

CITY OF WATERVILLE
WATERVILLE, KANSAS

FINANCIAL STATEMENTS
DECEMBER 31, 2011

CITY OF WATERVILLE, KANSAS

FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

August 1, 2012

Mayor and City Council
City of Waterville, Kansas

We have audited the accompanying primary government financial statements of the City of Waterville, Kansas (the City), as of and for the year ended December 31, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the financial data of component units of the City of Waterville, Kansas, as of December 31, 2011.

As described in Note 1, the City prepares its financial statements using accounting practices prescribed or permitted by 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.

Mayor and City Council
City of Waterville, Kansas
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In our opinion, the primary government 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 Waterville, Kansas, as of December 31, 2011, and its cash receipts and expenditures compared to budget and changes in long-term debt for the year then ended on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2012 on our consideration of the City of Waterville, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the City Council and management of the City of Waterville, Kansas and for filing with the Kansas Department of Administration, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


James Gordon & Associates CPA, P.A.

CITY OF WATERVILLE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances And Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Type Funds:						
General	\$ 46,134.72	\$ 462,469.09	\$ 455,540.71	\$ 53,063.10	\$ 2,156.95	\$ 55,220.05
Special Revenue Funds:						
Library	267,793.38	25,373.12	27,410.91	265,755.59	530.44	266,286.03
Special Highway	374.26	44,647.78	44,896.82	125.22	-	125.22
Ambulance	123,546.31	71,084.19	91,748.89	102,881.61	2,523.77	105,405.38
Special Machinery (Equip. Reserve)	50,721.33	5,000.00	13,212.91	42,508.42	1,669.84	44,178.26
Historical	12,731.86	14,746.35	6,370.42	21,107.79	109.68	21,217.47
Proprietary Type Funds:						
Enterprise Funds:						
Water Utility	92,276.29	139,526.08	86,742.99	145,059.38	437.75	145,497.13
Lights Utility	297,803.59	709,858.67	796,775.21	210,887.05	51,478.42	262,365.47
Sewer Utility	24,272.87	57,601.06	41,633.79	40,240.14	104.82	40,344.96
Total (Memorandum Only)	<u>\$ 915,654.61</u>	<u>\$ 1,530,306.34</u>	<u>\$ 1,564,332.65</u>	<u>\$ 881,628.30</u>	<u>\$ 59,011.67</u>	<u>\$ 940,639.97</u>
Composition of Cash and Investments:						
Checking Account - Citizens State Bank						\$ 305,604.87
Savings Account - Citizens State Bank						797.82
Certificate of Deposit, Citizens State Bank						550,948.91
Investments						<u>83,288.37</u>
<u>Total</u>						<u>\$ 940,639.97</u>

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

CITY OF WATERVILLE, KANSAS
SUMMARY OF EXPENDITURES
ACTUAL AND BUDGET
(BUDGETED FUNDS ONLY)
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Fund</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Governmental Type Funds:					
General	\$ 494,699.00	\$ 15,894.58	\$ 510,593.58	\$ 455,540.71	\$ (55,052.87)
Special Revenue Funds:					
Library	290,456.00	-	290,456.00	27,410.91	(263,045.09)
Special Highway	47,479.00	-	47,479.00	44,896.82	(2,582.18)
Ambulance	176,598.00	-	176,598.00	91,748.89	(84,849.11)
Special Machinery (Equipment Reserve)*	47,104.00	-	47,104.00	13,212.91	(33,891.09)
Historical *	19,975.00	-	19,975.00	6,370.42	(13,604.58)
Proprietary Type Funds:					
Enterprise Funds:					
Water Utility	143,987.00	-	143,987.00	86,742.99	(57,244.01)
Lights Utility	942,973.00	-	942,973.00	796,775.21	(146,197.79)
Sewer Utility	80,404.00	-	80,404.00	41,633.79	(38,770.21)

* These funds are not required to have a legal operating budget.

