

CITY OF BUFFALO, KANSAS

Financial Statement and
Independent Auditors' Report with
Supplemental Information

For the Year Ended December 31, 2011

CITY OF BUFFALO, KANSAS

December 31, 2011

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Buffalo, Kansas

We have audited the summary statement of cash receipts, expenditures, and unencumbered cash balances of the City of Buffalo, Kansas, as of and for the year ended December 31, 2011. This financial statement is the responsibility of the City of Buffalo, Kansas' management. Our responsibility is to express an opinion on the financial statement based on our audit. The prior year summarized comparative information has been derived from the City's 2010 financial statement and, in our report dated June 7, 2011, we expressed an unqualified opinion on the financial statement of the City of Buffalo, Kansas, prepared in accordance with the statutory basis of accounting.

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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City of Buffalo, Kansas has prepared this financial statement using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these statutory 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 paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Buffalo, Kansas, as of December 31, 2011, or the respective changes in financial position and changes in cash flows, where applicable, for the year then ended.

In our opinion, the financial statement referred above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Buffalo, Kansas, as of December 31, 2011, and the aggregate cash receipts and expenditures for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement. The summary of expenditures-actual and budget, individual fund schedules of cash receipts and expenditures-actual and budget, schedule of cash receipts and expenditures-agency funds (Schedules 1, 2, and 3 as listed in the table of contents) are presented for analysis and are not a required part of the statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

March 16, 2012
Chanute, Kansas

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

Funds	Beginning Unencumbered Cash Balance		Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balances	
	2011	2010					2011	2010
Governmental Type Funds:								
General	\$ 10,463.14	\$	\$ 74,734.88	\$ 73,724.70	\$ 11,473.32	\$ 3,014.83	\$ 14,488.15	\$ 13,951.54
Special Revenue Funds:								
Special Highway	7,812.01		6,977.19	6,393.01	8,396.19	259.14	8,655.33	8,711.59
Special Highway Improvement Reserve	12,000.00		5,000.00	-	17,000.00	-	17,000.00	12,000.00
Debt Service Funds:								
G.O. Bond & Interest	6,725.82		16,803.68	13,921.25	9,608.25	-	9,608.25	6,725.82
G.O. Sewer Utility Bond & Interest	3,430.69		18,052.08	18,026.80	3,455.97	-	3,455.97	3,430.69
Capital Projects Funds:								
Proprietary Type Funds:								
Enterprise Funds								
Water Utility	19,463.05		97,135.54	95,224.44	21,374.15	1,863.90	23,238.05	21,891.39
Water Utility Bond & Interest	12,026.78		22,217.04	22,550.00	11,693.82	-	11,693.82	12,026.78
Water Utility Lease Purchase								
Principal & Interest	16,028.45		11,163.00	8,007.42	19,184.03	-	19,184.03	16,028.45
Water Utility Reserve	22,500.00		-	-	22,500.00	-	22,500.00	22,500.00
Sewer Utility	12,860.93		27,555.03	29,989.28	10,426.68	541.40	10,968.08	13,148.44
Total Reporting Entity (Excluding Agency Funds)	\$ 123,310.87	\$	\$ 279,638.44	\$ 267,836.90	\$ 135,112.41	\$ 5,679.27	\$ 140,791.68	\$ 130,414.70
Composition of Cash								
Cash on Hand								
Community National Bank								
Total Cash								
Less: Agency Funds per Statement 4								
Total Reporting Entity (Excluding Agency Funds)								
\$ 157,678.45								
\$ 144,284.08								
\$ 144,334.08								
(13,919.38)								
\$ 130,414.70								

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

CITY OF BUFFALO, KANSAS

Notes to Financial Statement
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement and schedule of the City of Buffalo, Kansas, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies follow. Note 1 describes how the City's accounting policies differ from accounting policies generally accepted in the United States of America.

Reporting Entity

The City of Buffalo, Kansas, is a municipal corporation governed by an elected five-member council. The City has developed criteria to determine whether outside agencies with activities which benefit the residents of the City should be included within its financial reporting entity. The criteria include, but are not limited to, whether the City exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope the public service, and significant operational or financial relationships with the City.

