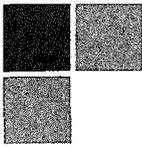


CITY OF PRETTY PRAIRIE, KANSAS

Primary Government Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2011



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Pretty Prairie, Kansas
Pretty Prairie, Kansas

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

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. Because of this departure from accounting principles generally accepted in the United States of America, the cash and unencumbered cash balances of the discretely presented component unit can not be determined but are presumed to be material for the Public Library.

As described more fully in Note 1, **City of Pretty Prairie, 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 accounting principles generally accepted in the United States of America, the financial position of **City of Pretty Prairie, Kansas**, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Pretty Prairie, 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.

Adams, Brown, Beran Ball

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

December 03, 2012

CITY OF PRETTY PRAIRIE, KANSAS
Primary Government Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2011

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CITY OF PRETTY PRAIRIE, 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	\$ 3,347	-	234,886	258,229	(19,996)	5,028	(14,968)
Special Revenue Funds							
Library Fund	425	-	5,941	5,946	420	-	420
Ambulance/Police/Fire Fund	107	-	5,883	3,516	2,474	-	2,474
Civic Theater Fund	4,113	-	11,132	12,996	2,249	-	2,249
Special Highway Fund	844	-	19,614	15,195	5,263	-	5,263
Golf Course Fund	847	-	5,793	5,726	914	-	914
Wheatridge Addition Fund	15,403	-	20,440	17,562	18,281	-	18,281
Municipal Equipment Reserve Fund	1,134	-	3,000	-	4,134	-	4,134
Capital Project Fund							
CDBG Fund	-	-	75,000	349,397	(274,397)	300,981	26,584
Proprietary Fund Category							
Enterprise Funds							
Refuse Utility Fund	3,344	-	48,076	51,973	(553)	3,909	3,356
Ambulance Fund	2,683	-	41,157	39,321	4,519	2,550	7,069
Ambulance Equipment Reserve Fund	1,199	-	575	800	974	-	974
Sewer Utility Fund	1,132	-	96,910	95,103	2,939	1,350	4,289
Water Utility Fund	3,701	-	102,586	93,636	12,651	-	12,651
Water and Sewer Reserve Fund	10,255	-	65,033	51,256	24,032	17,780	41,812
1999 Revenue Bond Fund	7,491	-	11,040	10,953	7,578	-	7,578
2006 Sewer Revenue Bond Fund	409	-	38,400	37,991	818	-	818
2008 Water Tower Revenue Bond Fund	2,953	-	3,300	2,962	3,291	-	3,291
2008 Sewer Line Revenue Bond Fund	1,326	-	8,200	5,179	4,347	-	4,347
Water Meter Capital Lease Fund	6,819	-	1,350	8,169	-	-	-
Fiduciary Fund Category							
Private Purpose Trust Fund							
Water Deposit Fund	10,251	-	1,500	2,379	9,372	-	9,372
Total Reporting Entity	\$ 77,783	-	799,816	1,068,289	(190,690)	331,598	140,908
Composition of Cash							
						Checking Accounts	\$ 75,421
						Savings Account	487
						Certificate of Deposit	65,000
Total Primary Government (Excluding Component Unit)						\$	140,908

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

CITY OF PRETTY PRAIRIE, 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	\$ 229,917	15,396	245,313	258,229	12,916
Special Revenue Funds					
Library Fund	6,015	-	6,015	5,946	(69)
Ambulance/Police/Fire Fund	6,300	-	6,300	3,516	(2,784)
Civic Theater Fund	24,980	-	24,980	12,996	(11,984)
Special Highway Fund	18,598	-	18,598	15,195	(3,403)
Golf Course Fund	20,599	-	20,599	5,726	(14,873)
Wheatridge Addition Fund	17,562	-	17,562	17,562	-
Proprietary Fund Category					
Enterprise Funds					
Refuse Utility Fund	48,102	-	48,102	51,973	3,871
Ambulance Fund	52,053	-	52,053	39,321	(12,732)
Ambulance Equipment Reserve Fund	6,500	-	6,500	800	(5,700)
Sewer Utility Fund	95,250	-	95,250	95,103	(147)
Water Utility Fund	93,662	-	93,662	93,636	(26)
Water and Sewer Reserve Fund	35,161	-	35,161	51,256	16,095
1999 Revenue Bond Fund	10,950	-	10,950	10,953	3
2006 Sewer Revenue Bond Fund	36,737	-	36,737	37,991	1,254
2008 Water Tower Revenue Bond Fund	3,000	-	3,000	2,962	(38)
2008 Sewer Line Revenue Bond Fund	5,177	-	5,177	5,179	2
Water Meter Capital Lease Fund	8,066	-	8,066	8,169	103

