

CITY OF LUCAS, KANSAS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the Year Ended December 31, 2011

CITY OF LUCAS, KANSAS

Year Ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Lucas, Kansas

We have audited the accompanying financial statements of the City of Lucas, Kansas, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Lucas, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial or summarized comparative information has been derived from the City's 2010 financial statements and, in our report dated September 8, 2011, we expressed an unqualified opinion on the respective financial statements.

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

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

As described more fully in Note A, the City of Lucas, Lucas, Kansas, has prepared these financial statements using accounting practices prescribed or permitted by the State of

Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Lucas, Kansas as of December 31, 2011, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Primary Government of the City of Lucas, Lucas, 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 A.

Gudenkauf & Malone, Inc.
August 9, 2012
Russell, Kansas

CITY OF LUCAS, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payables	Ending Cash Balance	Statement 1
Governmental Type Funds:							
General	\$ 6,451	\$ 187,020	\$ 161,511	\$ 31,960	\$ 1,109	\$ 33,069	
Special Revenue Funds							
Library	70	6,446	6,446	70	-	70	
Airport	873	1,869	1,903	839	-	839	
Industrial Development	1,167	9,078	10,000	245	-	245	
Special Highway	106	10,438	5,196	5,348	-	5,348	
Trust Funds:							
McCrystal Trust	-	6,724	4,964	1,760	-	1,760	
Proprietary Type Funds:							
Enterprise funds							
Electric Utility	187,423	504,536	532,729	159,230	37,782	197,012	
Sewer Utility	54,740	23,580	13,252	65,068	449	65,517	
Water Utility	30,742	81,939	53,927	58,754	449	59,203	
Sanitation Utility	12,680	45,093	44,181	13,592	-	13,592	
Total reporting Entity (Excluding Agency Funds)	<u>\$ 294,252</u>	<u>\$ 876,723</u>	<u>\$ 834,109</u>	<u>\$ 336,866</u>	<u>\$ 39,789</u>	<u>\$ 376,655</u>	
Composition of Cash:				Checking Account		\$ 141,655	
				Certificates of Deposit		<u>235,000</u>	
				Total Reporting Entity		<u>\$ 376,655</u>	

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

CITY OF LUCAS, KANSAS

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
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 Under (Over)
Statement 2					
Governmental Type Funds:					
General	\$ 193,000	\$ -	\$ 193,000	\$ 161,511	\$ 31,489
Special Revenue Funds					
Library	6,730	-	6,730	6,446	284
Airport	67,600	-	67,600	1,903	65,697
Industrial Development	12,000	-	12,000	10,000	2,000
Special Highway	25,000	-	25,000	5,196	19,804
Bond & Interest	21,331	-	21,331	-	21,331
Proprietary Type Funds:					
Enterprise funds					
Electric Utility	812,801	-	812,801	532,729	280,072
Sewer Utility	80,018	-	80,018	13,252	66,766
Water Utility	122,215	-	122,215	53,927	68,288
Sanitation Utility	74,592	-	74,592	44,181	30,411
Total	<u>\$ 1,415,287</u>	<u>\$ -</u>	<u>\$ 1,415,287</u>	<u>\$ 829,145</u>	<u>\$ 586,142</u>

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

CITY OF LUCAS, KANSAS

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)