The City has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a component unit in the financial statement.

Basis of Presentation – Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the City of Buffalo, Kansas, for the year of 2011:

GOVERNMENTAL FUNDS

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation – Fund Accounting (Continued)

Capital Project Funds - The Capital Project Funds account for capital improvements (except for those financed by proprietary funds), which are financed from the City's general obligation bond issues, special assessments, certain federal grants and other specific receipts.

PROPRIETARY FUNDS

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust and Agency Funds – To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds and Agency Funds.

Basis of Presentation – Statutory Basis of Accounting

The statutory basis of accounting, as used in preparation of the statutory basis financial statement and schedules, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

Comparative data for the prior year have been presented in the accompanying financial statement in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data in each of the statement have not been presented since their inclusion would make the statement unduly complex and difficult to read.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than cash receipts. In the financial statement and budget schedule comparisons presented in this report, reimbursements and refunds are recorded as cash receipts. The reimbursements are recorded as cash receipts when received by the city treasurer and are often difficult to identify the exact expenditure which they are reimbursing. In funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed a calendar year basis and become a lien on the property on November 1 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 taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

Pension Plan

Substantially all full-time City employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The City's policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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 timetable in the adoption of the legal annual operating budget:

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

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

A legal operating budget is not required for capital projects funds, fiduciary funds, and permanent funds.

In addition, an operating budget is not required for enterprise principal and interest funds and enterprise reserve funds.

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.

Revenue Bond Requirements

The City is required, under ordinances of the Waterworks System Revenue Bonds, to maintain in its Enterprise Fund certain restricted accounts. The ordinances provide that the following reserve accounts be set up in amounts as described below:

<u>RESERVE ACCOUNT</u>	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
1983 Waterworks Utility Bond and Interest – requires transfers monthly of 1/6 of next maturing interest, beginning July 25, 1986, and 1/12 of next maturing principal, beginning July 25, 1983.	\$ 10,975.00	\$ 11,693.82
1983 Waterworks Utility Bond Reserve Account – requires monthly transfers of \$187.50 per month beginning July 25, 1983, until a maximum of \$22,500.00 is reached.	<u>22,500.00</u>	<u>22,500.00</u>
Total Reserves at December 31, 2011	<u>\$ 33,475.00</u>	<u>\$ 34,193.82</u>

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The City agrees to fix, establish, maintain and collect such rates, fees or charges for water service furnished by or through the waterworks system which will be sufficient to enable the City to have, in each fiscal year, a net income in an amount that will be not less than 125% of the amount required to be paid by the City in the next succeeding fiscal year on account of both principal and interest of all waterworks system bonds of the City at the time outstanding. Net income is defined as gross income less operating expenses but before any transfers, depreciation and capital expense.

For the year ended December 31, 2011, the Water Utility Fund had a net income of \$37,291.14, which is 169.89% of the principal and interest requirements for 2012 of \$21,950.00.

Compliance with Kansas Statutes

Statement 1 and Schedule 1 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statement 1 and Schedule 1, the City was in apparent compliance with Kansas cash basis and budget laws.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

Deposits: At year-end the carrying amount of the City's deposits was \$157,678.45 and the bank balance was \$153,905.99. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$153,905.99 was covered by the Federal Deposit Insurance Corporation (FDIC) insurance.

4. Long-Term Liabilities

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			Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
					Beginning of Year	Additions	Total				
General Obligation Bonds											
Paid By Tax Levies:											
Main Trafficway Bonds											
Series 1989 - A	8.000%	July 1, 1989	\$ 90,000.00	September 1, 2012	\$ 24,000.00	\$ -	\$ 12,000.00	\$ -	\$ 12,000.00	\$ 1,920.00	
Paid By Utility Revenues:											
Sewer Utility System Bonds											
Series 2000	4.875%	December 21, 2000	315,800.00	December 21, 2040	282,100.00	-	4,300.00	-	277,800.00	13,726.80	
Revenue Bonds											
Waterworks Utility System Bonds											
Series 1983 - A	5.000%	July 25, 1983	373,000.00	July 25, 2023	211,000.00	-	12,000.00	-	199,000.00	10,550.00	
Capital Leases											
Waterline Project	6.125%	February 11, 2008	91,617.00	January 16, 2028	84,479.87	-	2,807.16	-	81,672.71	5,200.26	
Compensated Absences	N/A	N/A	N/A	N/A	601,579.87	-	31,107.16	-	570,472.71	31,397.06	
Total Long-Term Liabilities					\$ 602,473.22	\$ -	\$ 31,107.16	\$ (44.94)	\$ 571,321.12	\$ 31,397.06	

