

CITY OF FLORENCE

FLORENCE, KANSAS

Special Financial Statements

December 31, 2011

City of Florence, Kansas

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December 31, 2011

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of Florence
Florence, Kansas 66851

We have audited the accompanying primary government financial statements of the individual funds of the City of Florence, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2010 financial statements and, in our report dated March 4, 2011, we expressed an unqualified opinion on the financial statements taken as a whole.

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

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

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

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the third and fourth paragraphs above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City, as of December 31, 2011, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the various funds of the City, as of December 31, 2011, and its cash receipts and expenditures for the year then ended, taken as a whole on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants

February 20, 2012

City of Florence, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Funds</u>	Unencumbered Cash Balance 12-31-10	Receipts	Expenditures	Unencumbered Cash Balance 12-31-11	Encumbrances	Cash Balance 12-31-11
Governmental Fund Types:						
General	\$ 7,622	358,046	336,001	29,667	8,085	37,752
Special Revenue						
Library	183	10,306	10,432	57	-	57
Special parks and recreation	5,745	105	-	5,850	-	5,850
Rural fire	6,663	3,910	2,655	7,918	-	7,918
Special highway	42,922	13,776	15,100	41,598	-	41,598
Fire special	8,556	9,636	13,526	4,666	-	4,666
Fire grant	6,235	-	6,235	-	-	-
Capital improvement	65,372	-	-	65,372	-	65,372
Equipment reserve	41,938	-	2,575	39,363	-	39,363
Community building	53,532	21,237	8,876	65,893	272	66,165
Debt Service						
Bond and interest	16,344	12,759	26,178	2,925	-	2,925
Proprietary Fund Types:						
Enterprise, page 3	<u>180,413</u>	<u>279,428</u>	<u>242,807</u>	<u>217,034</u>	<u>16,566</u>	<u>233,600</u>
Total primary government	<u>\$ 435,525</u>	<u>709,203</u>	<u>664,385</u>	<u>480,343</u>	<u>24,923</u>	<u>505,266</u>

City of Florence, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Funds</u>	Unencumbered Cash Balance 12-31-10	Receipts	Expenditures	Unencumbered Cash Balance 12-31-11	Encumbrances	Cash Balance 12-31-11
Enterprise						
Ambulance	\$ 5,863	-	2,221	3,642	-	3,642
Sewer	23,243	34,100	33,474	23,869	150	24,019
Sewer reserve	34,000	15,000	-	49,000	-	49,000
Solid waste	12,918	80,043	63,067	29,894	150	30,044
Solid waste reserve	27,500	5,000	-	32,500	-	32,500
Water	16,889	97,777	84,912	29,754	16,266	46,020
Water reserve	<u>60,000</u>	<u>47,508</u>	<u>59,133</u>	<u>48,375</u>	<u>-</u>	<u>48,375</u>
Total enterprise funds	<u>\$ 180,413</u>	<u>279,428</u>	<u>242,807</u>	<u>217,034</u>	<u>16,566</u>	<u>233,600</u>

City of Florence, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General	\$ 355,422	-	355,422	336,001	(19,421)
Special Revenue					
Library	11,468	-	11,468	10,432	(1,036)
Special parks and recreation	-	-	-	-	-
Rural fire	5,962	-	5,962	2,655	(3,307)
Special highway	58,147	-	58,147	15,100	(43,047)
Debt Service					
Bond and interest	32,185	-	32,185	26,178	(6,007)
Enterprise					
Ambulance	3,952	-	3,952	2,221	(1,731)
Sewer	36,000	-	36,000	33,474	(2,526)
Solid waste	64,000	-	64,000	63,067	(933)
Water	96,168	-	96,168	84,912	(11,256)
Expenditures subject to current budget	<u>\$ 663,304</u>	<u>-</u>	<u>663,304</u>	574,040	<u>(89,264)</u>
Expenditures not subject to budget				<u>90,345</u>	
Total expenditures, statement 1				<u>\$ 664,385</u>	

