

CITY OF HILLSBORO, KANSAS

Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2011

CITY OF HILLSBORO, KANSAS
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For the Year Ended December 31, 2011

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Hillsboro, Kansas
Hillsboro, Kansas

We have audited the accompanying financial statements of **City of Hillsboro, 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 **City of Hillsboro, Kansas'** management. Our responsibility is to express opinions 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 *Kansas Municipal Audit Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. 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 opinions.

The financial statements referred to above include the primary government of **City of Hillsboro, Kansas** and four of its five component units, the Hillsboro Public Building Commission, Hillsboro Public Library, Hillsboro Recreation Commission, and the Hillsboro Convention and Visitors Bureau. The financial statements do not include financial data for one of the City's legally separate component units, Housing Authority of City of Hillsboro, Kansas. 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. As a result these financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the **City of Hillsboro, Kansas** as of September 04, 2012 the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America. Housing Authority of City of Hillsboro, Kansas has issued separate reporting entity financial statements issued by another auditor and the audit report was dated April 11, 2012.

As described more fully in Note 1, **City of Hillsboro, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with the accounting principles generally accepted in the United States of America, the financial position of **City of Hillsboro, Kansas**, as of December 31, 2011, or the changes in its financial position for the year then ended.

City of Hillsboro, Kansas
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In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Hillsboro, Kansas**, as of December 31, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with the *Government Auditing Standards*, we have also issued our report dated September 04, 2012, on our consideration of the City of Hillsboro, Kansas 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 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.

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 04, 2012

CITY OF HILLSBORO, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Categories							
General Fund	\$ 160,174	-	1,977,503	1,976,559	161,118	2,617	163,735
Special Revenue Funds							
Airport Revolving Fund	12,266	-	15,565	17,039	10,792	-	10,792
D.A.R.E. Fund	297	-	800	504	593	-	593
Equipment Reserve Fund	22,170	-	30,000	38,545	13,625	-	13,625
Family Aquatic Center Fund	159,608	-	219,930	145,375	234,163	-	234,163
Museum Trust Fund	67,663	-	253	25	67,891	-	67,891
Industrial Fund	4,611	-	66,405	63,986	7,030	-	7,030
Library Fund	-	-	71,666	71,666	-	-	-
Municipal Court Fund	415	-	5,824	5,941	298	-	298
Recreation Fund	-	-	17,935	17,935	-	-	-
Special Highway Fund	93,298	-	73,157	164,123	2,332	-	2,332
Special Law Enforcement Fund	17,768	-	18,495	24,398	11,865	24,382	36,247
Special Parks and Recreation Fund	13,124	-	57,310	53,760	16,674	-	16,674
Township Fire Equipment Fund	1,877	-	6,337	7,397	817	-	817
K-9 Unit Fund	1,833	-	3,965	3,973	1,825	-	1,825
Hillsboro 150th Fund	1,500	-	-	-	1,500	-	1,500
Capital Improvement Fund	42,672	-	2,181,468	1,514,021	710,119	1,180,841	1,890,960
Hillsboro Public Building Commission - Health Care Facilities	89,496	-	75,061	-	164,557	-	164,557
Hillsboro Public Building Commission - Family Aquatic Center	45,895	-	176,056	219,396	2,555	-	2,555
Tree Screening Fund	14,257	-	1,920	807	15,370	-	15,370
Debt Service Fund							
Bond and Interest Fund	57,558	-	931,984	974,434	15,108	-	15,108
Capital Project Funds							
Sewer Bond Project Fund	338,826	-	155,200	848,950	(354,924)	389,116	34,192
Proprietary Fund Category							
Enterprise Funds							
Electric Operating Fund	699,759	-	2,573,805	2,597,180	676,384	2,285	678,669
Refuse Operating Fund	166,185	-	182,804	185,152	163,837	-	163,837
Sewer Operating Fund	129,901	-	526,118	549,390	106,629	-	106,629
Water Operating Fund	86,420	-	842,110	889,854	38,676	6,907	45,583
Total Primary Government	<u>2,227,573</u>	<u>-</u>	<u>10,211,672</u>	<u>10,370,410</u>	<u>2,068,834</u>	<u>1,606,148</u>	<u>3,674,982</u>
Component Units							
Hillsboro Public Library	62,370	-	90,539	82,159	70,750	-	70,750
Hillsboro Recreation Commission	35,279	-	55,478	64,273	26,484	645	27,129
Hillsboro Convention and Visitors Bureau	4,991	-	9,118	7,503	6,606	-	6,606
Total Component Units	<u>102,640</u>	<u>-</u>	<u>155,135</u>	<u>153,935</u>	<u>103,840</u>	<u>645</u>	<u>104,485</u>
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 2,330,213</u>	<u>-</u>	<u>10,366,807</u>	<u>10,524,345</u>	<u>2,172,674</u>	<u>1,606,793</u>	<u>3,779,467</u>

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

CITY OF HILLSBORO, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Composition of Cash

Checking Accounts	\$	3,706,156
Petty Cash		<u>300</u>
Total Primary Government		3,706,456
Total Component Units		104,485
Agency Funds per Statement 4		<u>(31,474)</u>
Total Reporting Entity (Excluding Agency Funds)	\$	<u><u>3,779,467</u></u>

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

CITY OF HILLSBORO, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Fund Categories					
General Fund	\$ 2,109,358	-	2,109,358	1,976,559	(132,799)
Special Revenue Funds					
Airport Revolving Fund	17,400	-	17,400	17,039	(361)
D.A.R.E. Fund	700	-	700	504	(196)
Family Aquatic Center Fund	201,000	-	201,000	145,375	(55,625)
Museum Trust Fund	73,237	-	73,237	25	(73,212)
Industrial Fund	63,970	-	63,970	63,986	16
Library Fund	71,939	-	71,939	71,666	(273)
Municipal Court Fund	4,600	-	4,600	5,941	1,341
Recreation Fund	18,413	-	18,413	17,935	(478)
Special Highway Fund	164,123	-	164,123	164,123	-
Special Law Enforcement Fund	38,821	-	38,821	24,398	(14,423)
Special Parks and Recreation Fund	82,768	-	82,768	53,760	(29,008)
Township Fire Equipment Fund	6,608	-	6,608	7,397	789
K-9 Unit Fund	3,000	-	3,000	3,973	973
Debt Service Fund					
Bond and Interest Fund	1,463,594	-	1,463,594	974,434	(489,160)
Proprietary Fund Category					
Enterprise Fund					
Electric Operating Fund	2,597,366	-	2,597,366	2,597,180	(186)
Refuse Operating Fund	212,233	-	212,233	185,152	(27,081)
Sewer Operating Fund	595,207	-	595,207	549,390	(45,817)
Water Operating Fund	979,892	-	979,892	889,854	(90,038)