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

CITY OF WATERVILLE, KANSAS

GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Ad Valorem tax	\$ 154,181.38	\$ 155,814.00	\$ (1,632.62)
Delinquent tax	6,668.58	-	6,668.58
Motor Vehicle tax	31,385.64	36,343.00	(4,957.36)
Recreational Vehicle tax	485.32	508.00	(22.68)
16/20 M Vehicle tax	1,721.19	1,548.00	173.19
Intangibles tax	9,934.65	9,885.00	49.65
Local Sales tax	75,870.13	73,200.00	2,670.13
Grants	16,558.31	-	16,558.31
Licenses and Permits	1,137.00	1,550.00	(413.00)
Fines	8,674.00	14,000.00	(5,326.00)
Interest on idle funds	4,155.78	5,000.00	(844.22)
Rents, Charges for fees and services	3,094.00	12,700.00	(9,606.00)
Concessions	4,102.85	-	4,102.85
Admissions	3,971.50	-	3,971.50
Franchise fees	17,697.02	24,800.00	(7,102.98)
Miscellaneous	5,181.35	13,700.00	(8,518.65)
Donations	9,534.25	-	9,534.25
Reimbursed expenses	3,568.64	-	3,568.64
Rural Fire appropriation	14,547.50	15,000.00	(452.50)
Transfer from Lights Utility Fund	90,000.00	90,000.00	-
<u>Total Cash Receipts</u>	<u>\$ 462,469.09</u>	<u>\$ 454,048.00</u>	<u>\$ 8,421.09</u>

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

CITY OF WATERVILLE, KANSAS

GENERAL FUND, CONTINUED
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES
 ACTUAL AND BUDGET
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Budget	Variance Over (Under)
<u>Expenditures and Transfers Subject to Budget</u>			
General Administration and Streets:			
Personal Services/Payroll Taxes	\$ 57,284.01	\$ 116,150.00	\$ (58,865.99)
Contractual Services	73,833.90	103,000.00	(29,166.10)
Commodities	49,872.90	58,000.00	(8,127.10)
Capital Outlay	-	40,400.00	(40,400.00)
<u>Total General Administration and Streets</u>	<u>\$ 180,990.81</u>	<u>\$ 317,550.00</u>	<u>\$ (136,559.19)</u>
Police Department			
Personal Services/Payroll Taxes	\$ 55,761.98	\$ -	\$ 55,761.98
Contractual	9,102.16	-	9,102.16
Commodities	11,255.05	-	11,255.05
Lease Purchase	9,553.41	-	9,553.41
<u>Total Police Department</u>	<u>\$ 85,672.60</u>	<u>\$ -</u>	<u>\$ 85,672.60</u>
Other:			
Employees' Health Insurance	\$ 69,940.32	\$ 74,000.00	\$ (4,059.68)
Retirement Contributions	14,904.45	11,200.00	3,704.45
Fire - City	28,959.30	13,200.00	15,759.30
Fire - Rural Fire Department	46.44	1,500.00	(1,453.56)
Community Services	2,224.46	1,000.00	1,224.46
Library Appropriation	10,500.00	10,500.00	-
Transfer to Special Highway	25,000.00	25,000.00	-
Parks & Ballfield Maintenance/Repair	7,432.59	10,000.00	(2,567.41)
Community Center Repair	476.98	2,500.00	(2,023.02)
Appropriations-USD #498	25,290.00	24,000.00	1,290.00
Neighborhood Revitalization	4,102.76	4,249.00	(146.24)
Adjustment For Qualifying Budget Credits	-	15,894.58	(15,894.58)
<u>Total Other Expenditures</u>	<u>\$ 188,877.30</u>	<u>\$ 193,043.58</u>	<u>\$ (4,166.28)</u>
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 455,540.71</u>	<u>\$ 510,593.58</u>	<u>\$ (55,052.87)</u>
<u>Excess (Deficit) Cash Revenues Over Cash Expenditures</u>	<u>\$ 6,928.38</u>		
<u>Beginning Fund Balance</u>	<u>46,134.72</u>		
<u>Ending Fund Balance</u>	<u>\$ 53,063.10</u>		

