				
Capital Outlay	13,074	7,875	9,144	1,269
Transfers				
Operating Transfers Out	1,500	12,928	3,300	(9,628)
Total Expenditures and Transfers	73,662	79,495	101,444	21,949
Receipts Over (Under) Expenditures and Transfers	(3,330)	(10,011)		
Unencumbered Cash, Beginning	38,570	35,240		
Unencumbered Cash, Ending	35,240	25,229		

See accompanying notes to financial statements

City of Severy, Kansas
Cemetery Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Taxes				
Ad Valorem Tax	$ 5,829	2,926	3,081	(155)
Motor Vehicle Tax	1,221	1,374	1,347	27
Recreational Vehicle Tax	20	26	17	9
Delinquent Tax	379	297	242	55
16/20 M Truck Tax	3	4	13	(9)
Total Taxes	7,452	4,627	4,700	(73)
Charges for Services				
Burial Fees	1,900	3,849	2,500	1,349
Miscellaneous				
Sale of Lots	150	300	1,000	(700)
Total Cash Receipts	9,502	8,776	8,200	576
Expenditures and Transfers				
Public Works				
Personal Services	3,008	3,789	4,000	211
Contractual Services	5,000	5,500	6,500	1,000
Commodities		331	2,000	1,669
Total Expenditures and Transfers	8,008	9,620	12,500	2,880
Receipts Over (Under) Expenditures and Transfers	1,494	(844)		
Unencumbered Cash, Beginning	3,630	5,124		
Unencumbered Cash, Ending	5,124	4,280		

See accompanying notes to financial statements

City of Severy, Kansas
Cemetery Upkeep Reserve Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

		Prior Year Actual	Current Year Actual
Cash Receipts			
Use of Money and Property			
Interest on Investments	$	133	105
Miscellaneous			
Sale of Lots		150	300
Total Cash Receipts		283	405
Expenditures and Transfers			
None			
Receipts Over (Under) Expenditures and Transfers		283	405
Unencumbered Cash, Beginning		6,639	6,922
Unencumbered Cash, Ending		6,922	7,327

See accompanying notes to financial statements

City of Severy, Kansas
Employee Benefits Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Taxes				
Ad Valorem Tax	$ 8,769	8,662	9,124	(462)
Motor Vehicle Tax	858	1,779	2,027	(248)
Recreational Vehicle Tax	15	28	25	3
Delinquent Tax	378	231	364	(133)
16/20 M Truck Tax	4	3	20	(17)
Total Cash Receipts	10,024	10,703	11,560	(857)
Expenditures and Transfers				
General Government				
Personal Services	6,158	7,163	9,800	2,637
Contractual Services		15	2,500	2,485
Operating Transfers Out	4,800	4,800		(4,800)
Total Expenditures and Transfers	10,958	11,978	12,300	322
Receipts Over (Under) Expenditures and Transfers	(934)	(1,275)		
Unencumbered Cash, Beginning	2,031	1,097		
Unencumbered Cash, Ending	1,097	(178)		

See accompanying notes to financial statements

City of Severy, Kansas
Fire Reserve Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers		
Operating Transfers In	$	3,000
Miscellaneous		
Other	434	466
Total Cash Receipts	434	3,466
Expenditures and Transfers		
Public Safety		
Commodities	62	549
Capital Outlay		3,542
Total Expenditures and Transfers	62	4,091
Receipts Over (Under) Expenditures and Transfers	372	(625)
Unencumbered Cash, Beginning	1,700	2,072
Unencumbered Cash, Ending	2,072	1,447

See accompanying notes to financial statements

City of Severy, Kansas
Park Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Intergovernmental				
State Grant	$ 1,029	258	1,030	(772)
Transfers				
Operating Transfers In			300	(300)
Miscellaneous				
Other	126	1,218	300	918
Total Cash Receipts	1,155	1,476	1,630	(154)
Expenditures and Transfers				
Culture and Recreation				
Personal Services			1,230	1,230
Contractual Services	556	1,396	400	(996)
Commodities		112	548	436
Total Expenditures and Transfers	556	1,508	2,178	670
Receipts Over (Under) Expenditures and Transfers	599	(32)		
Unencumbered Cash, Beginning	1,066	1,665		
Unencumbered Cash, Ending	1,665	1,633		