GENERAL FUND

Statement 3
 1 of 11

	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Ad valorem tax	\$ 39,600	\$ 36,530	\$ 37,670	\$ (1,140)
Delinquent tax	1,663	715	-	715
Motor vehicle tax	10,232	9,445	9,562	(117)
Licenses and permits	1,270	1,675	1,750	(75)
Sales tax	50,515	56,207	57,000	(793)
Franchise tax	11,820	9,946	15,000	(5,054)
Intangible tax	3,175	1,427	4,000	(2,573)
Rental Income	7,147	7,538	7,500	38
Grants and reimbursements	27,622	6,263	5,000	1,263
Municipal court	-	128	-	128
Interest on idle funds	936	291	800	(509)
Miscellaneous	3,043	11,855	-	11,855
Operating transfers				
Sewer	7,312	-	-	-
Electric Utility	40,000	45,000	25,000	20,000
Total cash receipts	204,335	187,020	\$ 163,282	\$ 23,738
Expenditures				
Personal services	51,966	51,010	57,000	5,990
Employee benefits	10,140	23,372	10,000	(13,372)
Library	50	256	-	(256)
Contractual services	117,695	69,794	40,000	(29,794)
Commodities	6,881	8,117	25,000	16,883
Capital Outlay	10,747	2,628	25,000	22,372
Street Maintenance	16,448	6,334	35,000	28,666
Operating transfers				
Industrial funds	3,000	-	-	-
Library	-	-	1,000	1,000
Total expenditures and transfers	216,927	161,511	\$ 193,000	\$ 31,489
Subject to budget				

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

CITY OF LUCAS, KANSAS

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)

GENERAL FUND

Statement 3
1 of 11

	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Expenditures (continued)				
Total expenditures and transfers	<u>216,927</u>	<u>161,511</u>		
Receipts over (under) expenditures	(12,592)	25,509		
Unencumbered cash balance, January 1	<u>19,043</u>	<u>6,451</u>		
Unencumbered cash balance, December 31	<u>\$ 6,451</u>	<u>\$ 31,960</u>		

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

CITY OF LUCAS, KANSAS

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)

LIBRARY FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Ad valorem tax	\$ 5,394	\$ 5,143	\$ 5,303	\$ (160)
Delinquent tax	177	97	-	97
Motor vehicle tax	1,091	1,206	1,304	(98)
State Aid	<u>230</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash receipts	<u>6,892</u>	<u>6,446</u>	<u>\$ 6,607</u>	<u>\$ (161)</u>
Expenditures				
Appropriations	6,892	6,446	6,730	284
SUI Expense	<u>62</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,954</u>	<u>6,446</u>	<u>\$ 6,730</u>	<u>\$ 284</u>
Receipts over (under) expenditures	(62)	-		
Unencumbered cash balance, January 1	<u>132</u>	<u>70</u>		
Unencumbered cash balance, December 31	<u>\$ 70</u>	<u>\$ 70</u>		

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

CITY OF LUCAS, KANSAS

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)

AIRPORT FUND

Statement 3
3 of 11

	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Ad valorem tax	\$ 1,486	\$ 1,513	\$ 1,560	\$ (47)
Motor vehicle tax	305	329	359	(30)
Delinquent tax	65	27	-	27
Miscellaneous income	225	-	300	(300)
Grant Proceeds	-	-	60,000	(60,000)
Operating Transfer Water	2,000	-	-	-
Total cash receipts	4,081	1,869	\$ 62,219	\$ (60,350)
Expenditures				
Maintenance	6,550	-	1,000	1,000
Insurance	1,853	1,853	2,500	647
Miscellaneous	590	50	-	(50)
Capital Outlay	-	-	64,100	64,100
Total expenditures	8,993	1,903	\$ 67,600	\$ 65,697
Receipts over (under) expenditures	(4,912)	(34)		
Unencumbered cash balance, January 1	5,785	873		
Unencumbered cash balance, December 31	\$ 873	\$ 839		

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

CITY OF LUCAS, KANSAS

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)