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

Principal Issue	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2039	Total
Principal											
General Obligation Bonds											
Paid By Tax Levies:											
Main Trafficway Bonds											
Series 1989 - A	\$ 12,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,000.00
Paid By Utility Revenues:											
Sewer Utility System Bonds											
Series 2000	4,500.00	4,800.00	5,000.00	5,200.00	5,500.00	31,900.00	40,400.00	51,100.00	65,100.00	64,300.00	277,800.00
Revenue Bonds											
Waterworks Utility System Bonds											
Series 1983 - A	12,000.00	12,000.00	14,000.00	14,000.00	14,000.00	88,000.00	45,000.00	-	-	-	199,000.00
Capital Lease											
Waterline Project	3,004.49	3,191.33	3,389.79	3,600.60	3,824.52	23,000.08	31,098.28	10,563.62	-	-	81,672.71
Total Principal Payments	31,504.49	19,991.33	22,389.79	22,800.60	23,324.52	142,900.08	116,498.28	61,663.62	65,100.00	64,300.00	570,472.71
Interest											
General Obligation Bonds											
Paid By Tax Levies:											
Main Trafficway Bonds											
Series 1989 - A	960.00	-	-	-	-	-	-	-	-	-	960.00
Paid By Utility Revenues:											
Sewer Utility System Bonds											
Series 2000	13,543.87	13,322.28	13,089.38	12,845.63	12,593.16	58,655.02	50,095.53	39,248.66	25,496.61	8,014.32	246,904.46
Revenue Bonds											
Waterworks Utility System Bonds											
Series 1983 - A	9,950.00	9,350.00	8,750.00	8,050.00	7,350.00	24,950.00	3,500.00	-	-	-	71,900.00
Capital Lease											
Waterline Project	5,002.93	4,816.09	4,617.63	4,406.82	4,182.90	17,037.02	8,938.82	1,447.50	-	-	50,449.71
Total Interest Payments	29,456.80	27,488.37	26,457.01	25,302.45	24,126.06	100,642.04	62,534.35	40,696.16	25,496.61	8,014.32	370,214.17
Total Principal and Interest	\$ 60,961.29	\$ 47,479.70	\$ 48,846.80	\$ 48,103.05	\$ 47,450.58	\$ 243,542.12	\$ 179,032.63	\$ 102,359.78	\$ 90,596.61	\$ 72,314.32	\$ 940,686.88

5. CAPITAL LEASES

The City has entered into a capital lease agreement dated February 11, 2008, to partially finance a waterline project at a cost of \$91,617.00. The City agreed to make twenty semi-annual payments of \$4,003.71, including interest at 6.125%.

2012	\$ 8,007.42
2013	8,007.42
2014	8,007.42
2015	8,007.42
2016	8,007.42
2017-2021	40,037.10
2022-2026	40,037.10
2027-2028	<u>12,011.12</u>
Total Net Minimum Lease Payments	132,122.42
Less: Imputed Interest	<u>(50,449.71)</u>
Net Present Value	81,672.71
Less: Current Maturities	<u>(3,004.49)</u>
Long-Term Capital Lease Obligations	<u>\$ 78,668.22</u>

6. OPERATING LEASES

On September 25, 2009, the City entered into an operating lease with A.B.C. Leasing Co., Inc. to lease a Savin copier for a term of 48 months at \$96.40 per month. Minimum lease payments on the long-term operating lease by year, and in aggregate at December 31, 2011, are as follows:

Year ending December 31,

2012	\$ 1,156.80
2013	771.20

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Buffalo 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 Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy

K.S.A 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary. 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 bases. State law sets a limitation on annual increases in the employer contribution rates for KPERS employers.