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

CITY OF PRETTY PRAIRIE, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Taxes and Shared Revenues			
Taxes	\$ 125,099	129,926	(4,827)
Local Sales and Use Tax	67,170	70,000	(2,830)
Local Alcohol Liquor Tax	2,216	2,081	135
Franchise Fees	15,021	14,200	821
Fees, Permits, Rentals, Fines, and Other	612	2,125	(1,513)
Library	981	2,067	(1,086)
Interest	433	2,500	(2,067)
Reimbursed Expenses	11,025	5,000	6,025
Insurance Proceeds	6,371	-	6,371
Federal Aid	3,000	-	3,000
Miscellaneous	2,958	2,500	458
Total Cash Receipts	234,886	230,399	4,487
Expenditures			
General Administrative			
Personnel	59,772	30,850	28,922
Contractual	95,757	15,500	80,257
Commodities	25,655	12,500	13,155
Capital Outlay	1,493	21,000	(19,507)
Transfers Out	3,000	6,000	(3,000)
Street Improvements	-	55,000	(55,000)
Employee Benefits	47,679	46,100	1,579
General Streetlights	7,767	7,400	367
Principal	12,352	35,567	(23,215)
Interest and Fees	4,754	-	4,754
(a) Adjustment for Qualifying Budget Credits	-	15,396	(15,396)
Total Expenditures	258,229	245,313	12,916
Cash Receipts Over (Under) Expenditures	(23,343)		
Unencumbered Cash - Beginning	3,347		
Unencumbered Cash - Ending	\$ (19,996)		
(a) Adjustment for Qualifying Budget Credits			
Reimbursed Expenses Over Amount Budgeted		\$ 6,025	
Insurance Proceeds Over Amount Budgeted		6,371	
Miscellaneous Over Amount Budgeted		3,000	
Total		15,396	

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

CITY OF PRETTY PRAIRIE, KANSAS
Library Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Taxes	\$ 5,941	<u>5,947</u>	<u>(6)</u>
Expenditures			
Contractual	<u>5,946</u>	<u>6,015</u>	<u>(69)</u>
Cash Receipts Over (Under) Expenditures	(5)		
Unencumbered Cash - Beginning	<u>425</u>		
Unencumbered Cash - Ending	<u>\$ 420</u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance/Police/Fire Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Taxes	\$ 5,883	5,940	(57)
Expenditures			
Personnel	1,955	-	1,955
Contractual	850	1,400	(550)
Commodities	136	-	136
Capital Outlay	-	1,400	(1,400)
Transfers Out	575	3,500	(2,925)
Total Expenditures	3,516	6,300	(2,784)
Cash Receipts Over (Under) Expenditures	2,367		
Unencumbered Cash - Beginning	107		
Unencumbered Cash - Ending	\$ 2,474		

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

CITY OF PRETTY PRAIRIE, KANSAS
Civic Theater Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Taxes	\$ 6,362	6,000	362
Contributions	1,120	12,000	(10,880)
Gate Receipts	3,650	6,575	(2,925)
Total Cash Receipts	11,132	24,575	(13,443)
Expenditures			
Contractual	4,235	15,000	(10,765)
Commodities	3,481	3,200	281
Capital Outlay	-	1,500	(1,500)
Principal	3,000	5,280	(2,280)
Interest and Fees	2,280	-	2,280
Total Expenditures	12,996	24,980	(11,984)
Cash Receipts Over (Under) Expenditures	(1,864)		
Unencumbered Cash - Beginning	4,113		
Unencumbered Cash - Ending	\$ 2,249		

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

CITY OF PRETTY PRAIRIE, KANSAS
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
City-County Highway Fund	\$ 18,515	16,370	2,145
County Gas Tax	644	2,190	(1,546)
Miscellaneous	455	-	455
Total Cash Receipts	19,614	18,560	1,054
Expenditures			
Personnel	5,348	6,000	(652)
Contractual	4,888	1,500	3,388
Commodities	4,959	5,000	(41)
Street Improvements	-	6,098	(6,098)
Total Expenditures	15,195	18,598	(3,403)
Cash Receipts Over (Under) Expenditures	4,419		
Unencumbered Cash - Beginning	844		
Unencumbered Cash - Ending	\$ 5,263		

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

CITY OF PRETTY PRAIRIE, KANSAS
Golf Course Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Fees	\$ 5,793	12,000	(6,207)
Expenditures			
Commodities	2,479	-	2,479
Capital Outlay	-	20,599	(20,599)
Principal	2,700	-	2,700
Interest and Fees	547	-	547
Total Expenditures	5,726	20,599	(14,873)
Cash Receipts Over (Under) Expenditures	67		
Unencumbered Cash - Beginning	847		
Unencumbered Cash - Ending	\$ 914		