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

CITY OF HILLSBORO, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 427,463	492,885	513,924	(21,039)
Delinquent Tax	4,330	18,782	-	18,782
Motor Vehicle Tax	59,049	60,176	60,344	(168)
Recreational Vehicle Tax	716	708	735	(27)
16/20M Vehicle Tax	513	483	546	(63)
Local Sales/Use Tax	434,614	460,239	415,000	45,239
Local Alcoholic Liquor Tax	3,437	2,964	3,000	(36)
In Lieu of Tax	3,519	3,478	3,000	478
Excise Tax	12	-	-	-
Highway Connecting Links	314	314	300	14
Transient Guest Tax	7,754	9,038	8,000	1,038
State Aid	-	1,741	-	1,741
Franchise Taxes	101,683	96,465	210,000	(113,535)
Licenses, Permits, and Fees	9,339	7,365	5,700	1,665
Building Permits	2,262	2,232	2,000	232
Rural Fire Contracts	8,138	5,788	4,500	1,288
Interest Income	3,356	4,616	6,000	(1,384)
Rent Income	3,460	3,665	3,000	665
Court Fines and Bonds	3,544	4,737	3,000	1,737
Reimbursements	26,219	26,877	60,000	(33,123)
Museum Income	1,501	114	1,000	(886)
Swimming Pool Receipts	51,344	49,891	42,165	7,726
Sports Complex Income	-	7,644	-	7,644
Miscellaneous	20,183	13,828	17,000	(3,172)
Transfers In	735,821	703,474	618,405	85,069
Total Cash Receipts	1,908,571	1,977,503	1,977,619	(116)
Expenditures				
Legislative				
Personnel Services	11,580	11,701	12,440	(739)
Contractual Services	48,825	42,379	53,500	(11,121)
Commodities	15,804	21,744	20,000	1,744
Total Legislative	76,209	75,824	85,940	(10,116)
Administrative				
Personnel Services	303,611	320,487	313,441	7,046
Contractual Services	38,606	37,145	43,000	(5,855)
Commodities	54,245	56,316	50,500	5,816
Capital Outlay	-	-	4,000	(4,000)
Miscellaneous	3,005	275	2,150	(1,875)
Total Administrative	\$ 399,467	414,223	413,091	1,132

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

CITY OF HILLSBORO, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Expenditures (continued)				
Police				
Personnel Services	\$ 344,739	350,459	342,112	8,347
Contractual Services	14,664	19,280	29,084	(9,804)
Commodities	21,981	24,220	39,217	(14,997)
Capital Outlay	2,258	1,004	32,220	(31,216)
Uniform Expense	2,441	2,122	10,200	(8,078)
Total Police	386,083	397,085	452,833	(55,748)
Fire				
Personnel Services	35,573	40,476	27,548	12,928
Contractual Services	9,762	9,932	13,800	(3,868)
Commodities	15,836	19,526	14,800	4,726
Capital Outlay	-	-	5,000	(5,000)
Total Fire	61,171	69,934	61,148	8,786
Street				
Personnel Services	145,086	145,231	180,212	(34,981)
Contractual Services	31,903	18,228	30,500	(12,272)
Commodities	61,295	50,176	48,500	1,676
Total Street	238,284	213,635	259,212	(45,577)
Parks and Recreation				
Personnel Services	9,066	10,780	11,694	(914)
Contractual Services	8,256	7,282	8,600	(1,318)
Commodities	5,961	9,692	7,600	2,092
Capital Outlay	9,342	4,936	5,000	(64)
Total Parks and Recreation	32,625	32,690	32,894	(204)
Trees				
Contractual Services	-	-	500	(500)
Commodities	136	80	1,500	(1,420)
Total Trees	136	80	2,000	(1,920)
Museum				
Personnel Services	39,842	9	-	9
Contractual Services	6,039	5,223	8,000	(2,777)
Commodities	7,487	1,834	8,000	(6,166)
Capital Outlay	-	-	12,000	(12,000)
Total Museum	\$ 53,368	7,066	28,000	(20,934)

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

CITY OF HILLSBORO, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Expenditures (continued)				
Swimming Pool				
Personnel Services	\$ 54,701	57,990	64,240	(6,250)
Contractual Services	13,986	18,347	16,300	2,047
Commodities	21,826	29,567	29,000	567
Capital Outlay	-	-	1,000	(1,000)
Total Swimming Pool	<u>90,513</u>	<u>105,904</u>	<u>110,540</u>	<u>(4,636)</u>
Golf				
Personnel Services	<u>69,722</u>	<u>72,623</u>	<u>84,754</u>	<u>(12,131)</u>
Public Safety				
Rent to Hillsboro Public Building Commission - Health Care Facilities	75,000	75,000	-	75,000
Commodities	<u>3,794</u>	<u>1,229</u>	<u>10,000</u>	<u>(8,771)</u>
Total Public Safety	<u>78,794</u>	<u>76,229</u>	<u>10,000</u>	<u>66,229</u>
Planning				
Personnel Services	58,108	59,603	57,849	1,754
Contractual Services	245	62	10,000	(9,938)
Commodities	<u>231</u>	<u>3,718</u>	<u>2,500</u>	<u>1,218</u>
Total Planning	<u>58,584</u>	<u>63,383</u>	<u>70,349</u>	<u>(6,966)</u>
Tourism				
Appropriation	<u>7,754</u>	<u>9,038</u>	<u>8,600</u>	<u>438</u>
Sports Complex				
Personnel Services	59,642	63,130	62,662	468
Contractual Services	1,659	3,413	1,800	1,613
Commodities	9,482	16,223	8,100	8,123
Capital Outlay	<u>5,308</u>	<u>2,095</u>	<u>4,936</u>	<u>(2,841)</u>
Total Sports Complex	<u>76,091</u>	<u>84,861</u>	<u>77,498</u>	<u>7,363</u>
Other Expenditures				
Miscellaneous	1,200	1,200	1,800	(600)
Neighborhood Revitalization Rebate	-	534	4,699	(4,165)
Transfers Out	<u>216,410</u>	<u>352,250</u>	<u>406,000</u>	<u>(53,750)</u>
Total Other Expenditures	<u>217,610</u>	<u>353,984</u>	<u>412,499</u>	<u>(58,515)</u>
Total Expenditures	<u>1,846,411</u>	<u>1,976,559</u>	<u>2,109,358</u>	<u>(132,799)</u>
Cash Receipts Over (Under) Expenditures	62,160	944		
Unencumbered Cash - Beginning	<u>98,014</u>	<u>160,174</u>		
Unencumbered Cash - Ending	\$ <u>160,174</u>	<u>161,118</u>		

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

CITY OF HILLSBORO, KANSAS
Airport Revolving Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Fuel Sales	\$ 5,961	10,945	7,200	3,745
Rent	3,575	4,620	4,500	120
Total Cash Receipts	<u>9,536</u>	<u>15,565</u>	<u>11,700</u>	<u>3,865</u>
Expenditures				
Fuel	5,768	12,292	8,000	4,292
Utilities	3,374	2,315	3,000	(685)
Commodities	877	2,432	600	1,832
Contractual	-	-	5,800	(5,800)
Total Expenditures	<u>10,019</u>	<u>17,039</u>	<u>17,400</u>	<u>(361)</u>
Cash Receipts Over (Under) Expenditures	(483)	(1,474)		
Unencumbered Cash - Beginning	<u>12,749</u>	<u>12,266</u>		
Unencumbered Cash - Ending	\$ <u>12,266</u>	<u>10,792</u>		

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

CITY OF HILLSBORO, KANSAS
D.A.R.E. Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Transfers In	\$ 500	400	-	400
Miscellaneous	-	400	700	(300)
Total Cash Receipts	500	800	<u>700</u>	<u>100</u>
Expenditures				
Commodities	435	504	<u>700</u>	<u>(196)</u>
Cash Receipts Over (Under) Expenditures	65	296		
Unencumbered Cash - Beginning	232	297		
Unencumbered Cash - Ending	\$ <u>297</u>	<u>593</u>		

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

CITY OF HILLSBORO, KANSAS
Equipment Reserve Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 22,500	30,000
Miscellaneous	12,905	-
Total Cash Receipts	<u>35,405</u>	<u>30,000</u>
Expenditures		
Capital Outlay	-	6,270
Miscellaneous	3,900	-
Lease Payments	28,375	32,275
Total Expenditures	<u>32,275</u>	<u>38,545</u>
Cash Receipts Over (Under) Expenditures	3,130	(8,545)
Unencumbered Cash - Beginning	<u>19,040</u>	<u>22,170</u>
Unencumbered Cash - Ending	<u>\$ 22,170</u>	<u>13,625</u>