City of Florence, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

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

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 94,280	100,527	116,668	(16,141)
Delinquent tax	3,957	4,636	-	4,636
Vehicle tax	17,912	16,719	19,312	(2,593)
Sales tax	71,585	82,064	65,000	17,064
In lieu of taxes	4,085	4,086	1,850	2,236
Franchise tax	21,709	22,003	20,000	2,003
Fines	41,018	102,865	90,000	12,865
Police other	385	50	-	50
Swimming pool	3,663	3,955	4,500	(545)
Cemetery fees and charges	4,495	3,935	5,000	(1,065)
Miscellaneous	6,222	14,437	16,661	(2,224)
Parks	362	150	-	150
Licenses and permits	845	980	1,000	(20)
Interest on investments	2,461	1,077	4,000	(2,923)
Transportation Federal aid	-	235	-	235
State of Kansas	369	327	-	327
	<u>273,348</u>	<u>358,046</u>	<u>343,991</u>	<u>14,055</u>
EXPENDITURES, page 6	<u>314,288</u>	<u>336,001</u>		
Receipts over (under) expenditures	(40,940)	22,045		
UNENCUMBERED CASH, beginning	<u>48,562</u>	<u>7,622</u>		
UNENCUMBERED CASH, ending	<u>\$ 7,622</u>	<u>29,667</u>		

City of Florence, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

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

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
EXPENDITURES				
Administration	\$ 88,503	72,734	109,000	(36,266)
Special utilities	15,251	13,887	14,000	(113)
Public safety	3,686	-	5,000	(5,000)
Police	73,205	100,517	90,000	10,517
Street	28,116	27,724	18,000	9,724
Fire	11,353	18,958	8,500	10,458
Park	18,826	16,107	7,000	9,107
Historical society	1,300	1,300	1,300	-
Cemetery	9,742	6,846	9,000	(2,154)
Dike	1,296	701	3,000	(2,299)
Swimming pool	15,089	17,386	16,000	1,386
Recreation	-	-	1,500	(1,500)
Economic development	-	-	5,000	(5,000)
Employee benefits	47,921	59,841	47,000	12,841
Standards board	-	-	10,000	(10,000)
Transfers to other funds	-	-	11,122	(11,122)
Total expenditures	<u>\$ 314,288</u>	<u>336,001</u>	<u>355,422</u>	<u>(19,421)</u>

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

Year ended December 31, 2011
 (With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>LIBRARY</u>				
RECEIPTS				
Ad valorem property tax	\$ 8,763	8,331	9,701	(1,370)
Delinquent tax	353	423	-	423
Vehicle tax	1,641	1,552	1,796	(244)
	<u>10,757</u>	<u>10,306</u>	<u>11,497</u>	<u>(1,191)</u>
EXPENDITURES				
Appropriations to Library Board	11,000	10,000	10,268	(268)
Insurance	324	300	500	(200)
Utilities and other	132	132	700	(568)
	<u>11,456</u>	<u>10,432</u>	<u>11,468</u>	<u>(1,036)</u>
Receipts over (under) expenditures	(699)	(126)		
UNENCUMBERED CASH, beginning	<u>882</u>	<u>183</u>		
UNENCUMBERED CASH, ending	<u>\$ 183</u>	<u>57</u>		
 <u>SPECIAL PARKS AND RECREATION</u>				
RECEIPTS				
	\$ -	105	-	<u>105</u>
EXPENDITURES				
	-	-	-	<u>-</u>
Receipts over (under) expenditures	-	105		
UNENCUMBERED CASH, beginning	<u>5,745</u>	<u>5,745</u>		
UNENCUMBERED CASH, ending	<u>\$ 5,745</u>	<u>5,850</u>		

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

Year ended December 31, 2011
(With comparative actual amounts for the year ended December 31, 2010)