INDUSTRIAL DEVELOPMENT FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Ad valorem tax	\$ 4,430	\$ 4,298	\$ 4,432	\$ (134)
Motor vehicle tax	876	969	1,072	(103)
Delinquent tax	148	80	-	80
Interest	-	231	-	231
Operating Transfers				
General	3,000	-	-	-
Electric Utility	-	3,500	3,500	-
Total cash receipts	<u>8,454</u>	<u>9,078</u>	<u>\$ 9,004</u>	<u>\$ 74</u>
Expenditures				
Contractual services	1,833	-	2,000	2,000
Chamber of Commerce	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total expenditures and transfers	<u>11,833</u>	<u>10,000</u>	<u>\$ 12,000</u>	<u>\$ 2,000</u>
Total expenditures and transfers	<u>11,833</u>	<u>10,000</u>		
Receipts over (under) expenditures	(3,379)	(922)		
Unencumbered cash balance, January 1	<u>4,546</u>	<u>1,167</u>		
Unencumbered cash balance, December 31	<u>\$ 1,167</u>	<u>\$ 245</u>		

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

CITY OF LUCAS, KANSAS

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)

SPECIAL HIGHWAY FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
State of Kansas	\$ 10,957	\$ 10,438	\$ 15,000	\$ (4,562)
Total cash receipts	<u>10,957</u>	<u>10,438</u>	<u>\$ 15,000</u>	<u>\$ (4,562)</u>
Expenditures				
Street Repair & Maintenance	<u>23,811</u>	<u>5,196</u>	<u>25,000</u>	<u>19,804</u>
Total expenditures	<u>23,811</u>	<u>5,196</u>	<u>\$ 25,000</u>	<u>\$ 19,804</u>
Receipts over expenditures	(12,854)	5,242		
Unencumbered cash balance, January 1	<u>12,960</u>	<u>106</u>		
Unencumbered cash balance, December 31	<u>\$ 106</u>	<u>\$ 5,348</u>		

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

CITY OF LUCAS, KANSAS

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)

BOND AND INTEREST FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Operating Transfers				
Electric Fund	\$ -	\$ -	\$ 21,330	\$ (21,330)
Total cash receipts	-	-	\$ 21,330	\$ (21,330)
Expenditures				
Principal	-	-	19,522	19,522
Interest	-	-	1,809	1,809
Transfer				
Water	444	-	-	-
Total expenditures	444	-	\$ 21,331	\$ 21,331
Receipts over expenditures	(444)	-		
Unencumbered cash balance, January 1	444	-		
Unencumbered cash balance, December 31	\$ -	\$ -		

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

CITY OF LUCAS, KANSAS

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)

Statement 3

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MCCRystal TRUST FUND

	Prior Year Actual	Current Year Actual
Cash receipts		
Donation	\$ -	\$ 6,724
Total cash receipts	-	6,724
Expenditures		
Disbursements	-	4,964
Total expenditures	-	4,964
Receipts over expenditures	-	1,760
Unencumbered cash balance, January 1	-	-
Unencumbered cash balance, December 31	\$ -	\$ 1,760

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

CITY OF LUCAS, KANSAS

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)

ELECTRIC UTILITY

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Interest	\$ 2,602	\$ 3,238	\$ 3,000	\$ 238
Sales	472,683	501,298	590,000	(88,702)
Miscellaneous	9,504	-	-	-
Total cash receipts	<u>484,789</u>	<u>504,536</u>	<u>\$ 593,000</u>	<u>\$ (88,464)</u>
Expenditures				
Personal services	94,136	82,691	85,000	2,309
Contractual	330,482	368,322	350,000	(18,322)
Commodities	14,341	11,887	60,000	48,113
Capital outlay	-	-	267,971	267,971
Debt Payment	21,329	21,329	-	(21,329)
Operating transfers				
General	-	45,000	25,000	(20,000)
Debt Service	-	-	21,330	21,330
Industrial	<u>40,000</u>	<u>3,500</u>	<u>3,500</u>	<u>-</u>
Total Expenditures	<u>500,288</u>	<u>532,729</u>	<u>\$ 812,801</u>	<u>\$ 280,072</u>
Receipts over (under) expenditures	(15,499)	(28,193)		
Unencumbered cash balance, January 1	<u>202,922</u>	<u>187,423</u>		
Unencumbered cash balance, December 31	<u>\$ 187,423</u>	<u>\$ 159,230</u>		