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

CITY OF PRETTY PRAIRIE, KANSAS
Wheatridge Addition Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Special Assessments	\$ 6,880	8,851	(1,971)
Transfers In	<u>13,560</u>	<u>8,711</u>	<u>4,849</u>
Total Cash Receipts	<u>20,440</u>	<u>17,562</u>	<u>2,878</u>
Expenditures			
Principal	11,000	17,562	(6,562)
Interest and Fees	<u>6,562</u>	<u>-</u>	<u>6,562</u>
Total Expenditures	<u>17,562</u>	<u>17,562</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	2,878		
Unencumbered Cash - Beginning	<u>15,403</u>		
Unencumbered Cash - Ending	<u>\$ 18,281</u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
Municipal Equipment Reserve Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011

	<u>Current Year Actual</u>
Cash Receipts	
Transfers In	\$ 3,000
Expenditures	<u>-</u>
Cash Receipts Over (Under) Expenditures	3,000
Unencumbered Cash - Beginning	<u>1,134</u>
Unencumbered Cash - Ending	<u>\$ 4,134</u>

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

CITY OF PRETTY PRAIRIE, KANSAS
CDBG Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011

	<u>Current Year Actual</u>
Cash Receipts	
Temporary Note	\$ 75,000
Expenditures	
Capital Outlay	<u>349,397</u>
Cash Receipts Over (Under) Expenditures	(274,397)
Unencumbered Cash - Beginning	<u>-</u>
Unencumbered Cash - Ending	\$ <u>(274,397)</u>

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

CITY OF PRETTY PRAIRIE, KANSAS
Refuse Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Refuse Charges	\$ 48,076	47,581	495
Expenditures			
Contractual	51,973	46,602	5,371
Commodities	-	1,500	(1,500)
Total Expenditures	51,973	48,102	3,871
Cash Receipts Over (Under) Expenditures	(3,897)		
Unencumbered Cash - Beginning	3,344		
Unencumbered Cash - Ending	\$ (553)		

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

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Ambulance Runs	\$ 41,156	50,000	(8,844)
Interest	1	-	1
Miscellaneous	-	3,500	(3,500)
Total Cash Receipts	41,157	53,500	(12,343)
Expenditures			
Personnel	8,542	10,000	(1,458)
Contractual	13,826	15,000	(1,174)
Commodities	4,759	5,000	(241)
Capital Outlay	-	10,000	(10,000)
Principal	10,343	12,053	(1,710)
Interest and Fees	1,710	-	1,710
Miscellaneous	141	-	141
Total Expenditures	39,321	52,053	(12,732)
Cash Receipts Over (Under) Expenditures	1,836		
Unencumbered Cash - Beginning	2,683		
Unencumbered Cash - Ending	\$ 4,519		

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

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ 575	<u>3,500</u>	<u>(2,925)</u>
Expenditures			
Capital Outlay	<u>800</u>	<u>6,500</u>	<u>(5,700)</u>
Cash Receipts Over (Under) Expenditures	(225)		
Unencumbered Cash - Beginning	<u>1,199</u>		
Unencumbered Cash - Ending	\$ <u>974</u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
Sewer Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Service Charges	\$ 92,023	90,000	2,023
Transfers In	4,887	5,000	(113)
Total Cash Receipts	96,910	95,000	1,910
Expenditures			
Personnel	10,266	14,000	(3,734)
Contractual	21,486	12,000	9,486
Commodities	2,840	5,000	(2,160)
Capital Outlay	-	2,000	(2,000)
Transfers Out	60,511	62,250	(1,739)
Total Expenditures	95,103	95,250	(147)
Cash Receipts Over (Under) Expenditures	1,807		
Unencumbered Cash - Beginning	1,132		
Unencumbered Cash - Ending	\$ 2,939		

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

CITY OF PRETTY PRAIRIE, KANSAS
Water Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Water Sales	\$ 98,626	91,250	7,376
Sales Tax	999	912	87
Connections	500	500	-
Meters	-	500	(500)
Transfers In	2,461	500	1,961
Total Cash Receipts	102,586	93,662	8,924
Expenditures			
Personnel	17,312	25,000	(7,688)
Contractual	17,377	15,000	2,377
Commodities	5,975	8,000	(2,025)
Capital Outlay	-	8,000	(8,000)
Transfers Out	52,972	37,662	15,310
Total Expenditures	93,636	93,662	(26)
Cash Receipts Over (Under) Expenditures	8,950		
Unencumbered Cash - Beginning	3,701		
Unencumbered Cash - Ending	\$ 12,651		