		2011		
	2010 Actual	Actual	Budget	Variance Over (Under)
<u>RURAL FIRE</u>				
RECEIPTS				
Contractual services	\$ 3,660	3,260	2,600	660
Contributions and other	-	650	500	150
	3,660	3,910	3,100	810
EXPENDITURES				
Public safety	221	2,655	5,962	(3,307)
Receipts over (under) expenditures	3,439	1,255		
UNENCUMBERED CASH, beginning	3,224	6,663		
UNENCUMBERED CASH, ending	\$ 6,663	7,918		
 <u>SPECIAL HIGHWAY</u>				
RECEIPTS				
Gasoline tax	\$ 15,939	13,776	16,500	(2,724)
EXPENDITURES				
Maintenance	17,895	15,100	58,147	(43,047)
Receipts over (under) expenditures	(1,956)	(1,324)		
UNENCUMBERED CASH, beginning	44,878	42,922		
UNENCUMBERED CASH, ending	\$ 42,922	41,598		

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

Year ended December 31, 2011
 (With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>FIRE SPECIAL</u>				
RECEIPTS				
Other	\$ 6,043	9,636		
EXPENDITURES				
Operating expense	<u>1,606</u>	<u>13,526</u>		NOT APPLICABLE
Receipts over (under) expenditures	4,437	(3,890)		
UNENCUMBERED CASH, beginning	<u>4,119</u>	<u>8,556</u>		
UNENCUMBERED CASH, ending	<u><u>\$ 8,556</u></u>	<u><u>4,666</u></u>		
 <u>FIRE GRANT</u>				
RECEIPTS				
	\$ -	-		
EXPENDITURES				
Safety equipment	<u>-</u>	<u>6,235</u>		NOT APPLICABLE
Receipts over (under) expenditures	-	(6,235)		
UNENCUMBERED CASH, beginning	<u>6,235</u>	<u>6,235</u>		
UNENCUMBERED CASH, ending	<u><u>\$ 6,235</u></u>	<u><u>-</u></u>		

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

Year ended December 31, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Other	\$ 3,900	-		
EXPENDITURES				
City building	5,442	-		NOT APPLICABLE
Receipts over (under) expenditures	(1,542)	-		
UNENCUMBERED CASH, beginning	66,914	65,372		
UNENCUMBERED CASH, ending	<u>\$ 65,372</u>	<u>65,372</u>		
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ -	-		
EXPENDITURES				
Capital outlay	-	2,575		NOT APPLICABLE
Receipts over (under) expenditures	-	(2,575)		
UNENCUMBERED CASH, beginning	41,938	41,938		
UNENCUMBERED CASH, ending	<u>\$ 41,938</u>	<u>39,363</u>		

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

Year ended December 31, 2011
 (With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>COMMUNITY BUILDING</u>				
RECEIPTS				
Rent	\$ 550	21,237		
EXPENDITURES				
Insurance and other	11,453	8,876		NOT APPLICABLE
Receipts over (under) expenditures	(10,903)	12,361		
UNENCUMBERED CASH, beginning	64,435	53,532		
UNENCUMBERED CASH, ending	<u>\$ 53,532</u>	<u>65,893</u>		

City of Florence, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

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

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Ad valorem property tax	\$ 24,511	7,495	9,297	(1,802)
Delinquent tax	800	1,071	-	1,071
Vehicle tax	4,037	4,193	5,021	(828)
	<u>29,348</u>	<u>12,759</u>	<u>14,318</u>	<u>(1,559)</u>
EXPENDITURES				
Bond principal	25,000	25,000	25,000	-
Interest	2,326	1,178	1,175	3
Commission	-	-	10	(10)
Cash basis reserve	-	-	6,000	(6,000)
	<u>27,326</u>	<u>26,178</u>	<u>32,185</u>	<u>(6,007)</u>
Receipts over (under) expenditures	2,022	(13,419)		
UNENCUMBERED CASH, beginning	<u>14,322</u>	<u>16,344</u>		
UNENCUMBERED CASH, ending	<u>\$ 16,344</u>	<u>2,925</u>		