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

CITY OF HILLSBORO, KANSAS
Family Aquatic Center Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Transfers In	\$ 210,546	219,930	<u>201,000</u>	<u>18,930</u>
Expenditures				
Rent to Hillsboro Public Building Commission - Family Aquatic Center	199,626	145,375	<u>201,000</u>	<u>(55,625)</u>
Cash Receipts Over (Under) Expenditures	10,920	74,555		
Unencumbered Cash - Beginning	148,688	159,608		
Unencumbered Cash - Ending	\$ <u>159,608</u>	<u>234,163</u>		

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

CITY OF HILLSBORO, KANSAS
Museum Trust Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Donations	\$ 480	-	-	-
Interest Income	468	253	-	253
Total Cash Receipts	<u>948</u>	<u>253</u>	<u>-</u>	<u>253</u>
Expenditures				
Commodities	4,265	-	6,000	(6,000)
Miscellaneous	16	25	67,237	(67,212)
Total Expenditures	<u>4,281</u>	<u>25</u>	<u>73,237</u>	<u>(73,212)</u>
Cash Receipts Over (Under) Expenditures	(3,333)	228		
Unencumbered Cash - Beginning	<u>70,996</u>	<u>67,663</u>		
Unencumbered Cash - Ending	\$ <u>67,663</u>	<u>67,891</u>		

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

CITY OF HILLSBORO, KANSAS
Industrial Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 14,593	15,214	15,869	(655)
Delinquent Tax	141	627	-	627
Motor Vehicle Tax	2,002	2,055	2,067	(12)
Recreational Vehicle Tax	24	26	25	1
16/20M Vehicle Tax	17	17	19	(2)
Reimbursed Expenses	45,948	8,466	-	8,466
Transfers In	3,800	40,000	40,000	-
Total Cash Receipts	<u>66,525</u>	<u>66,405</u>	<u>57,980</u>	<u>8,425</u>
Expenditures				
Personnel Services	61,928	63,904	63,814	90
Commodities	50	66	150	(84)
Neighborhood Revitalization	-	16	6	10
Total Expenditures	<u>61,978</u>	<u>63,986</u>	<u>63,970</u>	<u>16</u>
Cash Receipts Over (Under) Expenditures	4,547	2,419		
Unencumbered Cash - Beginning	<u>64</u>	<u>4,611</u>		
Unencumbered Cash - Ending	\$ <u>4,611</u>	<u>7,030</u>		

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

CITY OF HILLSBORO, KANSAS
Library Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 58,315	60,796	63,499	(2,703)
Delinquent Tax	564	2,503	-	2,503
Motor Vehicle Tax	7,962	8,204	8,265	(61)
Recreational Vehicle Tax	97	97	100	(3)
16/20M Vehicle Tax	67	66	75	(9)
Total Cash Receipts	<u>67,005</u>	<u>71,666</u>	<u>71,939</u>	<u>(273)</u>
Expenditures				
Appropriation to Public Library	67,005	71,600	71,915	(315)
Neighborhood Revitalization Rebate	-	66	24	42
Total Expenditures	<u>67,005</u>	<u>71,666</u>	<u>71,939</u>	<u>(273)</u>
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	-	-		
Unencumbered Cash - Ending	\$ -	-		

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

CITY OF HILLSBORO, KANSAS
Municipal Court Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Fines and Fees	\$ 4,490	5,824	5,600	224
Expenditures				
Payments to State of Kansas	806	1,087	1,000	87
Payments to City of Hillsboro	3,544	4,737	3,500	1,237
Miscellaneous	139	117	100	17
Total Expenditures	4,489	5,941	4,600	1,341
Cash Receipts Over (Under) Expenditures	1	(117)		
Unencumbered Cash - Beginning	414	415		
Unencumbered Cash - Ending	\$ 415	298		

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

CITY OF HILLSBORO, KANSAS
Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 14,594	15,223	15,873	(650)
Delinquent Tax	141	627	-	627
Motor Vehicle Tax	2,000	2,063	2,067	(4)
Recreational Vehicle Tax	24	22	25	(3)
16/20M Vehicle Tax	17	-	19	(19)
Total Cash Receipts	<u>16,776</u>	<u>17,935</u>	<u>17,984</u>	<u>(49)</u>
Expenditures				
Appropriations	16,776	17,935	18,407	(472)
Neighborhood Revitalization	-	-	6	(6)
Total Expenditures	<u>16,776</u>	<u>17,935</u>	<u>18,413</u>	<u>(478)</u>
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	-	-		
Unencumbered Cash - Ending	\$ -	-		

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

CITY OF HILLSBORO, KANSAS
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
State Payments	\$ 70,508	73,157	73,157	-
Expenditures				
Contractual Services	22,507	164,123	164,123	-
Commodities	1,134	-	-	-
Total Expenditures	23,641	164,123	164,123	-
Cash Receipts Over (Under) Expenditures	46,867	(90,966)		
Unencumbered Cash - Beginning	46,431	93,298		
Unencumbered Cash - Ending	\$ 93,298	2,332		

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

CITY OF HILLSBORO, KANSAS
Special Law Enforcement Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 14,593	15,215	15,876	(661)
Delinquent Tax	136	976	-	976
Motor Vehicle Tax	2,964	2,181	2,067	114
Recreational Vehicle Tax	35	25	25	-
16/20M Vehicle Tax	38	23	19	4
Miscellaneous	65	75	-	75
Total Cash Receipts	<u>17,831</u>	<u>18,495</u>	<u>17,987</u>	<u>508</u>
Expenditures				
Capital Outlay	22,001	24,382	38,815	(14,433)
Neighborhood Revitalization	-	16	6	10
Total Expenditures	<u>22,001</u>	<u>24,398</u>	<u>38,821</u>	<u>(14,423)</u>
Cash Receipts Over (Under) Expenditures	(4,170)	(5,903)		
Unencumbered Cash - Beginning	<u>21,938</u>	<u>17,768</u>		
Unencumbered Cash - Ending	\$ <u>17,768</u>	<u>11,865</u>		

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

CITY OF HILLSBORO, KANSAS
Special Parks and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Liquor Tax	\$ 2,538	2,964	2,800	164
Miscellaneous	4,160	54,346	75,000	(20,654)
Total Cash Receipts	<u>6,698</u>	<u>57,310</u>	<u>77,800</u>	<u>(20,490)</u>
Expenditures				
Contractual Services	-	3,000	-	3,000
Commodities	82	1,181	7,768	(6,587)
Capital Outlay	1,960	49,579	75,000	(25,421)
Total Expenditures	<u>2,042</u>	<u>53,760</u>	<u>82,768</u>	<u>(29,008)</u>
Cash Receipts Over (Under) Expenditures	4,656	3,550		
Unencumbered Cash - Beginning	<u>8,468</u>	<u>13,124</u>		
Unencumbered Cash - Ending	\$ <u>13,124</u>	<u>16,674</u>		

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

CITY OF HILLSBORO, KANSAS
Township Fire Equipment Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Township Payments	\$ 4,393	6,330	5,000	1,330
Interest Income	7	7	200	(193)
Total Cash Receipts	<u>4,400</u>	<u>6,337</u>	<u>5,200</u>	<u>1,137</u>
Expenditures				
Contractual Services	3,707	6,137	4,000	2,137
Commodities	1,236	1,260	2,608	(1,348)
Total Expenditures	<u>4,943</u>	<u>7,397</u>	<u>6,608</u>	<u>789</u>
Cash Receipts Over (Under) Expenditures	(543)	(1,060)		
Unencumbered Cash - Beginning	<u>2,420</u>	<u>1,877</u>		
Unencumbered Cash - Ending	\$ <u>1,877</u>	<u>817</u>		