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

CITY OF PRETTY PRAIRIE, KANSAS
Water and Sewer Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ <u>65,033</u>	<u>44,935</u>	<u>20,098</u>
Expenditures			
Personnel	-	2,000	(2,000)
Contractual	-	4,000	(4,000)
Commodities	614	-	614
Capital Outlay	17,780	4,000	13,780
Transfers Out	<u>32,862</u>	<u>25,161</u>	<u>7,701</u>
Total Expenditures	<u>51,256</u>	<u>35,161</u>	<u>16,095</u>
Cash Receipts Over (Under) Expenditures	13,777		
Unencumbered Cash - Beginning	<u>10,255</u>		
Unencumbered Cash - Ending	<u>\$ <u>24,032</u></u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
1999 Revenue Bond Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ <u>11,040</u>	<u>10,950</u>	<u>90</u>
Expenditures			
Principal	8,000	10,950	(2,950)
Interest and Fees	<u>2,953</u>	<u>-</u>	<u>2,953</u>
Total Expenditures	<u>10,953</u>	<u>10,950</u>	<u>3</u>
Cash Receipts Over (Under) Expenditures	87		
Unencumbered Cash - Beginning	<u>7,491</u>		
Unencumbered Cash - Ending	\$ <u><u>7,578</u></u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
2006 Sewer Revenue Bond Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ 38,400	38,400	-
Expenditures			
Principal	25,089	36,737	(11,648)
Interest and Fees	12,902	-	12,902
Total Expenditures	37,991	36,737	1,254
Cash Receipts Over (Under) Expenditures	409		
Unencumbered Cash - Beginning	409		
Unencumbered Cash - Ending	\$ 818		

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

CITY OF PRETTY PRAIRIE, KANSAS
2008 Water Tower Revenue Bond Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ 3,300	3,300	-
Expenditures			
Principal	2,000	3,000	(1,000)
Interest	962	-	962
Total Expenditures	2,962	3,000	(38)
Cash Receipts Over (Under) Expenditures	338		
Unencumbered Cash - Beginning	2,953		
Unencumbered Cash - Ending	\$ 3,291		

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

CITY OF PRETTY PRAIRIE, KANSAS
2008 Sewer Line Revenue Bond Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ <u>8,200</u>	<u>5,177</u>	<u>3,023</u>
Expenditures			
Principal	2,000	5,177	(3,177)
Interest	<u>3,179</u>	-	<u>3,179</u>
Total Expenditures	<u>5,179</u>	<u>5,177</u>	<u>2</u>
Cash Receipts Over (Under) Expenditures	3,021		
Unencumbered Cash - Beginning	<u>1,326</u>		
Unencumbered Cash - Ending	\$ <u>4,347</u>		

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

CITY OF PRETTY PRAIRIE, KANSAS
Water Meter Capital Lease Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Transfers In	\$ 1,350	8,100	(6,750)
Expenditures			
Principal	7,654	8,066	(412)
Interest	412	-	412
Transfers Out	103	-	103
Total Expenditures	8,169	8,066	103
Cash Receipts Over (Under) Expenditures	(6,819)		
Unencumbered Cash - Beginning	6,819		
Unencumbered Cash - Ending	\$ -		

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

CITY OF PRETTY PRAIRIE, KANSAS
Water Deposit Fund
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011

	<u>Current Year Actual</u>
Cash Receipts	
Deposits	\$ <u>1,500</u>
Expenditures	
Refunds	596
Transfers Out	<u>1,783</u>
Total Expenditures	<u>2,379</u>
Cash Receipts Over (Under) Expenditures	(879)
Unencumbered Cash - Beginning	<u>10,251</u>
Unencumbered Cash - Ending	<u>\$ <u>9,372</u></u>

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

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Pretty Prairie, 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 Mayor and an elected five-member council. The financial statements of the City consist of all the funds of the City that 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 board.

The following is a component unit of **City of Pretty Prairie, Kansas**. The City exercises significant influence or accountability based primarily on operational or financial relationship with the City. The component unit is not included in the City's financial statements.

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. Their financial statements are not included in this report. Contact the Treasurer for information on how to obtain their financial information.

The City is the primary government as defined in GASB #14 and further amended by GASB #39. The City Council is elected by the public. The Council has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

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 category of funds comprises 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.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Project Fund – 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 appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Category

Private Purpose Trust Funds – to account for assets held by the City as trustee or agent for others. The principal and income of these funds may be expended in the course of the fund's designated operations.

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 expenditures 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 noncash 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-

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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.