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

CITY OF WATERVILLE, KANSAS

LIBRARY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
Ad Valorem tax	\$ 5,524.92	\$ 5,710.00	\$ (185.08)
Delinquent tax	242.87	-	242.87
Motor Vehicle tax	1,136.01	1,313.00	(176.99)
Recreational Vehicle tax	17.56	18.00	(0.44)
16/20 M Vehicle tax	62.61	56.00	6.61
Interest on idle funds	6,210.99	6,800.00	(589.01)
Miscellaneous	1,403.16	850.00	553.16
Donations	275.00	-	275.00
Appropriation - City	10,500.00	10,500.00	-
<u>Total Cash Receipts</u>	<u>\$ 25,373.12</u>	<u>\$ 25,247.00</u>	<u>\$ 126.12</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Personal Services	\$ 13,928.65	\$ 13,975.00	\$ (46.35)
Contractual Services	3,360.91	5,025.00	(1,664.09)
Commodities	9,971.03	9,000.00	971.03
Capital Outlay	-	262,300.00	(262,300.00)
Neighborhood Revitalization	150.32	156.00	(5.68)
Adjustment For Qualifying Budget Credits	-	-	-
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 27,410.91</u>	<u>\$ 290,456.00</u>	<u>\$ (263,045.09)</u>
<u>Receipts Over (Under) Expenditures</u>	<u>\$ (2,037.79)</u>		
<u>Unencumbered Cash, Beginning</u>	<u>267,793.38</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 265,755.59</u>		

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

CITY OF WATERVILLE, KANSAS

SPECIAL HIGHWAY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
State gas tax	\$ 16,859.78	\$ 16,920.00	\$ (60.22)
Transfer from General Fund	25,000.00	25,000.00	-
Special Assessments	1,746.90	-	1,746.90
Miscellaneous	1,041.10	2,800.00	(1,758.90)
		-	
<u>Total Cash Receipts</u>	<u>\$ 44,647.78</u>	<u>\$ 44,720.00</u>	<u>\$ (72.22)</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Personal Services	\$ 11,790.84	\$ 13,930.00	\$ (2,139.16)
Contractual Services	2,485.68	3,200.00	(714.32)
Commodities	30,620.30	28,000.00	2,620.30
Capital Outlay	-	2,349.00	(2,349.00)
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 44,896.82</u>	<u>\$ 47,479.00</u>	<u>\$ (2,582.18)</u>
<u>Receipts Over (Under) Expenditures</u>	<u>\$ (249.04)</u>		
<u>Unencumbered Cash, Beginning</u>	<u>374.26</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 125.22</u>		

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

CITY OF WATERVILLE, KANSAS

AMBULANCE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
Appropriation - Marshall County	\$ 24,431.00	\$ 20,560.00	\$ 3,871.00
Charges for services	35,209.95	27,500.00	7,709.95
Miscellaneous	10,800.00	9,000.00	1,800.00
Donations	260.00	-	260.00
Interest on idle funds	383.24	850.00	(466.76)
	<u>\$ 71,084.19</u>	<u>\$ 57,910.00</u>	<u>\$ 13,174.19</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Personal Services	\$ 32,319.41	\$ 26,750.00	\$ 5,569.41
Contractual Services	14,532.04	12,700.00	1,832.04
Commodities	13,879.35	11,800.00	2,079.35
Capital Outlay	-	95,620.00	(95,620.00)
Temp Note Payment (Prin. & Int.)	31,018.09	29,728.00	1,290.09
Adjustment For Qualifying Budget Credits	-	-	-
	<u>\$ 91,748.89</u>	<u>\$ 176,598.00</u>	<u>\$ (84,849.11)</u>
<u>Receipts Over (Under) Expenditures</u>	\$ (20,664.70)		
<u>Unencumbered Cash, Beginning</u>	<u>123,546.31</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 102,881.61</u>		