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

CITY OF HILLSBORO, KANSAS
K-9 Unit Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Donations	\$ -	3,950	3,450	500
Expenditures				
Animal Care	255	873	1,000	(127)
Miscellaneous	-	3,100	2,000	1,100
Total Expenditures	<u>255</u>	<u>3,973</u>	<u>3,000</u>	<u>973</u>
Cash Receipts Over (Under) Expenditures	(255)	(8)		
Unencumbered Cash - Beginning	<u>2,088</u>	<u>1,833</u>		
Unencumbered Cash - Ending	\$ <u>1,833</u>	<u>1,825</u>		

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

CITY OF HILLSBORO, KANSAS
Hillsboro 150th Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Income Received From Convention and Visitors Bureau	\$ 1,500	-
Expenditures	-	-
Cash Receipts Over (Under) Expenditures	1,500	-
Unencumbered Cash - Beginning	-	1,500
Unencumbered Cash - Ending	\$ 1,500	1,500

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

CITY OF HILLSBORO, KANSAS
Capital Improvement Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Rental Income	\$ 35,881	34,855
Federal Aid	10,000	58,785
Bond Proceeds	115,000	1,945,000
Sale of Property	3,511	-
Reimbursements	19,977	1,508
Miscellaneous	7,144	16,320
Transfers In	-	125,000
Total Cash Receipts	191,513	2,181,468
Expenditures		
Capital Outlay	4,000	12,722
Revolving Loan Payments	8,782	842,853
Debt Service Principal	104,999	-
Debt Service Interest	29,493	-
Airport	28,941	10,000
AMPI Property	33,843	25,257
Ash Street Project - ARRA Funds	3,168	-
Business Park	180,665	2,692
City Hall Remodeling	-	8,872
Sewer Renovations	265	-
Swimming Pool	2,472	-
Visitors Center	3,134	-
Willow Glen Additions	10,574	5,165
Miscellaneous	46,961	606,460
Total Expenditures	457,297	1,514,021
Cash Receipts Over (Under) Expenditures	(265,784)	667,447
Unencumbered Cash - Beginning	308,456	42,672
Unencumbered Cash - Ending	\$ 42,672	710,119

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

CITY OF HILLSBORO, KANSAS
Hillsboro Public Building Commission - Health Care Facilities
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Interest Income	\$ 12	61
Rent Income	75,000	75,000
Total Cash Receipts	75,012	75,061
Expenditures	-	-
Cash Receipts Over (Under) Expenditures	74,676	75,061
Unencumbered Cash - Beginning	14,820	89,496
Unencumbered Cash - Ending	\$ 89,496	164,557

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

CITY OF HILLSBORO, KANSAS
Hillsboro Public Building Commission - Family Aquatic Center
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Miscellaneous Receipts	\$ -	15
Bond Proceeds	-	30,646
Rent Income From City of Hillsboro	199,626	145,376
Interest Income	85	19
Total Cash Receipts	<u>199,711</u>	<u>176,056</u>
Expenditures		
Debt Service Principal	100,000	109,981
Debt Service Interest	97,633	80,376
Legal and Professional Fees	-	28,087
Miscellaneous	4,495	952
Total Expenditures	<u>202,128</u>	<u>219,396</u>
Cash Receipts Over (Under) Expenditures	(2,417)	(43,340)
Unencumbered Cash - Beginning	<u>48,312</u>	<u>45,895</u>
Unencumbered Cash - Ending	<u>\$ 45,895</u>	<u>2,555</u>

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

CITY OF HILLSBORO, KANSAS
Tree Screening Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 864	1,920
Expenditures		
Commodities	-	807
Cash Receipts Over (Under) Expenditures	864	1,113
Unencumbered Cash - Beginning	13,393	14,257
Unencumbered Cash - Ending	\$ 14,257	15,370

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

CITY OF HILLSBORO, KANSAS
Bond and Interest Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 55,968	35,795	37,326	(1,531)
Delinquent Tax	463	1,880	-	1,880
Motor Vehicle Tax	6,628	7,783	7,928	(145)
Recreational Vehicle Tax	84	92	96	(4)
16/20M Vehicle Tax	32	59	72	(13)
Local Retailer Sales Tax	150,000	150,000	-	150,000
Bond Proceeds	1,855,000	-	113,000	(113,000)
Special Assessments	141,461	103,277	-	103,277
Interest Income	1,149	-	-	-
Miscellaneous	-	99	-	99
Transfers In	582,899	632,999	833,999	(201,000)
Total Cash Receipts	2,793,684	931,984	992,421	(60,437)
Expenditures				
Debt Service Principal	2,382,657	571,137	833,000	(261,863)
Debt Service Interest	386,336	335,688	330,580	5,108
Revolving Loan Payments	31,374	-	150,000	(150,000)
Commission and Postage	15,813	1	-	1
Neighborhood Revitalization Rebate	8	39	14	25
Adams Street Project	-	40,156	113,000	(72,844)
Willow Glen Project	-	27,413	37,000	(9,587)
Total Expenditures	2,816,188	974,434	1,463,594	(489,160)
Cash Receipts Over (Under) Expenditures	(22,504)	(42,450)		
Unencumbered Cash - Beginning	80,062	57,558		
Unencumbered Cash - Ending	\$ 57,558	15,108		

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

CITY OF HILLSBORO, KANSAS
Sewer Bond Project Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Aid	\$ -	155,200
Expenditures		
Commodities	61,340	126,280
Capital Outlay	295,532	722,670
Total Expenditures	<u>356,872</u>	<u>848,950</u>
Cash Receipts Over (Under) Expenditures	(356,872)	(693,750)
Unencumbered Cash - Beginning	<u>695,698</u>	<u>338,826</u>
Unencumbered Cash - Ending	\$ <u><u>338,826</u></u>	<u><u>(354,924)</u></u>

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

CITY OF HILLSBORO, KANSAS
Electric Operating Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Collections	\$ 2,552,411	2,565,849	2,668,571	(102,722)
Connection Fees	495	705	600	105
Reimbursements	21,938	3,570	2,500	1,070
Miscellaneous	1,095	3,681	-	3,681
Total Cash Receipts	<u>2,575,939</u>	<u>2,573,805</u>	<u>2,671,671</u>	<u>(97,866)</u>
Expenditures				
Personnel Services	231,091	237,150	226,120	11,030
Contractual Services	28,701	40,273	32,500	7,773
Commodities	157,627	90,521	67,500	23,021
Capital Outlay	-	46,570	32,000	14,570
Electric Purchases	1,461,025	1,565,851	1,600,000	(34,149)
Lease Payments	33,341	33,341	33,341	-
Transfers Out	587,121	583,474	605,905	(22,431)
Total Expenditures	<u>2,498,906</u>	<u>2,597,180</u>	<u>2,597,366</u>	<u>(186)</u>
Cash Receipts Over (Under) Expenditures	77,033	(23,375)		
Unencumbered Cash - Beginning	<u>622,726</u>	<u>699,759</u>		
Unencumbered Cash - Ending	<u>\$ 699,759</u>	<u>676,384</u>		