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 were three such budget amendments for this year in the 2006 Sewer Revenue Bond Fund, 1999 Revenue Bond Fund and 2008 Sewer Line Revenue Bond 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, permanent funds, and the following special revenue funds: Municipal Equipment Reserve Fund.

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.

Deposits and Investments

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

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 other policies that would further limit its investment choices.

Concentration of Credit Risk

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

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 did not use "peak periods" during 2011. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$140,908 and the bank balance was \$146,002. The bank balance was held by one bank resulting in a concentration of credit risk. The bank balance 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 full-time and part-time employees is as follows:

<u>Years Worked</u>	<u>Amount Earned</u>
After 1	8 hours/month
5 - 10	10 hours/month
10 - 15	12 hours/month
Over 15	14 hours/month

Part-time employees who are employed to work not less than 20 hours per week shall receive 4 hours of vacation for each month of employment.

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Each employee shall be entitled to carry over one week of vacation. Upon termination, an employee shall be compensated for all earned but unused vacation at their final rate of pay, subject to the maximum hours of accumulation authorized based on years of service. The City's maximum potential liability for vacation leave at December 31, 2011 was \$3,679. This has been reflected in the financial statements.

Sick Leave

The City's policy regarding sick leave is that full-time employees shall earn eight hours of sick leave for each full month of service. Part-time employees who are employed to work not less than 20 hours per week shall receive 4 hours of sick leave for each month of employment. No full-time employee may accrue more than 720 hours of sick leave. Sick leave is not paid upon termination. The City's maximum potential liability for sick leave at December 31, 2011 was \$4,678 as shown in Note 9 - Long-Term Debt.

Defined Benefit Pension Plan

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. 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% 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 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 calendar year 2011 is 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 \$6,857, \$6,035, and \$6,409, respectively, equal to the required contributions for each year as set forth by the legislature.

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 trust fund of the City for special purposes.

CITY OF PRETTY PRAIRIE, 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 purpose 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 Pretty Prairie, Kansas'** interfund transfers and statutory authority for the year ended December 31, 2011 were as follows:

From	To	Statutory Authority	Amount
Water Deposit Fund	Water Utility Fund	K.S.A. 12-825d	\$ 1,783
Sewer Utility Fund	2008 Sewer Line Revenue Bond Fund	K.S.A. 12-825d	5,400
Sewer Utility Fund	2006 Sewer Revenue Bond Fund	K.S.A. 12-825d	38,400
Sewer Utility Fund	Water and Sewer Reserve Fund	K.S.A. 12-825d	16,711
Water Utility Fund	2008 Water Tower Revenue Bond Fund	K.S.A. 12-825d	3,300
Water Utility Fund	Water Meter Capital Lease Fund	K.S.A. 12-825d	1,350
Water Utility Fund	Water and Sewer Reserve Fund	K.S.A. 12-825d	48,322
Water and Sewer Reserve Fund	1999 Revenue Bond Fund	K.S.A. 12-825d	11,040
Water and Sewer Reserve Fund	Water Utility Fund	K.S.A. 12-825d	575
Water and Sewer Reserve Fund	Wheatridge Addition Fund	K.S.A. 12-825d	13,560
Water and Sewer Reserve Fund	2008 Sewer Line Revenue Bond Fund	K.S.A. 12-825d	2,800
Water and Sewer Reserve Fund	Sewer Utility Fund	K.S.A. 12-825d	4,887
Water Meter Capital Lease	Water Utility Fund	K.S.A. 12-825d	103
Ambulance/Police/Fire Fund	Ambulance Equipment Reserve Fund	K.S.A. 12-110d	575
General Fund	Municipal Equipment Reserve Fund	K.S.A. 12-1,117	3,000

NOTE 3 – CAPITAL PROJECTS

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

	Project Authorization	Cash Disbursements and Accounts Payable To Date
Main Street CDBG Project	\$ 376,855	\$ 349,397

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 4 – LITIGATION

City of Pretty Prairie, 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 Pretty Prairie, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, umbrella, linebacker, workers' compensation and surety bond coverage. 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 Pretty Prairie, 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 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City published incorrect debt balances for December 31, 2011, which is a violation of K.S.A. 12-1608.

The City did not send the bond payments to the state treasurer at least 20 days before the due date, which is a violation of K.S.A. 10-130.

Actual expenditures exceeded budgeted expenditures which is in violation of K.S.A. 79-2935 in the following funds: General Fund (12,916), Refuse Utility Fund (3,871), Water and Sewer Reserve Fund (16,095), 1999 Revenue Bond Fund (3), 2006 Sewer Revenue Bond Fund (1,254), 2008 Sewer Line Revenue Bond Fund (2), and Water Meter Capital Lease Fund (103).