7. DEFINED BENEFIT PENSION PLAN (Continued)

The KPERS employer rate established by statute for January 1, 2011 to December 31, 2011 was 7.14%. The City of Buffalo, Kansas employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$3,487.65, \$3,563.02, and \$3,028.93 respectively, equal to the required contributions for each year.

8. COMPENSATED ABSENCES

Regular employees earn and accumulate vacation leave as follows:

- After One Full Year of Employment – 40 hours
- After Two Full Years of Employment – 80 hours
- After Five Full Years of Employment – 120 hours

Vacation is not earned for partial years worked. Employees must use vacation time in the year earned, as carryover is not allowed. Vacation time cannot be sold back to the City for more than one week, as the employee must use at least one week. Upon resignation, quitting, termination, or lay-off, all earned vacation time will be paid to the employee.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of one day per two months worked, after a sixty (60) day probation period. The first year benefits are not to exceed five days. After the first year of employment, full-time employees will receive one day of sick leave for each month worked, and may accumulate up to twenty-four days of sick leave. Upon resignation, quitting, termination, or lay-off, all earned sick leave will be paid to the employee.

The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and, is material.

In accordance with the above criteria, the City has estimated a liability for vacation pay in the Footnote 4, Changes in Long-Term Liabilities. The City has not accrued a liability for sick pay, which has been earned, but not taken by City employees, as the amounts cannot be reasonably estimated.

9. 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; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

10. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority:</u>	<u>Amount:</u>
Water Utility	Water Utility Bond & Interest	K.S.A. 12-825d	\$ 22,217.04
Water Utility	Water Utility Lease Purchase Principal & Interest	K.S.A. 12-825d	11,163.00
Water Utility	Special Highway Improvement Reserve	K.S.A. 12-825d	2,000.00
Sewer Utility	G.O. Sewer Utility Bond & Interest	K.S.A. 12-825d	18,052.08
Sewer Utility	Special Highway Improvement Reserve	K.S.A. 12-825d	3,000.00

11. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

CITY OF BUFFALO, KANSAS
 Summary of Expenditures - Actual and Budget
 (Budgeted Funds Only)
 For the Year Ended December 31, 2011

Funds	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
Governmental Type Funds:			
General	\$ 83,832.00	\$ 73,724.70	\$ (10,107.30)
Special Revenue Funds:			
Special Highway	16,814.00	6,393.01	(10,420.99)
Special Highway Improvement Reserve	16,000.00	-	(16,000.00)
Debt Service Funds:			
G.O. Bond & Interest	21,391.00	13,921.25	(7,469.75)
G.O. Sewer Utility Bond & Interest	21,457.00	18,026.80	(3,430.20)
Proprietary Type Funds:			
Enterprise Funds:			
Water Utility	117,380.00	95,224.44	(22,155.56)
Sewer Utility	46,384.00	29,989.28	(16,394.72)

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
GENERAL FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 27,334.56	\$ 34,156.44	\$ 32,320.00	\$ 1,836.44
Delinquent Tax	2,232.92	3,429.60	682.00	2,747.60
Motor Vehicle Tax	7,864.29	8,189.67	8,519.00	(329.33)
Recreational Vehicle Tax	184.85	113.78	186.00	(72.22)
16/20M Vehicle Tax	6.59	136.69	4.00	132.69
Franchise Tax	520.00	520.00	520.00	-
Charges for Services	255.84	506.90	260.00	246.90
Solid Waste Collections	19,880.95	20,176.38	20,035.00	141.38
Use of Money and Property				
Interest Income	722.28	471.65	668.00	(196.35)
Other Revenues				
Donations	552.00	904.00	5.00	899.00
Miscellaneous	1,124.68	1,325.83	600.00	725.83
Reimbursed Expense	438.67	1,155.44	-	1,155.44
Parks & Recreation	438.30	58.50	495.00	(436.50)
Community Bldg. Rent	3,645.00	3,590.00	3,630.00	(40.00)
Operating Transfer from Sewer Utility Fund	-	-	5,000.00	(5,000.00)
Total Cash Receipts	65,200.93	74,734.88	\$ 72,924.00	\$ 1,810.88
Expenditures and Transfers				
Subject to Budget				
General Administration				
Personal Services	26,246.35	27,010.45	\$ 27,918.00	\$ (907.55)
Contractual Services	11,217.73	11,615.75	11,000.00	615.75
Commodities	3,039.99	4,690.07	3,500.00	1,190.07
Capital Outlay	625.00	-	1,000.00	(1,000.00)
Street Lights				
Contractual Services	4,951.25	5,655.06	5,500.00	155.06
Parks and Recreation				
Contractual Services	172.79	76.32	1,000.00	(923.68)
Commodities	237.62	1,073.70	1,000.00	73.70