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

CITY OF HILLSBORO, KANSAS
Refuse Operating Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Collections	\$ 182,858	181,820	184,000	(2,180)
Reimbursements	648	774	500	274
Miscellaneous	40	210	100	110
Total Cash Receipts	<u>183,546</u>	<u>182,804</u>	<u>184,600</u>	<u>(1,796)</u>
Expenditures				
Personnel Services	77,298	81,813	86,433	(4,620)
Contractual Services	16,734	30,149	19,300	10,849
Commodities	12,839	15,623	24,000	(8,377)
Capital Outlay	-	-	26,000	(26,000)
Recycling	24,260	25,067	24,000	1,067
Transfers Out	25,000	32,500	32,500	-
Total Expenditures	<u>156,131</u>	<u>185,152</u>	<u>212,233</u>	<u>(27,081)</u>
Cash Receipts Over (Under) Expenditures	27,415	(2,348)		
Unencumbered Cash - Beginning	<u>138,770</u>	<u>166,185</u>		
Unencumbered Cash - Ending	\$ <u>166,185</u>	<u>163,837</u>		

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

CITY OF HILLSBORO, KANSAS
Sewer Operating Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Collections	\$ 519,399	525,186	530,000	(4,814)
Reimbursements	460	722	-	722
Miscellaneous	-	210	-	210
Total Cash Receipts	<u>519,859</u>	<u>526,118</u>	<u>530,000</u>	<u>(3,882)</u>
Expenditures				
Personnel Services	76,436	77,686	71,869	5,817
Contractual Services	57,378	38,738	44,500	(5,762)
Commodities	22,303	18,029	16,600	1,429
Capital Outlay	11,768	-	25,000	(25,000)
Debt Service	-	-	22,239	(22,239)
Lease Payments	11,938	11,938	12,000	(62)
Transfers Out	354,200	402,999	402,999	-
Total Expenditures	<u>534,023</u>	<u>549,390</u>	<u>595,207</u>	<u>(45,817)</u>
Cash Receipts Over (Under) Expenditures	(14,164)	(23,272)		
Unencumbered Cash - Beginning	<u>144,065</u>	<u>129,901</u>		
Unencumbered Cash - Ending	\$ <u><u>129,901</u></u>	<u><u>106,629</u></u>		

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

CITY OF HILLSBORO, KANSAS
Water Operating Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Cash Receipts				
Collections	\$ 815,498	838,771	895,550	(56,779)
Reimbursements	6,717	2,008	-	2,008
Miscellaneous	865	1,331	3,000	(1,669)
Total Cash Receipts	<u>823,080</u>	<u>842,110</u>	<u>898,550</u>	<u>(56,440)</u>
Expenditures				
Personnel Services	189,158	211,803	199,892	11,911
Contractual Services	79,613	90,510	98,000	(7,490)
Commodities	99,205	123,517	142,500	(18,983)
Capital Outlay	2,290	56,039	131,000	(74,961)
Water Purchases	15,977	15,000	15,000	-
Revolving Loan Payments	10,485	10,485	11,000	(515)
Transfers Out	373,699	382,500	382,500	-
Total Expenditures	<u>770,427</u>	<u>889,854</u>	<u>979,892</u>	<u>(90,038)</u>
Cash Receipts Over (Under) Expenditures	52,653	(47,744)		
Unencumbered Cash - Beginning	<u>33,767</u>	<u>86,420</u>		
Unencumbered Cash - Ending	\$ <u><u>86,420</u></u>	<u><u>38,676</u></u>		

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

CITY OF HILLSBORO, KANSAS
Hillsboro Public Library
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Interest Income	\$ 55	32
User Charges, Fines and Fees	4,071	4,281
Appropriations From the City of Hillsboro	67,005	71,600
Gifts, Memorials, and Donations	2,763	3,786
Book Sales	597	1,185
State of Kansas	2,131	1,284
Grants	5,500	5,800
Copies	2,499	1,968
Reimbursements	1,030	603
Miscellaneous	1,319	-
Total Cash Receipts	86,970	90,539
Expenditures		
Personnel Services	47,218	47,542
Contractual Services	3,033	2,345
Commodities	31,023	32,272
Capital Outlay	1,550	-
Total Expenditures	82,824	82,159
Cash Receipts Over (Under) Expenditures	4,146	8,380
Unencumbered Cash - Beginning	58,224	62,370
Unencumbered Cash - Ending	\$ 62,370	70,750

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

CITY OF HILLSBORO, KANSAS
Hillsboro Recreation Commission
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Athletic Programs	\$ 45,110	33,188
Fundraising and Donations	1,680	2,880
Appropriations From the City of Hillsboro	16,776	17,935
Reimbursements	1,210	1,225
Miscellaneous	238	250
Total Cash Receipts	65,014	55,478
Expenditures		
Athletic Programs	40,330	32,117
Contractual Services	1,732	932
Commodities	861	698
Capital Outlay	108	17,339
Field and Equipment Maintenance	836	1,071
Utilities	8,585	11,424
Miscellaneous	2,151	692
Total Expenditures	54,603	64,273
Cash Receipts Over (Under) Expenditures	10,411	(8,795)
Unencumbered Cash - Beginning	24,868	35,279
Unencumbered Cash - Ending	\$ 35,279	26,484

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

CITY OF HILLSBORO, KANSAS
Hillsboro Convention and Visitors Bureau
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Appropriations From the City of Hillsboro	8,029	7,754
125th Celebration Revenue	235	-
Donations	1,128	750
Fairs and Festivals	645	614
Total Cash Receipts	10,037	9,118
Expenditures		
Contractual	2,623	1,102
Chamber of Commerce	5,042	5,500
Special Event Expenses	-	682
125th Celebration Expenses	2,185	-
Miscellaneous	1,274	219
Total Expenditures	11,124	7,503
Cash Receipts Over (Under) Expenditures	(1,087)	1,615
Unencumbered Cash - Beginning	6,078	4,991
Unencumbered Cash - Ending	\$ 4,991	6,606

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

CITY OF HILLSBORO, KANSAS
Agency Funds
 Summary of Cash Receipts and Cash Disbursements
 For the Year Ended December 31, 2011

	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Meter Deposit Fund	\$ 19,348	14,746	13,371	20,723
Payroll Withholding Fund				
Federal Withholding	-	124,838	124,838	-
State Withholding	-	49,566	49,566	-
Social Security and Medicare	-	72,239	72,239	-
KPERs Retirement	-	51,620	51,620	-
Cafeteria Health Insurance	74	41,729	41,791	12
Other	989	47,889	46,670	2,208
Total Payroll Withholding Fund	<u>1,063</u>	<u>387,881</u>	<u>386,724</u>	<u>2,220</u>
Sales Tax Fund	<u>5,765</u>	<u>84,396</u>	<u>81,630</u>	<u>8,531</u>
Total	<u>\$ <u>26,176</u></u>	<u><u>487,023</u></u>	<u><u>481,725</u></u>	<u><u>31,474</u></u>

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

CITY OF HILLSBORO, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hillsboro, Kansas has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to 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 following is a summary of such significant policies.

Reporting Entity

The City is a municipal corporation governed by an elected five-member council. These financial statements present the City (primary government) and all but one of its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

The component units section of these financial statements includes the financial data of the discretely presented component units. These component units are reported separately to emphasize that they are legally separate from the City. The governing bodies of these component units are appointed by the City.

Hillsboro Public Building Commission

The City's Public Building Commission was formed March 17, 1998, under K.S.A 12-1757 to 12-1768. The commission can sue and be sued, and can buy, sell, or lease real property. The commission can issue revenue bonds without City approval for the purpose of providing funds to acquire, erect, equip, repair, maintain, and operate buildings or other facilities maintained and operated by the City, as amended by Charter Ordinance No. 14. The commission is presented as a blended component unit as a special revenue fund.

Hillsboro Public Library

The 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. The Board's members are appointed by the City Council. The City substantially funds the Library's operations by levying tax dollars for the library. Contact the City Clerk for further information.