The General Fund and Refuse Fund had a negative cash balance at December 31, 2011 of (19,996) and (553). This is in violation of K.S.A. 10-1113.

NOTE 8 – SUBSEQUENT EVENT

On September 20, 2012 General Obligation Refunding and Improvement Bonds in the amount of \$311,000 were issued to refinance the Temporary Note and three General Obligation Bonds (Building Repairs, Wheatridge Addition and North Elm Street).

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 9 – DEBT RESTRICTIONS AND COVENANTS

KDHE Revolving Loan

City of Pretty Prairie, Kansas entered into a loan agreement with the Kansas Department of Health and Environment for a new continuously discharging waste water stabilization lagoon system, force main and sanitary sewer pumping station. Provisions of the loan agreement make the following requirements for the Water and Sewer Utility Fund to assure profitable operation and timely repayment of debt:

- a. Establishment of a dedicated source of revenue through the Sewer Utility Fund for the repayment of the loan.
- b. Requires that the operation and maintenance of the system be maintained in order to keep the system in good repair, working order and operating condition.
- c. Requires that the City not sell, lease or otherwise transfer ownership of the system.
- d. Requires the City to keep accurate records and accounts for its system separate and distinct from its records and accounts.
- e. Requires the City to carry and maintain a reasonable amount of all-risk insurance on all properties and all operations of its system. The City must also carry general liability insurance in amounts not less than the maximum liability of a governmental entity for claims arising out of a single occurrence, as provided by Kansas Tort Claims Act, K.S.A. 75-6101.

The City is in compliance with the loan provisions as of December 31, 2011.

2008 Series 2008 Sewer Line Bond

During the year ended December 31, 2008, the City issued Sewer Line Bonds in the amount of \$62,000. The bonds were issued for the purpose of providing funds to pay for cost of excavating, repairing and replacing the sewer system of the City. In connection with the bond issue, the City has made certain covenants and agreements to provide for the payment and security thereof. The City is required to meet certain requirements for "Net Revenue," bond reserve accounts, and rate covenants.

For the year ended December 31, 2011, the City had "Net Revenues", as computed under the bond resolution, in the amount of \$57,431. Thus, net revenues were in excess of the 140% of the debt service requirement in the bond resolution.

Sewer Utility Fund	
Revenues	\$ <u>92,023</u>
Total Expenditures per Report	95,103
Transfers Out to Reserve Funds	(60,511)
Debt Payments Out of Other Reserve Funds	<u>19,088</u>
Total Expenditures	<u>53,680</u>
Net Revenues	<u>38,343</u>
Debt Services Requirement for all Electric Light and Waterworks Revenue Bonds	19,088
Requirement x 1.4	<u>26,723</u>
Operating Revenue Exceeding Rate Covenant Requirement	\$ <u>11,620</u>

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 10 – LONG-TERM DEBT

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

General Obligation Bond

On June 12, 2001, the City issued \$54,000 in Theater – Series 2001 A Bonds for the purpose of providing funds for the civic theater renovation.

On September 1, 2003, the City issued \$63,000 in Building Repairs – Series 2003 Bonds for the purpose of building improvements.

On August 22, 2005, the City issued \$176,600 in Wheatridge Addition – Series 2005 Bonds for the Wheatridge Addition.

On October 24, 2006, the City issued \$86,000 in North Elm St – Series 2006 Bonds for the North Elm Street expansion.

Revenue Bonds

The City entered into a \$125,000 revenue bond agreement on November 8, 2002, with the Office of the State Treasurer for the purpose of constructing, installing and equipping certain water and sanitary sewer utility improvements.

The City entered into a \$23,000 revenue bond agreement on June 23, 2008, with the Office of the State Treasurer for the purpose of paying the costs of constructing and improving the City's waterworks and sanitary sewer utility system.

The City entered into a \$62,000 revenue bond agreement on December 9, 2008, with the Office of the State Treasurer for the purpose of providing funds for the improvement of the waterworks and sanitary sewer utility system.

KDHE Revolving Loan

The City entered into a \$596,398 revolving loan agreement on September 15, 2007, with the Kansas Department of Health and Environment for the purpose of providing funds for the construction of a new three-cell continuously discharging wastewater stabilization lagoon system, force main and sanitary sewer pumping station.

Temporary Note

The City entered into a \$75,000 Temporary Note on October 17, 2011, with Citizens Bank of Kansas for the Main Street Improvement Project.

Capital Leases Payable

The City entered into a lease agreement on September 1, 2002 for a golf cart maintenance shed with an option to purchase at the expiration of the lease term. The lease contains a fiscal funding clause.