See accompanying notes to financial statements

City of Severy, Kansas
Special Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
None	$	
Expenditures and Transfers		
None		
Receipts Over (Under) Expenditures and Transfers		
Unencumbered Cash, Beginning	195	195
Unencumbered Cash, Ending	195	195

See accompanying notes to financial statements

City of Severy, Kansas
Special Highway Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Intergovernmental				
Special City & County Highway	$ 8,342	8,686	9,680	(994)
Transfers				
Operating Transfers In	1,500	9,928		9,928
Miscellaneous				
Sale of Surplus Property		106		106
Other	92	221		221
Total Miscellaneous	92	327		327
Total Cash Receipts	9,934	18,941	9,680	9,261
Expenditures and Transfers				
Public Works				
Personal Services	7,519	9,473	7,600	(1,873)
Contractual Services	70	1,067		(1,067)
Commodities	3,550	3,839	2,080	(1,759)
Total Expenditures and Transfers	11,139	14,379	9,680	(4,699)
Receipts Over (Under) Expenditures and Transfers	(1,205)	4,562		
Unencumbered Cash, Beginning	1,965	760		
Unencumbered Cash, Ending	760	5,322		

See accompanying notes to financial statements

City of Severy, Kansas
Sewer Construction Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Intergovernmental		
Federal Financial Assistance	$ 144,594	6,246
KWPCRF Loan	153,840	
Total Cash Receipts	298,434	6,246
Expenditures and Transfers		
Sanitation		
Contractual Services	302,336	1,995
Reimbursed Expense	(6)	
Total Expenditures and Transfers	302,330	1,995
Receipts Over (Under) Expenditures and Transfers	(3,896)	4,251
Unencumbered Cash, Beginning	(355)	(4,251)
Unencumbered Cash, Ending	(4,251)	

See accompanying notes to financial statements

City of Severy, Kansas
Sewer Utility Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Use of Money and Property				
Interest on Investments	$ 397	308	325	(17)
Charges for Services				
Customer Charges	29,022	28,800	36,750	(7,950)
Penalties	639	580	500	80
Total Charges for Services	29,661	29,380	37,250	(7,870)
Total Cash Receipts	30,058	29,688	37,575	(7,887)
Expenditures and Transfers				
Public Utilities				
Personal Services	7,340	9,473	10,000	527
Contractual Services	1,371	1,682	5,000	3,318
Commodities	2,020	3,554	5,000	1,446
Capital Outlay		169	36,864	36,695
Reimbursed Expense	(305)	(1,995)		1,995
Total Public Utilities	10,426	12,883	56,864	43,981
Debt Service				
KWPCRF Loan				
Principal	5,318	6,965	6,633	(332)
Interest	267	3,508	4,524	1,016
Total KWPCRF Loan	5,585	10,473	11,157	684
Total Expenditures and Transfers	16,011	23,356	68,021	44,665
Receipts Over (Under) Expenditures and Transfers	14,047	6,332		
Unencumbered Cash, Beginning	27,788	41,835		
Unencumbered Cash, Ending	41,835	48,167		

See accompanying notes to financial statements

City of Severy, Kansas
Water Utility Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Use of Money and Property				
Interest on Investments	$ 22	26	50	(24)
Charges for Services				
Customer Charges	71,575	76,210	85,000	(8,790)
Penalties	1,907	1,960	1,500	460
Customer Hookup Fees	350	325	350	(25)
Bulk Water Sales	1,480	1,350	2,000	(650)
Total Charges for Services	75,312	79,845	88,850	(9,005)
Miscellaneous				
Other	1,962	1,066	1,000	66
Total Cash Receipts	77,296	80,937	89,900	(8,963)
Expenditures and Transfers				
Public Utilities				
Personal Services	13,251	16,357	15,000	(1,357)
Contractual Services	13,023	16,677	15,000	(1,677)
Commodities	28,315	30,578	15,000	(15,578)
Capital Outlay	2,966	2,735	53,912	51,177
Reimbursed Expense	(650)			
Total Public Utilities	56,905	66,347	98,912	32,565
Debt Service				
KWPCRF Loan				
Principal	6,449	6,752	6,752	
Interest	4,659	4,356	4,356	
Total KWPCRF Loan	11,108	11,108	11,108	
Total Expenditures and Transfers	68,013	77,455	110,020	32,565
Receipts Over (Under) Expenditures and Transfers	9,283	3,482		
Unencumbered Cash, Beginning	1,328	10,611		
Unencumbered Cash, Ending	10,611	14,093		