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

CITY OF LUCAS, KANSAS

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)

SEWER UTILITY FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Sales	\$ 22,986	\$ 23,580	\$ 30,000	\$ (6,420)
Total cash receipts	<u>22,986</u>	<u>23,580</u>	<u>\$ 30,000</u>	<u>\$ (6,420)</u>
Expenditures				
Personal services	12	5,434	12,000	6,566
Contractual services	15,594	2,574	5,000	2,426
Commodities	4,347	5,244	15,000	9,756
Capital outlay	-	-	48,018	48,018
Operating transfers				
General	<u>7,312</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>27,265</u>	<u>13,252</u>	<u>\$ 80,018</u>	<u>\$ 66,766</u>
Receipts over (under) expenditures	<u>(4,279)</u>	<u>10,328</u>		
Unencumbered cash balance, January 1	<u>59,019</u>	<u>54,740</u>		
Unencumbered cash balance, December 31	<u>\$ 54,740</u>	<u>\$ 65,068</u>		

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

CITY OF LUCAS, KANSAS

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)

WATER UTILITY FUND

Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
		Actual	Budget	
Cash receipts				
Sales	\$ 74,104	\$ 80,289	\$ 95,000	\$ (14,711)
Connection Fees	1,475	1,650	-	1,650
Operating Transfers				
Bond & Interest	444	-	-	-
Total cash receipts	<u>76,023</u>	<u>81,939</u>	<u>\$ 95,000</u>	<u>\$ (13,061)</u>
Expenditures				
Personal services	42,454	27,171	45,000	17,829
Contractual	25,644	21,090	15,000	(6,090)
Commodities	1,972	5,656	40,000	34,344
Capital outlay	378	10	22,215	22,205
Operating transfers				
Airport	2,000	-	-	-
Total expenditures and transfers	<u>72,448</u>	<u>53,927</u>	<u>\$ 122,215</u>	<u>\$ 68,288</u>
Receipts over (under) expenditures	3,575	28,012		
Unencumbered cash balance, January 1	<u>27,167</u>	<u>30,742</u>		
Unencumbered cash balance, December 31	<u>\$ 30,742</u>	<u>\$ 58,754</u>		

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

CITY OF LUCAS, KANSAS

**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)**

SANITATION UTILITY FUND

**Statement 3
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	Prior Year Actual	Current Year		Variance Under (Over)
	Actual	Actual	Budget	
Cash receipts				
Collections	\$ 41,217	\$ 45,093	\$ 52,500	\$ (7,407)
Expenditures				
Contractual services	40,614	44,181	74,592	30,411
Total expenditures	40,614	44,181	\$ 74,592	\$ 30,411
Receipts over (under) expenditures	603	912		
Unencumbered cash balance, January 1	12,077	12,680		
Unencumbered cash balance, December 31	\$ 12,680	\$ 13,592		

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

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lucas, located in Russell County, Kansas, was incorporated in the late 1880's. The City is governed under the Mayor-Council form of government. Lucas engages in a minimal range of municipal services, including general government administration, water, sewer, electric, and refuse services for the residents of the City of Lucas. The City is a Kansas municipal corporation with a six member city Council comprised of the Mayor and five at large members.

The Reporting Entity

The City has oversight responsibility for other governmental entities (component units) since the other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing boards.

The City's financial statements include only the accounts of the primary government and not its component units.

The following component unit has not been examined by certified public accountants.

Lucas Library

The City of Lucas' Public 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.

Fund Accounting

The financial transactions and accounts of the City are organized on the basis of funds or account groups. The operation of each fund or account group is considered to be an independent fiscal and separate 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.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental Funds:

Governmental Funds are those through which most governmental functions typically are financed.

1. General Fund

The General Fund is the general operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

2. Special Revenue Funds

Special Revenue Funds account for revenue derived from specific sources (other than major capital projects) which are restricted by legal and regulatory provisions to finance specific activities.