The City entered into a lease agreement on March 15, 2006 for Sensus meters-touch reading system with an option to purchase at the expiration of the lease term. The lease contains a fiscal funding clause.

The City entered into a lease agreement on July 6, 2009 for a 1997 Toro Mower/Links with an option to purchase at the expiration of the lease term. The lease contains a fiscal funding clause.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 10 – LONG-TERM DEBT (continued)

The City entered into a lease agreement on June 1, 2009 for a 2006 Ford ambulance with an option to purchase at the expiration of the lease term. The lease contains a fiscal funding clause.

The City entered into a lease agreement on December 10, 2010 for a 2011 Chevrolet pickup with an option to purchase at the expiration of the lease term. The lease payments will be paid by the General, Water and Sewer Funds, each one third. The lease contains a fiscal funding clause.

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statements

December 31, 2011

NOTE 9 - 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 2001 Theater	6.00%	06/2001	\$ 54,000	11/2020	38,000	-	3,000		35,000	2,280
Series 2003 Building Repairs	5.00%	09/2003	63,000	09/2014	32,000	-	7,000		25,000	1,600
Series 2005 Wheatrdge Addition	4.10%	08/2005	176,600	08/2021	144,000	-	11,000		133,000	6,562
Series 2006 North Elm St.	4.35%	10/2006	86,000	10/2022	72,489	-	5,352		67,137	3,153
Revenue Bonds										
Series 1999	5.00%	11/2002	125,000	11/2017	61,000	-	8,000		53,000	2,950
Series 2008 Water Tower	5.25%	06/2008	23,000	05/2018	19,300	-	2,000		17,300	961
Series 2008 Sewer Line	5.45%	12/2008	62,000	12/2028	58,300	-	2,000		56,300	3,177
KDHE Loan										
Loan # C20 1399 01	2.57%	09/2007	596,398	03/2027	508,284	-	25,089		483,195	11,648
Temporary Note										
	4.00%	10/2011	75,000		-	75,000	-		75,000	-
Capital Leases Payable										
Golf Cart Maintenance Shed	9.00%	09/2002	27,000	08/2012	5,400	-	2,700		2,700	547
Sensus Touch Read Meters	5.40%	03/2006	34,565	02/2011	7,654	-	7,654		-	411
1997 Toro Mower/Links	4.00%	07/2009	18,384	06/2011	5,832	-	5,832		-	-
2006 Ford Ambulance	3.90%	06/2009	53,807	05/2014	43,853	-	10,343		33,510	1,710
2011 Pickup	4.00%	12/2010	16,587	12/2015	14,099	-	2,600		11,499	572
Total Contractual Indebtedness					1,010,211	75,000	92,570		992,641	35,571
Compensated Absences					3,854			824	4,678	
Total Long-Term Debt					<u>\$ 1,014,065</u>	<u>75,000</u>	<u>92,570</u>	<u>824</u>	<u>997,319</u>	<u>35,571</u>

CITY OF PRETTY PRAIRIE, KANSAS

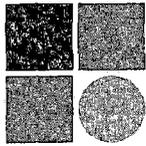
Notes to Financial Statements

December 31, 2011

NOTE 9 - 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	
Principal									
General Obligation Bonds	\$ 27,352	28,352	29,352	20,352	21,352	125,759	7,618	-	260,137
Revenue Bonds	12,200	12,500	12,700	13,000	13,200	33,600	20,000	9,400	126,600
KDHE Loan Payable	25,738	26,403	27,086	27,787	28,506	153,975	174,945	18,755	483,195
Temporary Note Payable	75,000	-	-	-	-	-	-	-	75,000
Capital Leases Payable	16,150	13,980	14,529	3,050	-	-	-	-	47,709
Total Principal	156,440	81,235	83,667	64,189	63,058	313,334	202,563	28,155	992,641
Interest									
General Obligation Bonds	12,408	11,206	9,845	8,466	7,519	20,997	332	-	70,773
Revenue Bonds	6,471	5,842	5,199	4,545	3,874	11,372	5,940	774	44,017
KDHE Loan Payable	11,062	10,461	9,844	9,212	8,563	32,482	13,550	218	95,392
Temporary Note Payable	3,000	-	-	-	-	-	-	-	3,000
Capital Leases Payable	1,775	1,245	697	123	-	-	-	-	3,840
Total Interest	34,716	28,754	25,585	22,346	19,956	64,851	19,822	992	217,022
Total Principal and Interest	\$ 191,156	109,989	109,252	86,535	83,014	378,185	222,385	29,147	1,209,663



Certified
Public
Accountants

December 03, 2012

To the Mayor and City Council
City of Pretty Prairie, Kansas
Pretty Prairie, Kansas

We have audited the financial statements of **City of Pretty Prairie, Kansas** for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 5, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **City of Pretty Prairie, Kansas** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures were corrected by management:

- The City did not pick up a material encumbrance related of over \$300,000 that had an invoice prior to the end of the year.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

City of Pretty Prairie, Kansas

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December 03, 2012

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 03, 2012.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Audit Recommendations

We wish to communicate to the governing body recommendations that we discussed with management to improve operational or administrative efficiencies and for improving internal control.