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

CITY OF WATERVILLE, KANSAS

SPECIAL MACHINERY (EQUIPMENT RESERVE) FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
Transfer from Lights Fund	\$ 5,000.00	\$ 5,000.00	\$ -
<u>Total Cash Receipts</u>	<u>\$ 5,000.00</u>	<u>\$ 5,000.00</u>	<u>\$ -</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Commodities	\$ 4,096.91	\$ 20,000.00	\$ (15,903.09)
Capital Outlay	9,116.00	27,104.00	(17,988.00)
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 13,212.91</u>	<u>\$ 47,104.00</u>	<u>\$ (33,891.09)</u>
 <u>Receipts Over (Under) Expenditures</u>	 \$ (8,212.91)		
 <u>Unencumbered Cash, Beginning</u>	 <u>50,721.33</u>		
 <u>Unencumbered Cash, Ending</u>	 <u>\$ 42,508.42</u>		

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

CITY OF WATERVILLE, KANSAS

HISTORICAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Interest on Idle Funds	\$ 157.47	\$ 360.00	\$ (202.53)
Miscellaneous	1,904.29	450.00	1,454.29
Donations	184.59	-	184.59
Transfer from Lights Utility Fund	12,500.00	12,500.00	-
<u>Total Cash Receipts</u>	<u>\$ 14,746.35</u>	<u>\$ 13,310.00</u>	<u>\$ 1,436.35</u>
<u>Expenditures and Transfers Subject to Budget:</u>			
Contractual Services	\$ 4,046.79	\$ 14,800.00	\$ (10,753.21)
Commodities	2,323.63	3,500.00	(1,176.37)
Capital Outlay	-	1,675.00	(1,675.00)
<u>Total Expenditures and Transfers Subject to Budget</u>	<u>\$ 6,370.42</u>	<u>\$ 19,975.00</u>	<u>\$ (13,604.58)</u>
<u>Receipts Over (Under) Expenditures</u>	\$ 8,375.93		
<u>Unencumbered Cash, Beginning</u>	<u>12,731.86</u>		
<u>Unencumbered Cash, Ending</u>	<u>\$ 21,107.79</u>		

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

CITY OF WATERVILLE, KANSAS

WATER UTILITY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Charges for services	\$ 138,608.40	\$ 88,500.00	\$ 50,108.40
Miscellaneous	803.04	990.00	(186.96)
Sales Tax Collected	2.04	-	2.04
Interest on idle funds	112.60	400.00	(287.40)
<u>Total Cash Receipts</u>	<u>\$ 139,526.08</u>	<u>\$ 89,890.00</u>	<u>\$ 49,636.08</u>
<u>Expenditures and Transfers Subject to Budget</u>			
Administration, Transmission & Distribution:			
Personal services	\$ 22,139.90	\$ 22,670.00	\$ (530.10)
Contractual services	19,287.02	12,500.00	6,787.02
Commodities	45,316.07	65,900.00	(20,583.93)
Capital Outlay	-	42,917.00	(42,917.00)
<u>Total Admin., Transmission & Distribution</u>	<u>\$ 86,742.99</u>	<u>\$ 143,987.00</u>	<u>\$ (57,244.01)</u>
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 86,742.99</u>	<u>\$ 143,987.00</u>	<u>\$ (57,244.01)</u>
<u>Excess (Deficit) Cash Revenues Over Cash Expenditures</u>	<u>\$ 52,783.09</u>		
<u>Beginning Fund Balance</u>	<u>92,276.29</u>		
<u>Ending Fund Balance</u>	<u>\$ 145,059.38</u>		