3. Debt Service Fund

The Debt Service Fund was established to account for the accumulation and disbursement of resources for payment of principal and interest on all general obligation debt.

4. Capital Projects Funds

The Capital Projects Funds account for all financial resources used for the acquisition or construction of major capital assets.

Proprietary Funds:

Proprietary Funds are used to account for activities which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business activities are accounted for through proprietary funds.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Enterprise Fund

The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

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 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 municipality 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 municipality to use the statutory basis of accounting.

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

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund 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

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Reimbursements

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

NOTE B – BUDGETARY INFORMATION

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

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

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE B – BUDGETARY INFORMATION – CONTINUED

local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

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

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.

NOTE C – PROPERTY TAXES

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County appraiser annually determines assessed valuations based on real estate transactions recorded by the Register of Deeds and personal property transactions reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county.

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Property taxes are assessed on a calendar year basis and become a lien on property on November 1 of each year. The taxes are due one-half on December 20th and one-half the following May 10th. Any taxes unpaid at the due dates are considered delinquent.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE C – PROPERTY TAXES – CONTINUED

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

Undistributed taxes from the prior year levy are recognized as income in the current year. It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material to the financial statements taken as a whole.

NOTE D – DEPOSITS & INVESTMENTS

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

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

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

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

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE D – DEPOSITS & INVESTMENTS – CONTINUED

Loan Bank of Topeka, except during designated “peak periods” when required coverage is 50%. In 2011, the City did not enter into any peak depository agreement. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City’s carrying value of deposits was \$376,655, and the bank balance was \$386,788. The bank 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 \$136,788 was collateralized with securities held by the pledging financial institutions’ agent in the City’s name.

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

NOTE E – DEFINED BENEFIT PENSION PLAN

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

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for employees hired before July 1, 2009. The member-employee contribution rate is 6% of covered salary for employees hired after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for January through March and July through December 31, 2011 was 7.74%. The rate for the months of April through June of 2011 was 6.74%. The City of Lucas employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$9,488, \$8,361, and \$5,245 respectively, equal to the required contributions for each year.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE F – 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.

NOTE G – INTERFUND TRANSACTIONS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Electric Utility	General	KSA 12-825d	\$ 45,000
Electric Utility	Industrial	KSA 12-825d	3,500

NOTE H – COMPENSATED ABSENCES

The City's employees have accumulated 698.6 hours of sick leave and 258.96 hours of vacation as of December 31, 2011. Accumulated sick leave benefits are estimated at \$10,419 and accumulated vacation benefits are estimated at \$3,993 for a total estimated liability for compensated absences of \$14,412.

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE J – CONTINGENT LIABILITIES

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE K – COMPARATIVE DATA

The amounts shown for 2010 in the accompanying financial statements are included only to provide a basis for comparison with 2011 and are not intended to present all information necessary for a fair presentation. Certain amounts for 2010 may have been restated to conform with the presentation of similar amounts for 2011.

NOTE L – RELATED PARTY TRANSACTIONS

In a governmental entity, related parties include members of the governing body, board members, administrative officials, and immediate families of administrative officials, board members, and members of the governing body. Required disclosures on related party transactions do not include compensation arrangements, expense allowance and similar items incurred in the ordinary course of operations. The following are not required to be reported, but are presented for information only.

	<u>2011</u>
Lucas Area Chamber of Commerce Tarry Dougherty, Council Member's spouse is an employee of Chamber.	\$10,050
Leach & Naegele Trent Leach, Council Member is an owner of the company.	6,206
United States Postal Service Tamera Seirer, Council Member is the postmaster.	1,584
Bennington State Bank Trent Leach, Council Member's spouse is an employee of company.	360

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE M – SUBSEQUENT EVENTS

Management has evaluated the effects of the financial statements of subsequent events occurring through August 9, 2012 which is the date at which the financial statements were available to be issued.