- Two of the three authorized check signers use signature stamps. These stamps are locked but all check signers can access. We recommend the stamps be in custody of the respective owner.
- Incorrect debt balances were published at December 31, 2011, which is a violation of K.S.A. 12-1608. City officials need to work on calculating the correct amount each quarter.
- The City should spend additional time working on the annual operating budget to work on reducing the number of transfers and mistakes of underallocating expenses which leads to budget violations. The City also needs to work on the fund determination as budgeted funds or non-budgeted funds. Currently the Water and Sewer Reserve Fund is a budgeted fund. Per K.S.A. 12-631p, this is a non-budgeted funds.
- The \$75,000 temporary note to finance the CDBG capital project was originally recorded in the general fund. This resulted in the current year expenditures for the general fund using some of the funds designated for the CDBG project. When the temporary note proceeds and CDBG expenses were removed from the general fund, the general fund had a negative cash balance.

We will review the status of these items during our next audit engagement. We have already discussed many of these items and suggestions with the appropriate personnel and we will be pleased to discuss them in further detail at your convenience. We are also available to perform additional studies of these matters or to assist you in implementing the recommendations.

City of Pretty Prairie, Kansas

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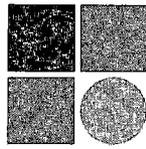
December 03, 2012

This information is intended solely for the use of the Mayor, City Council and management of **City of Pretty Prairie, Kansas** and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants



Certified
Public
Accountants

December 03, 2012

To the Mayor, City Council and Management
City of Pretty Prairie, Kansas
Pretty Prairie, Kansas

In planning and performing our audit of the financial statements of **City of Pretty Prairie, Kansas** as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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 following deficiencies in the City's internal control to be a material weaknesses.

- The City does not have proper segregation of duties necessary to establish a good system of internal control. We understand that the size of the City's accounting and administrative staff and related budget constraints preclude management from hiring additional personnel to achieve proper segregation of duties. However, limited segregation can and should be implemented to reduce the risk of errors or fraud. Where possible, duties should be segregated. Involvement by the Council can also mitigate the risks of error or fraud. The Council should remain involved in the financial affairs of the City to provide oversight and independent review functions.
- The City did not pick up a material encumbrance related of over \$300,000 that had an invoice prior to the end of the year. The City should more closely review any large transactions near the end of year to make sure the transaction is in the proper period.

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 following deficiencies in the City's internal control to be significant deficiencies.

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- Currently, the City utilizes four software packages to track financial information. QuickBooks is used to calculate payroll, Quicken is used to pay invoices, Jay Hawk is used for utility billing and then all of this information is manually combined on Lotus spreadsheets. The current process is an extremely labor intensive process that leaves opportunities for multiple input errors. We recommend that the City utilize the QuickBooks software that they already own for all financial record keeping except the utility billing. QuickBooks can easily be used to record and pay invoices along with calculating and recording payroll. After deposits are entered, all bank reconciliations can be performed in QuickBooks. We encourage management to research the compatibility of the Jay Hawk utility billing software to interface with QuickBooks. Reports can also be exported from QuickBooks to Excel. The City has already purchased Microsoft Excel software, which is the required format for State reporting. The benefits of eliminating multiple accounting software packages include decreased potential for human error, increased staff efficiency, quicker turnaround of financial information, more complete financial records, and more flexibility in generating reports that can be used for timely and accurate decision making by management.
- Statement on Auditing Standard No. 115 (SAS No. 115) requires client personnel responsible for the accounting and reporting function to have the necessary skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or when preparing financial statements. Due to the limited size of the City, it is not practical to hire fully qualified staff to the extent that they possess all the skills in order to apply generally accepted accounting principles when preparing financial statements, including relevant note disclosures. It is important to note the accounting personnel of the City are not expected to have this kind of knowledge. In order to obtain the necessary knowledge, the personnel would have to obtain extensive and continuous training, which is not feasible.

We would like to express our appreciation for the opportunity to perform the December 31, 2011 audit for **City of Pretty Prairie, Kansas** and to the employees for the cooperation and assistance given to us during the audit.

This communication is intended solely for the information and use of management, the City Council, others within the organization, and State of Kansas, and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

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