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

Year ended December 31, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>AMBULANCE</u>				
RECEIPTS	\$ -	-	-	-
EXPENDITURES				
Operating expense	1,702	2,221	3,952	(1,731)
Receipts over (under) expenditures	(1,702)	(2,221)		
UNENCUMBERED CASH, beginning	7,565	5,863		
UNENCUMBERED CASH, ending	<u>\$ 5,863</u>	<u>3,642</u>		

City of Florence, Kansas

Enterprise Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

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

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>SEWER</u>				
RECEIPTS				
User fees	\$ 33,576	34,100	30,000	4,100
EXPENDITURES				
Operating expense	23,756	18,474	28,000	(9,526)
Transfers to other funds	8,000	15,000	8,000	7,000
	<u>31,756</u>	<u>33,474</u>	<u>36,000</u>	<u>(2,526)</u>
Receipts over (under) expenditures	1,820	626		
UNENCUMBERED CASH, beginning	<u>21,423</u>	<u>23,243</u>		
UNENCUMBERED CASH, ending	<u>\$ 23,243</u>	<u>23,869</u>		
<u>SEWER RESERVE</u>				
RECEIPTS				
Transfers from other funds	\$ 20,000	15,000		
EXPENDITURES				
	<u>21,500</u>	-		NOT APPLICABLE
Receipts over (under) expenditures	(1,500)	15,000		
UNENCUMBERED CASH, beginning	<u>35,500</u>	<u>34,000</u>		
UNENCUMBERED CASH, ending	<u>\$ 34,000</u>	<u>49,000</u>		

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

Year ended December 31, 2011
(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance Over Over (Under)
		Actual	Budget	
<u>SOLID WASTE</u>				
RECEIPTS				
User fees	\$ 64,997	70,211	58,000	12,211
Container rent	6,748	9,632	6,000	3,632
Other	232	200	-	200
	<u>71,977</u>	<u>80,043</u>	<u>64,000</u>	<u>16,043</u>
EXPENDITURES				
Operating expense	73,064	58,067	59,000	(933)
Transfers to other funds	-	5,000	5,000	-
	<u>73,064</u>	<u>63,067</u>	<u>64,000</u>	<u>(933)</u>
Receipts over (under) expenditures	(1,087)	16,976		
UNENCUMBERED CASH, beginning	<u>14,005</u>	<u>12,918</u>		
UNENCUMBERED CASH, ending	<u>\$ 12,918</u>	<u>29,894</u>		
<u>SOLID WASTE RESERVE</u>				
RECEIPTS				
Transfers from other funds	\$ -	5,000		
EXPENDITURES				
	<u>-</u>	<u>-</u>	NOT APPLICABLE	
Receipts over (under) expenditures	-	5,000		
UNENCUMBERED CASH, beginning	<u>27,500</u>	<u>27,500</u>		
UNENCUMBERED CASH, ending	<u>\$ 27,500</u>	<u>32,500</u>		

City of Florence, Kansas

Enterprise Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

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

	2010 Actual	2011		Variance Over (Under)
		Actual	Budget	
<u>WATER</u>				
RECEIPTS				
Sales	\$ 85,429	91,221	85,000	6,221
Fees	6,248	6,556	6,000	556
	<u>91,677</u>	<u>97,777</u>	<u>91,000</u>	<u>6,777</u>
EXPENDITURES				
Operating expense	75,850	73,744	82,000	(8,256)
Transfers to other funds	12,000	-	3,000	(3,000)
KDHE-SRF loan	11,168	11,168	11,168	-
	<u>99,018</u>	<u>84,912</u>	<u>96,168</u>	<u>(11,256)</u>
Receipts over (under) expenditures	(7,341)	12,865		
UNENCUMBERED CASH, beginning	24,230	16,889		
UNENCUMBERED CASH, ending	<u>\$ 16,889</u>	<u>29,754</u>		
<u>WATER RESERVE</u>				
RECEIPTS				
Transfers from other funds	\$ -	47,508		
EXPENDITURES				
	-	59,133	NOT APPLICABLE	
Receipts over (under) expenditures	-	(11,625)		
UNENCUMBERED CASH, beginning	60,000	60,000		
UNENCUMBERED CASH, ending	<u>\$ 60,000</u>	<u>48,375</u>		