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

CITY OF WATERVILLE, KANSAS

LIGHTS UTILITY FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES
 ACTUAL AND BUDGET
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual	Budget	Variance Over (Under)
<u>Cash Receipts:</u>			
Charges for services	\$ 703,739.55	\$ 705,000.00	\$ (1,260.45)
Meter deposits	2,500.00	-	2,500.00
Sales Tax	138.49	-	138.49
Donations	200.00	-	200.00
Miscellaneous	3,280.63	5,500.00	(2,219.37)
<u>Total Cash Receipts</u>	<u>\$ 709,858.67</u>	<u>\$ 710,500.00</u>	<u>\$ (641.33)</u>
<u>Expenditures and Transfers Subject to Budget</u>			
Administration, Transmission & Distribution:			
Personal services	\$ 66,766.70	\$ 59,650.00	\$ 7,116.70
Contractual services	607,945.67	563,500.00	44,445.67
Commodities	13,165.63	44,000.00	(30,834.37)
Capital Outlay	-	168,323.00	(168,323.00)
<u>Total Admin., Transmission & Distribution</u>	<u>\$ 687,878.00</u>	<u>\$ 835,473.00</u>	<u>\$ (147,595.00)</u>
Other:			
Transfer to General Fund	\$ 90,000.00	\$ 90,000.00	\$ -
Transfer to Historical Fund	12,500.00	12,500.00	-
Transfer to Special Machinery Fund	5,000.00	5,000.00	-
Meter deposit refunds	1,397.21	-	1,397.21
<u>Total Other Expenditures</u>	<u>\$ 108,897.21</u>	<u>\$ 107,500.00</u>	<u>\$ 1,397.21</u>
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 796,775.21</u>	<u>\$ 942,973.00</u>	<u>\$ (146,197.79)</u>
<u>Excess (Deficit) Cash Revenues Over Cash Expenditures</u>	<u>\$ (86,916.54)</u>		
<u>Beginning Fund Balance</u>	<u>297,803.59</u>		
<u>Ending Fund Balance</u>	<u>\$ 210,887.05</u>		

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

CITY OF WATERVILLE, KANSAS

SEWER UTILITY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<u>Cash Receipts:</u>			
Charges for services	\$ 57,272.66	\$ 53,750.00	\$ 3,522.66
Miscellaneous	328.40	1,850.00	(1,521.60)
<u>Total Cash Receipts</u>	<u>\$ 57,601.06</u>	<u>\$ 55,600.00</u>	<u>\$ 2,001.06</u>
<u>Expenditures and Transfers Subject to Budget</u>			
Personal services	\$ 28,043.50	\$ 22,670.00	\$ 5,373.50
Contractual services	1,407.08	4,200.00	(2,792.92)
Commodities	12,183.21	15,000.00	(2,816.79)
Capital Outlay	-	38,534.00	(38,534.00)
<u>Total Cash Expenditures and Transfers Subject to Budget</u>	<u>\$ 41,633.79</u>	<u>\$ 80,404.00</u>	<u>\$ (38,770.21)</u>
<u>Excess (Deficit) Cash Revenues Over Cash Expenditures</u>	<u>\$ 15,967.27</u>		
<u>Beginning Fund Balance</u>	<u>24,272.87</u>		
<u>Ending Fund Balance</u>	<u>\$ 40,240.14</u>		

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

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Waterville, Kansas, is a municipal corporation governed by an elected five-member council plus a mayor. These statutory financial statements present the City of Waterville, Kansas, the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the component units of the City of Waterville, Kansas.

Fund Accounting

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

The following types of funds were utilized in recording the financial activities of the City of Waterville for the year 2011:

Governmental Funds

General Fund -- The general fund is used to account for all unrestricted financial resources except those required to be accounted for in another fund.

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

Proprietary Funds

Business Funds -- The enterprise funds are used to account for operations where it is the intent that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The amounts shown in the Total (Memorandum Only) row on the accompanying statement "Summary of Cash Receipts, Expenditures, and Unencumbered Cash" is presented only to facilitate financial analysis and is not the equivalent of a consolidated financial statement.