Hillsboro Recreation Commission

The City's Recreation Commission oversees recreation activities. The recreation commission operates as a separate governing body but the City levies the taxes for the recreation commission and the recreation commission has only the powers granted by statute, K.S.A. 12-1928. Acquisition or disposition of real property by the board must be approved by the City. Bond issuances must also be approved by the City. **Contact the City Clerk for further information.**

Hillsboro Convention and Visitors Bureau

The convention and visitors bureau operates as a separate governing body but the City levies the taxes for the convention and visitors bureau. Acquisition or disposition of real property by the Bureau must be approved by the City. Bond issuances must also be approved by the City. Contact the City Clerk for further information.

The component unit listed below is excluded from the financial statements.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Housing Authority of City of Hillsboro, Kansas

The City's Housing Authority operates a subsidized public housing project. The board is appointed by the City, and the City is entitled to the resources of the Housing Authority. The housing authority can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the City. Its financial statements are not included in this report. Contact the City to obtain financial statements for the housing authority.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2011.

Governmental Fund Categories

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

Special Revenue Funds - to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

Proprietary Fund Category

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.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Category

Agency Funds – to account for assets held by the City as trustee or agent for others.

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, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

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

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 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 accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Budgetary Information

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

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 10 days after publication the hearing may be held and the governing body may amend the budget at that time. There was one budget amendment for this year for the Special Law Enforcement Fund, Municipal Court Fund, K-9 Unit Fund, and Equipment Replacement Fund.

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 City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, and the following special revenue funds: Equipment Reserve Fund, Hillsboro 150th Fund, Capital Improvement Fund, Hillsboro Public Building Commission – Health Care Facilities, and Hillsboro Public Building Commission – Family Aquatic Center.

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.

The Library Board, Hillsboro Recreation Commission, and Hillsboro Convention and Visitors Bureau are not subject to the legal annual operating budget requirements, but are controlled by the use of an internal budget established by the governing bodies. Since they are not subject to these requirements, comparison to budget has been omitted from the financial statements.

Deposits and Investments

The City follows the practice of pooling cash deposits of all funds. Each fund's portion of total cash deposits is summarized by fund category in the summary of cash receipts, cash disbursements, and unencumbered cash.

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

K.S.A. 12-1675 limits the City's investments 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

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A 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 does not use "peak periods". All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$3,706,456 and the bank balance was \$3,795,970. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance \$541,375 was covered by federal depository insurance and \$3,254,595 was collateralized with securities held by pledging financial institutions' agents in the City's name.

At December 31, 2011, the Library's carrying amount of deposits was \$70,750 and the bank balance was \$78,012. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

At December 31, 2011, the Hillsboro Recreation Commission's carrying amount of deposits was \$27,129 and the bank balance was \$27,199. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

At December 31, 2011, the Hillsboro Conventions and Visitors Bureau carrying amount of deposits was \$6,608 and the bank balance was \$6,552. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

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. The City had no investments at December 31, 2011.

Compensated Absences

Vacation

The City's policy regarding vacation for non-24 hour shift full-time employees is as follows: Vacation earned may not be taken until the employee completes one year of service. Vacation is earned beginning with the date of employment. An employee who works fewer than 12 days in any month will not accrue vacation credit for such month of service; provided, that this restriction of 12 days will not apply where the employee has worked fewer than 12 days due to authorized vacation or sick leave.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City's full-time employees are entitled to vacation shown below.

<u>Years of Service</u>	<u>Per Year</u>	<u>Maximum Accumulation</u>
1 to 10 years	80 hours	160 hours
After 10 years	120 hours	240 hours

Part-time employees who work at least 20 hours per week earn vacation at the rate of 4 hours each month of employment. Seasonal and temporary employees do not earn vacation. Training employees terminated prior to attaining full-time or part-time status are not paid for any accrued vacation. Eligible employees shall be paid for all accumulated unused vacation upon termination.

Sick Leave

Employees will not earn sick leave until they have been employed with the City for one continuous year. The City's policy for sick leave permits full-time employees to earn sick leave at the rate of eight hours per calendar month up to a maximum of 480 hours. Part-time employees who work at least 20 hours per week earn sick leave at the rate of 4 hours per calendar month up to maximum of 480 hours. Seasonal and temporary employees do not earn sick leave. Sick leave will be paid for absences resulting from personal illness, injuries, accidents or other physical incapacities, occurring either on or off the job. Upon termination of employment an employee shall not be paid for accumulated sick leave. Accordingly, no provision for accumulated sick leave has been made in the accompanying financial statements.

Compensatory Time

Compensation for authorized overtime work shall be at the rate of one and one-half times the employee's regular rate of pay. At the discretion of the department head and with the agreement of the employee, an employee may be given compensatory time off in lieu of cash payments for the overtime worked. Any compensatory time off shall be at the rate of one and one-half times the hours of overtime worked. Compensatory time off that is accrued by an employee for overtime work shall be taken within two pay periods following the pay period in which it was earned. Upon termination of employment, the accrued compensatory time will be paid to the employee at either the average rate of pay received during the last three years of employment or the final regular rate of pay received, whichever is higher.

A potential liability of \$72,184 existed as of December 31, 2011 for these compensated absences, which has not been recorded on the books.

Deferred Compensation Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 457(b). Permanent and part-time employees are eligible to participate under the plan. The employee is responsible for the amount of deferred compensation to be contributed. The City agrees to execute all necessary agreements provided by the International City Management Association-Retirement Corporation (ICMA-RC) for Employee's continued participation in said ICMA-RC retirement plan, and to transfer ownership to succeeding employers upon an Employee's resignation or discharge. The City agrees to pay the sum of \$2,500 per annum into said retirement plan. There are no current participants in this plan.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined Benefit Pension Plan

Plan Description

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

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) 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 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 contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74% and 14.42% for KPERS retirees. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$94,109, \$87,232, and \$79,752, respectively, equal to the required contributions for each year as set forth by the legislature.

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.

Property Tax Calendar

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. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts. Also, cash is restricted in the agency funds of the City for special purposes.

CITY OF HILLSBORO, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. **City of Hillsboro, Kansas'** interfund transfers and statutory authority for the year ended December 31, 2011 were as follows:

From	To	Statutory Authority	Amount
General Fund	Family Aquatic Center Fund	C.O. #11,14	\$ 219,930
Electric Operating Fund	General Fund	K.S.A. 12-825d	96,569
Electric Operating Fund	Industrial Fund	K.S.A. 12-825d	40,000
Refuse Operating Fund	Equipment Reserve Fund	K.S.A. 12-1,117	7,500
Sewer Operating Fund	Equipment Reserve Fund	K.S.A. 12-1,117	7,500
Water Operating Fund	Equipment Reserve Fund	K.S.A. 12-1,117	7,500
Electric Operating Fund	Equipment Reserve Fund	K.S.A. 12-1,117	2,500
General Fund	Equipment Reserve Fund	K.S.A. 12-1,117	5,000
Electric Operating Fund	General Fund	K.S.A. 12-825d	444,405
Refuse Operating Fund	General Fund	K.S.A. 12-825d	25,000
Sewer Operating Fund	General Fund	K.S.A. 12-825d	52,500
Water Operating Fund	General Fund	K.S.A. 12-825d	85,000
Sewer Operating Fund	Bond and Interest Fund	K.S.A. 12-825d	342,999
General Fund	Dare Fund	C.O. #85,02	400
General Fund	Capital Improvement Fund	K.S.A. 12-1,118	25,000
General Fund	Capital Improvement Fund	K.S.A. 12-1,118	50,000
General Fund	Capital Improvement Fund	K.S.A. 12-1,118	50,000
General Fund	Tree Screening Fund	K.S.A. 12-1,118	1,920
Water Operating Fund	Bond and Interest Fund	K.S.A. 12-825d	290,000

NOTE 3 - CAPITAL PROJECTS

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

Project Name	Project Authorization	Cash Disbursements and Accounts Payable to Date
Zebra Mussel Mitigation	\$ 25,000	\$ 3,000
Schaeffler House Project	67,541	67,541
Sewer Lagoon Project	919,169	495,971
Airport Planning Grant	40,000	10,000
Street Repair Project Adams & 1 st Street	1,342,341	90,465

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 4 - LITIGATION

City of Hillsboro, Kansas is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 5 - RISK MANAGEMENT

City of Hillsboro, Kansas 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 Kansas Municipal Insurance Trust (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 KMT management. The City paid \$48,229 in premiums for the year ended December 31, 2011.