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

1. Housing Authority – The City of Florence Housing Authority operates the city’s housing projects. The housing authority can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the city.
2. Library Board – The City of Florence Library Board operates the city’s public library. Acquisition or disposition of real property by the board must be approved by the city. Bond issuances must also be approved by the city.

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

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made. The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FUND DESCRIPTION

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

The following types of funds comprise the financial activities of the City for the year of 2011:

Governmental Funds

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

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

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

Proprietary Funds

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

3. BUDGETARY INFORMATION

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

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The 2011 budget was amended, increasing budgeted expenditures in the Water fund from \$71,168 to \$96,168.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. BUDGETARY INFORMATION (Continued)

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

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

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

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

4. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2011.

5. DEPOSITS AND INVESTMENTS

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

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2011, the City's investments included only bank certificates of deposit with a fair value of \$240,000, which are not subject to investment rating.

Concentration of Credit Risk

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

City of Florence, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has not designated peak periods. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the carrying amount of the City's deposits was \$504,966. The bank balance totaled \$507,366. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$257,366 was collateralized with securities held by the pledging financial institution's agent in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2011:

Petty Cash	\$	300
Amount on deposit with financial institution:		
Checking and money market accounts		264,966
Time deposits		<u>240,000</u>
	<u>\$</u>	<u>505,266</u>

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2011 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12-31-10	Issued	Retired	Balance 12-31-11	Interest Paid 2011
General Obligation Bonds:									
2001 Street Bonds	3.40-4.70%	09/01/01	\$ 192,000	09/01/11	<u>\$ 25,000</u>	-	<u>25,000</u>	-	<u>1,178</u>
Other:									
KDHE Loan	4.22%	02/01/03	200,000	02/01/19	<u>107,338</u>	-	<u>6,123</u>	<u>101,215</u>	<u>5,045</u>
					<u>\$ 132,338</u>	<u>-</u>	<u>31,123</u>	<u>101,215</u>	<u>6,223</u>

City of Florence, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. LONG-TERM DEBT (Continued)

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

	Year ending December 31							Total
	2012	2013	2014	2015	2016	2017-2021	2022-2023	
KDHE Loan								
Principal	\$ 6,419	6,729	7,053	7,394	7,751	44,739	21,130	101,215
Interest	4,401	4,114	3,813	3,497	3,166	10,285	1,178	30,454
Total principal and interest	\$ 10,820	10,843	10,866	10,891	10,917	55,024	22,308	131,669

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Florence contributes to in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary, depending when eligibility began. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The employer rate established by statute was 7.74% at December 31, 2011. The City of Florence contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$9,529, \$4,258, and \$4,335 respectively, equal to the required contribution for each year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

8. COMPENSATED ABSENCES

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

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

9. OPERATING LEASE

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

10. INTERFUND TRANSACTIONS

Transfers between funds consisted of the following during the year ended December 31, 2011:

Transfers to	Transfers From		Total
	Sewer	Solid Waste	
Sewer reserve	\$ 15,000	-	15,000
Solid waste reserve	-	5,000	5,000
	<u>\$ 15,000</u>	<u>5,000</u>	<u>20,000</u>

11. MANAGEMENT'S DATE OF REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 20, 2012, which is the date at which the financial statements were available to be issued.