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies, Continued

Statutory Basis of Accounting

The KMAG statutory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAG statutory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

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

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

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies, Continued

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), principle and interest funds and business 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 budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The following budget was amended on December 14, 2011.

	Original Budgeted <u>Expenditures</u>	Amended Budgeted <u>Expenditures</u>
Lights Utility Fund	\$ 802,973.00	\$ 942,973.00

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 a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, and the following special purpose funds:

Historical Fund
Special Machinery Fund

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies, Continued

Budgetary Information, Continued

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

The statutes permit transferring budget 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.

Reimbursed Expenses

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

Compensated Absences

Expenses for accumulated vacation and sick leave earned by the employees are recorded when paid or taken by the employees. Only full-time employees, defined as employees who work at least 1,000 hours per year, shall be entitled to benefits of leave accumulation, holidays, insurance programs and other similar benefits. No benefits are available or can be accrued by a part-time or seasonal employee. Full-time employees are entitled to 12 days paid vacation leave after one year, based on an eight-hour workday. Employees earn 15 days vacation per year after they have been employed five years or more. Vacation may be accumulated to 240 hours. Full-time employees earn 10 hours of sick leave for each full month of service. Sick leave may be accumulated to 720 hours or 90 days. An employee shall not be paid for any sick leave upon termination of his/her employment with the City.

Pension Plan

Substantially all employees of the City are members of the State of Kansas Public Employees' Retirement System, a multiple-employer public employer statewide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 2 - Stewardship, Compliance and Accountability

K.S.A. 75-1120a (c) requires the City to approve a resolution waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting for reporting financial statements. The City has placed adoption of the waiver resolution on the September 2012 council meeting agenda.

During the course of the audit of the financial statements of the City of Waterville, no statutory violations were noted.

Note 3 - Deposits and Investments

As of December 31, 2011, the City held the following investment:

Investment Type	Fair Market	Investment Maturities (in Years)	
		Less than 1	1-2
City of Waterville			
Series 2010 Temporary Notes	\$ 83,288.37	\$ 26,813.37	\$ 56,475.00

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 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 Government'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%.

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 3 – Deposits and Investments, Continued

The City did not have a peak period pledge agreement during 2011, and therefore the City did not designate peak periods. All deposits were legally secured at December 31, 2011.

At December 31, 2011 the carrying amount of the City's deposits including certificates of deposit was \$857,351.60 and the bank balance was \$965,667.35. The bank balance was held at one bank resulting in a concentration of credit risk. The difference between the carrying amount and the bank balance is outstanding checks. Of the bank balance, \$500,000.00 was covered by FDIC insurance and the remaining \$465,667.35 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties; the City, the pledging bank, and the independent third-party bank holding the pledged securities.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Government 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 in a city's own bonds or temporary notes to be registered with the Kansas State Treasurer.

Note 4 - Property Taxes

In accordance with governing State statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar-year basis and are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes levied and collected in the year prior to January 1st of the ensuing year.

Note 5 - Long-Term Debt

On June 14, 2010 the city passed a Resolution and Ordinance authorizing the acquisition of an ambulance vehicle and the issuance of temporary notes to fund the purchase.

On October 10, 2011 the City determined it necessary to amend the June 14, 2010 Resolution and Ordinance to comply with statutory requirements associated with the issuance of temporary notes held as investment by the issuing government. The reissued temporary notes were registered with Kansas State Treasurer on November 28, 2011.