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
GENERAL FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Expenditures and Transfers Subject to Budget (continued)				
Solid Waste				
Personal Services	\$ 2,772.95	\$ 2,820.57	\$ 3,050.00	\$ (229.43)
Contractual Services	16,968.76	16,747.57	18,000.00	(1,252.43)
Commodities	836.74	556.45	1,500.00	(943.55)
Streets				
Commodities	-	-	364.00	(364.00)
Community Building				
Personal Services	427.95	218.66	1,000.00	(781.34)
Contractual Services	2,704.32	2,592.07	2,000.00	592.07
Commodities	661.62	668.03	4,000.00	(3,331.97)
Demolition				
Contractual Services	-	-	3,000.00	(3,000.00)
Total Expenditures and Transfers Subject To Budget	<u>70,863.07</u>	<u>73,724.70</u>	<u>\$ 83,832.00</u>	<u>\$ (9,199.75)</u>
Receipts Over(Under) Expenditures	(5,662.14)	1,010.18		
Unencumbered Cash, Beginning	<u>16,125.28</u>	<u>10,463.14</u>		
Unencumbered Cash, Ending	<u>\$ 10,463.14</u>	<u>\$ 11,473.32</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
SPECIAL HIGHWAY FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Intergovernmental				
Special Highway Tax	\$ 7,223.27	\$ 6,497.07	\$ 7,530.00	\$ (1,032.93)
Other Revenues				
Miscellaneous	392.07	480.12	375.00	105.12
Total Cash Receipts	<u>7,615.34</u>	<u>6,977.19</u>	<u>\$ 7,905.00</u>	<u>\$ (927.81)</u>
Expenditures and Transfers				
Subject to Budget				
General Government				
Personal Services	4,163.94	3,200.78	\$ 4,500.00	\$ (1,299.22)
Contractual Services	1,831.36	1,995.10	4,500.00	(2,504.90)
Commodities	2,782.11	1,197.13	7,814.00	(6,616.87)
Capital Outlay	625.00	-	-	-
Total Expenditures and Transfers				
Subject to Budget	<u>9,402.41</u>	<u>6,393.01</u>	<u>\$ 16,814.00</u>	<u>\$ (10,420.99)</u>
Receipts Over(Under) Expenditures	(1,787.07)	584.18		
Unencumbered Cash, Beginning	<u>9,599.08</u>	<u>7,812.01</u>		
Unencumbered Cash, Ending	<u>\$ 7,812.01</u>	<u>\$ 8,396.19</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
SPECIAL HIGHWAY IMPROVEMENT RESERVE FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Operating Transfer from				
Water Utility Fund	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ -
Sewer Utility Fund	3,000.00	3,000.00	5,000.00	(2,000.00)
Total Cash Receipts	<u>5,000.00</u>	<u>5,000.00</u>	<u>\$ 7,000.00</u>	<u>\$ (2,000.00)</u>
Expenditures and Transfers				
Subject to Budget				
General Government				
Capital Outlay	-	-	\$ 16,000.00	\$ (16,000.00)
Total Expenditures and Transfers				
Subject to Budget	<u>-</u>	<u>-</u>	<u>\$ 16,000.00</u>	<u>\$ (16,000.00)</u>
Receipts Over(Under) Expenditures	5,000.00	5,000.00		
Unencumbered Cash, Beginning	<u>7,000.00</u>	<u>12,000.00</u>		
Unencumbered Cash, Ending	<u>\$ 12,000.00</u>	<u>\$ 17,000.00</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