NOTE N – GRANTS

The City has partnered with the Grass Roots Art Center to build a public restroom with an artistic attraction. The total cost of the project is estimated to be \$117,500. Land was donated in April of 2009 to the City for the public restroom. The City's estimated share of the project is \$60,500 plus in-kind labor of \$15,000. The City was awarded a Kansas attraction Development Grant in the amount of \$43,000 and a Kansas Arts Commission Grant in the amount of \$7,500 to help fund the project. The City has expended a total of \$82,485.

On December 22, 2011 the City of Lucas was awarded a grant from the Kansas Department of Transportation (KDOT). The grant will be used to repair and seal airfield pavements at the airport. KDOT will fund 90% of the project up to a maximum amount of \$29,412, with the total project cost being \$32,680. The project will be completed in 2012.

NOTE O – INDUSTRIAL REVENUE BONDS

K.S.A. 12-1740 authorizes the City to issue Industrial Revenue Bonds to acquire, remodel, improve and equip certain facilities for commercial and industrial purposes and to enter into leases and lease-purchase agreements with any firm or corporation for such facilities.

In December 2007, the council approved Ordinance No. 372 authorizing the City to issue IRB's Series A, 2007 and Series B, 2007 (Great Plains Manufacturing, Inc.) in the aggregate principal amount of \$2,100,000. The City will accept ownership of the property and will lease it back to Great Plains Manufacturing, Inc. At the end of 2011 the principal balance of bond issuance Great Plains 07A was \$1,087,252 and bond issuance Great Plains 07B was \$246,491. The City, as issuer, has no obligation for the debt beyond the resources received from the third party.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2011

NOTE P – USES OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE Q – ESTABLISHMENT OF NEW FUNDS

On June 14, 2011 the council established the Robert J. McCrystal Trust Special Fund. The revenue received in this fund will come from the Trustees of the Robert J. McCrystal Testamentary Trust. The money shall only be paid out or distributed at the direction of the governing body for the purposes of extending public services or public facilities in the City and enhancing the quality of life in Lucas.

NOTE R – LONG-TERM DEBT

In April 2009, the City accepted a loan in the amount of \$100,000 from the Kansas Partnership Loan Fund. The loan is a five year loan with an initial interest rate of 2.375%. Each year on January 15, the interest rate resets. In 2011 the rate was .25%. The amortization schedule is shown using the 2.375% interest rate. The loan proceeds covered the expenses spent in 2008 for the expansion of transformers for the Great Plains Manufacturing area.

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

NOTE R - LONG-TERM DEBT - CONTINUED

Changes in long-term liabilities for the City of Lucas 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 Changes	Balance End of Year	Interest Paid
Kansas Dept of Commerce	2.375%	07/01/09	\$ 100,000	06/15/14	<u>\$ 80,933</u>	<u>\$ -</u>	<u>\$ 21,142</u>	<u>\$ (21,142)</u>	<u>\$ 59,791</u>	<u>\$ 188</u>
Compensated Absences	N/A	N/A	N/A	N/A	<u>11,174</u>	<u>3,238</u>	<u>-</u>	<u>3,238</u>	<u>14,412</u>	N/A
Total Long-Term Debt					<u>\$ 92,107</u>	<u>\$ 3,238</u>	<u>\$ 21,142</u>	<u>\$ (17,904)</u>	<u>\$ 74,203</u>	<u>\$ 188</u>

N/A - Not Applicable

CITY OF LUCAS, KANSAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

NOTE R - 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:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
PRINCIPAL				
Kansas Dept. of Commerce	\$ 21,191	\$ 20,534	\$ 18,066	\$ 59,791
INTEREST				
Kansas Dept. of Commerce	<u>138</u>	<u>796</u>	<u>305</u>	<u>1,239</u>
TOTAL PRINCIPAL AND INTEREST	<u>\$ 21,329</u>	<u>\$ 21,330</u>	<u>\$ 18,371</u>	<u>\$ 61,030</u>