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 5 - Long-Term Debt, Continued

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

Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Reductions/Payments	Balance End of Year	Interest Paid
Temporary Notes:							
Series 2010 Temporary Notes							
3.50%	7/1/2010	\$ 109,195.00	7/1/2014	\$ 109,195.00	\$ 25,906.63	\$ 83,288.37	\$ 5,111.46
Lease Purchases:							
Street Sweeper							
5.79%	11/22/2006	49,850.00	11/22/2011	11,144.68	11,144.68	-	636.19
2008 GMC Pickup							
2.42%	8/18/2008	23,587.40	8/18/2011	9,117.81	9,117.81	-	435.60
Total Contractual indebtedness:				20,262.49	20,262.49	-	1,071.79
Compensated Absences							
N/A	N/A	N/A	N/A	16,545.18	(276.92)	16,822.10	N/A
Total Long-Term Debt				<u>\$ 36,807.67</u>	<u>\$ 19,985.57</u>	<u>\$ 16,822.10</u>	<u>\$ 1,071.79</u>

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

	2012	2013	2014	Total
Principal:				
Temporary Notes Payable	26,813.37	27,751.84	28,723.16	83,288.37
Total Principal	26,813.37	27,751.84	28,723.16	83,288.37
Interest:				
Capital leases payable	-	-	-	-
Temporary Note Payable	1,972.68	1,976.63	1,005.31	4,954.62
Total Interest	1,972.68	1,976.63	1,005.31	4,954.62
Total principal & interest	<u>\$ 28,786.05</u>	<u>\$ 29,728.47</u>	<u>\$ 29,728.47</u>	<u>\$ 88,242.99</u>

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no decreases in insurance coverage from the prior year.

Note 7 - Defined Benefit Pension Plan

Plan description. The City of Waterville, Kansas 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 South Kansas Avenue, Suite 100; Topeka, Kansas 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The City collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established by statute from January 1, 2011 to December 31, 2011 was 7.74%. The City of Waterville's contributions to KPERs for the years ending December 31, 2011, 2010 and 2009 were \$14,904.45, \$14,114.31 and \$12,505.10 respectively, equal to the statutory required contributions for each year.

Other Post Employment Benefits. As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government 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 this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government 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 government under this program.

CITY OF WATERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 8 - Interfund Transactions

The following operating transfers have been authorized for the year 2011:

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>Amount</u>
Lights Utility	General	K.S.A. 12-825d	\$90,000.00
Lights Utility	Historical	K.S.A. 12-825d	12,500.00
General Fund	Special Highway	K.S.A. 12-197	25,000.00
Lights Utility	Special Machinery	K.S.A. 12-1,117	5,000.00

Note 9 - Related Party Transactions

A City Council member has an ownership interest in a financial institution that holds the deposits and lease purchases of the City.

Note 10 – Leases

The City of Waterville has entered into an operating lease with the Waterville Preservation Society for the Weaver Hotel. Under the lease terms the City of Waterville owns the Weaver Hotel which the Waterville Preservation Society operates. The Waterville Preservation Society pays an annual lease amount of \$1.00 for the use of the building. No attempt has been made to determine the fair value of the rent. However it is presumed that the income relating to any rental value over and above \$1.00 and expenses for the subsequent contribution of rental property, would net to zero causing this difference to be immaterial.

Note 11 – Evaluation of Subsequent Events

The City of Waterville has evaluated subsequent events through August 1, 2012, the date which the financial statements were available to be issued.



APPENDIX A

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

August 1, 2012

Mayor and City Council
City of Waterville, Kansas

We have audited the financial statements of the City of Waterville, Kansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated August 1, 2012. That report disclosed the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Kansas Municipal Audit Guide.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Waterville, Kansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Waterville, Kansas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waterville, Kansas' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Waterville, Kansas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis and budget laws of the State of Kansas such that there is more than a remote likelihood that a misstatement of the City of Waterville, Kansas' financial statements that is more than inconsequential will not be prevented or detected by the City of Waterville, Kansas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Waterville, Kansas' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waterville, Kansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Waterville, Kansas, in a separate letter dated August 1, 2012.

This report is intended solely for the information of the City Council, management, and the Kansas Department of Administration, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


James Gordon & Associates CPA, P.A.