See accompanying notes to financial statements

City of Severy, Kansas
Solid Waste Disposal Fund
Statement 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)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Favorable (Unfavor)
Cash Receipts				
Use of Money and Property				
Interest on Investments	$ 243	229		229
Charges for Services				
Customer Charges	24,632	24,718	27,500	(2,782)
Penalties	629	731	650	81
Total Charges for Services	25,261	25,449	28,150	(2,701)
Total Cash Receipts	25,504	25,678	28,150	(2,472)
Expenditures and Transfers				
Public Utilities				
Personal Services			3,000	3,000
Contractual Services	20,602	21,703	25,000	3,297
Commodities	422	200	1,000	800
Capital Outlay			11,737	11,737
Total Expenditures and Transfers	21,024	21,903	40,737	18,834
Receipts Over (Under) Expenditures and Transfers	4,480	3,775		
Unencumbered Cash, Beginning	19,788	24,268		
Unencumbered Cash, Ending	24,268	28,043		

See accompanying notes to financial statements

City of Severy, Kansas
Health Care Trust Fund
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

		Prior Year Actual	Current Year Actual
Cash Receipts			
Transfers			
Operating Transfers In	$	4,800	4,800
Total Cash Receipts		4,800	4,800
Expenditures and Transfers			
General Government			
Personal Services		1,832	2,110
Total Expenditures and Transfers		1,832	2,110
Receipts Over (Under) Expenditures and Transfers		2,968	2,690
Unencumbered Cash, Beginning		791	3,759
Unencumbered Cash, Ending		3,759	6,449

See accompanying notes to financial statements

City of Severy, Kansas
Agency Funds
Statement of Cash Receipts and Disbursements
For the Year Ended December 31, 2010

Fund		Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Payroll Clearing Fund	$	1,040	87,662	87,609	1,093

See accompanying notes to financial statements.

City of Severy, Kansas
Statement of Changes in Long Term Debt
For the Year Ended December 31, 2010

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Other Changes	Balance end of Year	Interest Paid
Outstanding Obligations:										
General Obligation Debt										
KWPCRF Loan (Salt Creek)	4.650%	12/22/1999	$ 143,624	8/1/2020	95,347		6,752		88,595	4,356
KWPCRF Loan (Sewer)	2.720%	11/26/2007	153,840	9/1/2029	148,522		6,965		141,557	3,508
Lease Purchase Agreements										
Kubota Tractor	4.986%	5/19/2006	39,984	5/8/2012	21,449	-	6,805	-	14,644	1,069
Total Long-Term Debt					265,318	-	20,522	-	244,796	8,933

Schedule of Maturity of Long-Term Debt:	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2029	Total
KWPCRF Loan									
Principal	$ 13,049	13,544	14,061	14,598	15,158	85,012	42,260	32,470	230,152
Interest	7,848	7,352	6,836	6,298	5,739	19,471	7,594	1,790	62,928
Lease Purchase Agreements									
Principal	7,144	7,500							14,644
Interest	730	374	-	-	-	-	-	-	1,104
Total	28,771	28,770	20,897	20,896	20,897	104,483	49,854	34,260	308,828

See accompanying notes to financial statements

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Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

Principles Used in Determining Scope of Entity

The basic criterion used for including other governmental organizations in the financial reports is the exercise of oversight responsibility over such organizations. Oversight responsibility is derived from the City's powers and includes, but is not limited to, financial accountability, appointment of a voting majority of the governing body, imposition of will, financial benefit/burden on primary government and fiscal dependency. The City has waived the application of generally accepted accounting principles and as such, have not included any component units in these financial statements.

B. Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year of 2010:

Governmental Funds:

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

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

Capital Project Funds--to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds:

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses, including depreciation) 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.

Fiduciary Funds:

Trust and Agency Funds--to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds and (d) Agency Funds.

C. Basis of Accounting

These financial statements are presented on a basis of accounting which demonstrates 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. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. 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.

The City has waived generally accepted accounting principles in accordance with Kansas Statutes and as a result, they are required to follow this type of special reporting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. In addition, General Fixed Assets that account for the land, buildings and equipment owned by the City are not recorded.