The City carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, law enforcement liability, workers' compensation, aviation general liability, public officials errors and omissions, and employee benefit liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 - GRANTS AND SHARED REVENUES

City of Hillsboro, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audit, is not believed to be material.

NOTE 7 - COMPARATIVE DATA

Comparative data for the prior year has been presented in Statement 3 in the accompanying financial statements in order to provide an understanding of changes in **City of Hillsboro, Kansas'** cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

NOTE 8 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The **City of Hillsboro, Kansas'** Industrial Fund, Municipal Court Fund, Township Fire Equipment Fund, and K-9 Unit Fund had expenditures in excess of the budgeted total by \$16, \$1341, \$789, and \$973, respectively, as of December 31, 2011, which is a violation of K.S.A. 10-1113.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 9 - JOINT VENTURES

City of Hillsboro, Kansas has entered into a joint venture with Risley Township, Liberty Township, Lehigh Township and Menno Township surrounding the City. In the agreement, the townships provide some of the necessary equipment and the City will provide fire protection to these townships. The City owns some of the fire trucks. The City will be compensated for providing this service (\$200 per fire run) and will be compensated with an annual fee due by the townships. The annual fee for each township is as follows: Risley Township \$350, Liberty Township \$350, Lehigh Township \$350, and Menno Township \$88. Each township is also required to contribute annually to a capital improvement fund owned by the City. The annual contribution for each township is as follows: Risley Township \$1,150, Liberty Township \$1,150, Lehigh Township \$1,150, and Menno Township \$500.

The City entered into a joint funding agreement on August 17, 2010 with Hillsboro Development Corporation and Hillsboro Ventures, Inc. regarding the funding of an economic development director position. The City is to contribute 86.83% of the salary and act as the paying agent of the director. The other two corporations reimburse the City for their share of the salary.

NOTE 10 – RELATED PARTIES

The following related party transactions were identified for the City for 2011. Related party transactions do not include compensation arrangements, expense allowances and reimbursements, and similar items incurred in the ordinary course of operations and accordingly, no items were noted.

NOTE 11 - LEASE RECEIVABLE

The City entered into an unconditional lease with Alltel Kansas Limited Partnership on October 10, 2003 in which the City is the lessor. The term of this lease is for five years; however, the tenant has the right to extend this lease for four additional terms of five years on the same terms and conditions as set forth in the lease agreement. As this lease is unconditional the City has lease payments receivable of \$4,620 for 2012 and \$4,736 for 2013.

NOTE 12 – OPERATING LEASE

The City entered into an operating lease agreement with Hillsboro Public Building Commission on February 01, 2011 in which the City is the lessee. The basic term ends on February 1, 2011, subject to prior termination or renewal as specified in the lease.

NOTE 13 – DEBT RESTRICTIONS AND COVENANTS

KDOT Revolving Loan

City of Hillsboro, Kansas entered into a loan agreement with the Kansas Department of Transportation October 17, 2006 to fund qualified project costs of a transportation project in the amount of \$531,535. As of December 31, 2011 this project was complete and \$0 was drawn down from this loan during the current year. The loan agreement requires the City to have a minimum of \$500,000 general liability insurance coverage in effect during the course of this loan agreement. The City is in compliance with this requirement as of December 31, 2011.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 14 – DEBT DEFEASANCE

On April 18, 2011, the Hillsboro Public Building Commission issued Series 2011 General Obligation Refunding Bonds of \$2,140,000 (par value) with an interest rate of 3.00 – 4.00% to advance refund term bonds. The Series 2011 refunding serial bonds mature on October 1, 2017 and the refunding term bonds mature on October 1, 2025. The Series 2011 refunding bonds were issued at a premium, and, after paying issuance costs of \$30,646, the net proceeds were \$2,154,529. The net proceeds from the issuance of the Series 2011 General Obligation Refunding Bonds were used to call the Series 2005A General Obligation Bonds. As a result of the advance refunding, the economic gain to the Hillsboro Public Building Commission (the difference between the present value of the debt service payments on the old and new debt) was \$21,595.

NOTE 15 – LONG-TERM DEBT

City of Hillsboro, Kansas has the following types of long-term debt.

General Obligation Bonds

On October 15, 1997, the City issued \$160,990 in Series 1997A bonds for the purpose of internal improvements, special assessments for Carriage Hills.

On October 15, 2005, Hillsboro Public Building Commission (with authorization from the City) issued \$2,630,000 in Series 2005A bonds for the purpose of paying certain costs of issuance and costs of constructing a Family Aquatic Center. These were advanced refunded during 2011.

On June 27, 2006, the City issued \$1,920,000 in Series 2006A bonds for the purpose of internal improvements for the Water plant upgrade.

On September 20, 2007, the City issued \$78,358 in Series 2007A bonds for the purpose of internal improvements, special assessment for MB Church additions.

On September 16, 2009, the City issued \$4,552,500 in Series 2009A bonds for the purpose of internal improvements, for the Sewer Lagoon Project.

On November 2, 2010, the City issued \$1,970,000 in Series 2010 bonds for the purpose of providing funds of \$115,000 for internal improvements and for the purpose of refunding \$805,000 in Series 2004A general obligation bonds, \$135,000 in Series 2003 general obligation bonds, \$400,000 in Series 2001A general obligation bonds, and \$515,000 in Series 2000A general obligation bonds.

On December 22, 2011, the City issued \$345,000 in Series 2011A tax increment bonds for the purpose of providing funds to finance costs of certain internal capital improvements, for Hillsboro Business Park.

On December 22, 2011, the City issued \$1,600,000 in Series 2011B bonds for the purpose of providing funds to finance costs of certain internal capital improvements, for Adams & First street improvement.

Capital Leases

The City entered a lease agreement with Hillsboro Public Building Commission – Family Aquatic Center on April 18, 2011 in which the City is the lessee. The basic term ends on October 1, 2025, subject to prior termination or renewal as specified in the lease. The term of the lease may be extended for two consecutive five year terms, each such five year renewal period referred to as an “additional term”.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

Capital Leases (continued)

The terms of the lease provide for basic rent to be paid on each basic rent payment date in an amount sufficient to pay on the next succeeding payment date, the principal of, redemption premium, if any, and interest on the Series 2011 refunding bonds which are due. The basic rent payment dates are April 1 and October 1, commencing October 1, 2011, and continuing throughout the basic term of the lease. The lease agreement also provides for the payment of additional rent, in addition to basic rent, in amounts pursuant to the terms of the lease. The City intends that revenues received from a one-half cent sales tax, approved by the voters in the City on April 5, 2005, and from the operation of the Project under the provisions of the lease, will be used to make the City's payments to the Commission under the lease, which payments will in turn, be used to pay debt service on the Series 2011 refunding bonds. To the extent that the payments of basic rent and additional rent are not adequate to provide the Commission with funds sufficient to pay the principal and interest on the bonds as they become due and payable, the City shall be obligated to pay, as additional rent, further sums of money as may be required for such purposes.