D. Budgets

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 of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

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

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds, and the following special revenue funds:

Cemetery Upkeep Reserve Fund
Fire Reserve Fund
Special Equipment Reserve Fund

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

E. Assets, Liabilities, and Fund Equity

Cash

To facilitate better management of the City's cash resources, excess cash is combined in pooled operating accounts. Each fund's portion of total cash is based on its equity in the pooled cash amount. Cash in excess of current operating needs is invested on a pooled investment basis and earnings thereon, unless specifically designated, are credited to the Water Utility Fund.

Property Taxes and Other Receivables

Collection of current year property tax by the County Treasurer is not completed, apportioned nor 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 operations 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 in relationship to the financial statements taken as a whole.

Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage.

K.S.A. 12-1675 allows the City to deposit idle funds in time deposits-open accounts, and certificates of deposit with allowable financial institutions; and to invest idle funds in U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool.

The City held no investments at December 31, 2010 and held no investments throughout the year.

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, except during designated "peak periods" when required coverage is 50%. The City has not designated any peak periods.

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.

At December 31, 2010, the carrying amount of the City's deposits was $152,437 and the bank balance was $152,609. The bank balance was fully covered by Federal Depository Insurance Coverage.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase as required by state statutes. No physical inventories were taken at year end and no accounting controls exist for control of materials inventory.

Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

F. Revenues and Expenditures

Property Tax Revenue Recognition

Property taxes become a lien against all property November 1st. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20th and May 10th. Delinquent taxes are assessed interest at rates established by Kansas Statute. This interest is retained by the County Treasurer.

Taxes levied to finance the budget are made available to the City after January 1st and are distributed by the County Treasurer approximately every month and a half. At least 50% of the taxes levied are available in January.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Note 2 Stewardship, Compliance, and Accountability

Compliance with Kansas Cash Basis Law

Expenditures and encumbrances exceeded the available cash of the Employee Benefit fund in the amount of $178.

Compliance with Kansas Budget Law

Expenditures and encumbrances exceeded the adopted budget of the Special Highway fund in the amount of $4,699.

Compliance with Kansas Depository Security Law

No violations.

Note 3 Detail Notes on All Funds and Account Groups

A. Assets:

General Fixed Assets

The City has not maintained a record of fixed assets used in performance of general governmental operations as required by generally accepted accounting principles.

The City has adopted a resolution waiving the maintenance of these records until December 31, 2010, in accordance with K.S.A. 75-1120(a).

B. Liabilities:

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. 75-4901, *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 contribution rates for KPERS employers. The employer rate established by statute for the period January 1, 2010 through December 31, 2010 was 7.14% (dropping to 6.14% for the period April 1, 2010 through June 30, 2010). The City employer contributions for the year ending December 31, 2010, 2009 and 2008 were $1,874, $1,508, and $1,509, respectively, equal to the statutory required contribution for the year.

General Long-Term Debt

Kansas cities are limited to aggregate general obligation debt not to exceed 30% of assessed valuation of tangible taxable property within the city. The City's assessed valuation as of November 1, 2010 was $703,809. At December 31, 2010, the City had no bonded indebtedness outstanding. The resulting legal debt margin for the City is $211,143.

At December 31, 2010, the City has two loans outstanding through the Kansas Department of Health and Environment. These loans were funded through the State's KWPCRF program, with the proceeds being used in connection with various City construction projects. At December 31, 2010 the outstanding balance on these loans is $230,152.

Also at December 31, 2010, the City is obligated under a lease purchase agreement for the purchase of a tractor. Details of this lease purchase agreement are shown on Statement 5.

A schedule of changes in the City's long term debt, along with payments due subsequent to December 31, 2010, is presented in Statement 5.

C. Operating Transfers:

From	To	Amount
General Fund	Fire Reserve Fund	$ 3,000
Employee Benefits Fund	Health Care Trust Fund	4,800
General Fund	Special Highway Fund	9,928

Note 4 Sewer Lagoon Improvement Project

During 2008, the City began a project to add another cell to their existing sewer lagoon. This project was funded through a $171,222 Community Development Block Grant and a $171,222 KPWCRF Loan. Repayment of the loan will be made from the City’s sewer utility fund through future customer charges.

As of December 31, 2010, this project is complete. Expenditures and encumbrances to date as of December 31, 2010 were $307,680 with a total project authorization of $342,444.