Year	Total Basic Rental Payment
2012	\$ 189,635
2013	191,035
2014	192,285
2015	193,385
2016	194,335
2017-2021	946,156
2022-2025	753,300
Total	\$ 2,660,131

The City has entered into several other capital lease agreements with options to purchase the equipment at the expiration of the lease term. The leases contain a fiscal funding clause.

KDHE Revolving Loan

The City entered into a \$146,352 revolving loan agreement on July 10, 2006 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the construction on Lincoln Street. The City will use proceeds generated by the City for loan repayment, which began on August 1, 2006.

KDOT Revolving Loan

The City entered into a \$531,535 revolving loan agreement October 17, 2006 with the Kansas Department of Transportation acting on behalf of the State of Kansas to finance the construction on Adams Street. The City will use proceeds generated by the City for loan repayment, which began on August 1, 2007.

The changes in long-term debt and the maturity of long-term debt are disclosed on the following two pages.

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 15 - LONG-TERM DEBT (continued)

Changes in 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	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Series 1997A	4.55%-5.15%	1997	\$ 160,990	2013	\$ 45,000	-	(15,000)	(15,000)	30,000	2,273
Series 2005A - PBC	3.70%-4.75%	2005	2,630,000	2025	2,045,000	-	(2,045,000)	(2,045,000)	-	52,494
Series 2006A	4.50%	2006	1,920,000	2046	1,843,254	-	(21,392)	(21,392)	1,821,862	82,946
Series 2007A	4.75%-5.90%	2007	78,358	2023	75,000	-	(4,000)	(4,000)	71,000	3,965
Series 2009A	4.38%	2009	4,552,500	2049	4,508,673	-	(145,745)	(145,745)	4,362,928	197,254
Series 2010 Refunding Bond	3.00%	2010	1,970,000	2020	1,970,000	-	(385,000)	(385,000)	1,585,000	49,250
Series 2011A	2.00 - 3.40%	2011	345,000	2025	-	345,000	-	345,000	345,000	-
Series 2011B	2.25 - 3.15%	2011	1,600,000	2026	-	1,600,000	-	1,600,000	1,600,000	-
Total General Obligation Bonds					<u>10,486,927</u>	<u>1,945,000</u>	<u>(2,616,137)</u>	<u>(671,137)</u>	<u>9,815,790</u>	<u>388,182</u>
Revolving Debt										
KDHE Revolving Loan	3.77%	2006	146,352	2026	122,235	-	(5,933)	(5,933)	116,302	4,553
KDOT Revolving Loan	3.79%	2006	531,535	2025	440,817	-	(23,449)	(23,449)	417,368	16,707
Total Revolving Debt					<u>563,052</u>	<u>-</u>	<u>(29,382)</u>	<u>(29,382)</u>	<u>533,670</u>	<u>21,260</u>
Capital Leases										
Street Sweeper	4.44%	2007	124,763	2012	53,180	-	(26,012)	(26,012)	27,168	2,364
International Bucket Truck	4.69%	2007	145,587	2012	62,267	-	(30,420)	(30,420)	31,847	2,922
Sewer Truck	4.25%	2009	34,000	2011	11,561	-	(11,561)	(11,561)	-	377
HPBC - Family Aquatic Center	3.00 - 4.00%	2011	2,140,000	2025	-	2,140,000	(65,000)	2,075,000	2,075,000	32,412
Total Capital Leases					<u>127,008</u>	<u>2,140,000</u>	<u>(132,993)</u>	<u>2,007,007</u>	<u>2,134,015</u>	<u>38,075</u>
Total Contracted Indebtedness					<u>11,176,987</u>	<u>4,085,000</u>	<u>(2,778,512)</u>	<u>1,306,488</u>	<u>12,483,475</u>	<u>447,517</u>
Compensated Absences					<u>71,241</u>	<u>-</u>	<u>-</u>	<u>943</u>	<u>72,184</u>	<u>-</u>
Total Long-Term Debt					<u>\$ 11,248,228</u>	<u>4,085,000</u>	<u>(2,778,512)</u>	<u>1,307,431</u>	<u>12,555,659</u>	<u>447,517</u>

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

CITY OF HILLSBORO, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 15 - LONG-TERM DEBT (continued)

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

	YEAR											Total	
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041	2042-2046		2047-2049
Principal													
General Obligation Bonds	\$ 500,100	513,196	461,428	464,802	308,325	1,306,166	1,524,743	731,954	908,466	1,127,552	1,399,484	569,574	9,815,790
Revolving Debt	30,496	31,653	32,853	34,099	35,393	198,150	171,026	-	-	-	-	-	533,670
Capital Leases	59,015	-	-	-	-	-	-	-	-	-	-	-	59,015
Capital Lease - HPBC	120,000	125,000	130,000	135,000	140,000	740,000	685,000	-	-	-	-	-	2,075,000
Total Principal	589,611	544,849	494,281	498,901	343,718	1,504,316	1,695,769	731,954	908,466	1,127,552	1,399,484	569,574	12,483,475
Interest													
General Obligation Bonds	364,816	359,734	342,884	327,865	312,747	1,643,500	1,209,270	982,861	806,350	587,264	315,332	46,299	7,298,922
Revolving Debt	20,145	18,989	17,788	16,542	15,248	1,437,344	15,328	-	-	-	-	-	1,541,384
Capital Leases	2,701	-	-	-	-	-	-	-	-	-	-	-	2,701
Capital Lease - HPBC	69,635	66,035	62,285	58,385	54,335	206,156	68,300	-	-	-	-	-	585,131
Total Interest	387,662	378,723	360,672	344,407	327,995	3,080,844	1,224,598	982,861	806,350	587,264	315,332	46,299	8,843,007
Total Principal and Interest	\$ 977,273	923,572	854,953	843,308	671,713	4,585,160	2,920,367	1,714,815	1,714,816	1,714,816	1,714,816	615,873	19,251,482

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



Certified
Public
Accountants

**INDEPENDENT AUDITORS' 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**

To the City Council
City of Hillsboro, Kansas
Hillsboro, Kansas

We have audited the financial statements of **City of Hillsboro, Kansas** as of and for the year ended December 31, 2011, and have issued our report thereon dated September 04, 2012. The report on the audited financial statements was adverse because it was not presented in conformity with accounting principles generally accepted in the United States of America; however, it was unqualified as presented 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. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of **City of Hillsboro, Kansas** is reasonable for establishing and monitoring effective internal control over financial reporting. In planning and performing our audit, we considered **City of Hillsboro, Kansas'** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **City of Hillsboro, Kansas'** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **City of Hillsboro, Kansas'** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

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. We consider the deficiency described below to be a material weakness.

- Accounts payable/encumbrances were not recorded properly, which caused the financial statements to be materially misstated.

City of Hillsboro, Kansas

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The City will implement additional procedures to ensure all accounts payable and encumbrances are properly recorded.

A *significant deficiency* is a deficiency, or a 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 below to be significant deficiencies.

- The City does not have proper segregation of duties necessary to establish a good system of internal controls.
- The City's personnel responsible for the accounting and reporting function do not have the necessary skills and knowledge to apply generally accepted accounting principals in recording the entity's financial transactions or when preparing financial statements.

The City is aware of the deficiencies described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Hillsboro, Kansas'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described below.

- The city had expenditures in excess of the budgeted amount in four of the City's funds, which is a violation of K.S.A. 10-1113.

The City will monitor expenditures more closely to ensure they don't exceed the amounts budgeted.

We noted certain matters that we reported to management of **City of Hillsboro, Kansas** in a separate letter dated September 04, 2012.

City of Hillsboro, Kansas' response to the findings identified in our audit is described above. We did not audit **City of Hillsboro, Kansas'** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the 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 specified parties.

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

September 04, 2012