G.O. BOND & INTEREST FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 9,410.23	\$ 12,661.77	\$ 11,981.00	\$ 680.77
Delinquent Tax	794.17	1,229.71	251.00	978.71
Motor Vehicle Tax	2,863.60	2,823.31	2,933.00	(109.69)
Recreational Vehicle Tax	67.23	39.17	64.00	(24.83)
16/20M Vehicle Tax	2.48	49.72	2.00	47.72
Total Cash Receipts	13,137.71	16,803.68	\$ 15,231.00	\$ 1,572.68
Expenditures and Transfers				
Subject to Budget				
Debt Service				
Principal	11,000.00	12,000.00	\$ 12,000.00	\$ -
Interest	2,800.00	1,920.00	1,920.00	-
Commission and Other	1.25	1.25	1.00	0.25
Cash Basis Reserve	-	-	7,470.00	(7,470.00)
Total Expenditures and Transfers				
Subject to Budget	13,801.25	13,921.25	\$ 21,391.00	\$ (7,469.75)
Receipts Over(Under) Expenditures	(663.54)	2,882.43		
Unencumbered Cash, Beginning	7,389.36	6,725.82		
Unencumbered Cash, Ending	\$ 6,725.82	\$ 9,608.25		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
G.O. SEWER UTILITY BOND & INTEREST FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Operating Transfers from Sewer Utility Fund	\$ 18,052.08	\$ 18,052.08	\$ 18,052.00	\$ 0.08
Total Cash Receipts	<u>18,052.08</u>	<u>18,052.08</u>	<u>\$ 18,052.00</u>	<u>\$ 0.08</u>
Expenditures and Transfers Subject to Budget				
Debt Service				
Principal	4,100.00	4,300.00	\$ 4,300.00	\$ -
Interest	13,926.69	13,726.80	13,752.00	(25.20)
Cash Basis Reserve	-	-	3,405.00	(3,405.00)
Total Expenditures and Transfers Subject to Budget	<u>18,026.69</u>	<u>18,026.80</u>	<u>\$ 21,457.00</u>	<u>\$ (3,430.20)</u>
Receipts Over(Under) Expenditures	25.39	25.28		
Unencumbered Cash, Beginning	<u>3,405.30</u>	<u>3,430.69</u>		
Unencumbered Cash, Ending	<u>\$ 3,430.69</u>	<u>\$ 3,455.97</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
WATER UTILITY FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Operating Revenues				
Water Sales	\$ 93,187.66	\$ 93,222.39	\$ 98,000.00	\$ (4,777.61)
Penalties	2,781.80	3,043.13	2,600.00	443.13
Sales Tax	153.98	138.44	100.00	38.44
Other Revenues				
Reimbursed Expense	138.47	50.00	-	50.00
Miscellaneous	953.88	681.58	-	681.58
Total Cash Receipts	97,215.79	97,135.54	\$ 100,700.00	\$ (3,564.46)
Expenditures and Transfers				
Subject to Budget				
Operating Expenditures				
Personal Services	28,166.46	24,228.40	\$ 34,250.00	\$ (10,021.60)
Contractual Services	29,785.76	31,328.61	28,000.00	3,328.61
Commodities	4,033.10	4,287.39	6,000.00	(1,712.61)
Capital Outlay	625.00	-	13,750.00	(13,750.00)
Operating Transfers to:				
Water Utility Bond & Interest Fund	22,217.04	22,217.04	22,217.00	0.04
Water Utility Lease Purchase Principal & Interest Fund	11,163.00	11,163.00	11,163.00	-
Special Highway Improvement Reserve Fund	2,000.00	2,000.00	2,000.00	-
Total Expenditures and Transfers Subject to Budget	97,990.36	95,224.44	\$ 117,380.00	\$ (22,155.56)
Receipts Over(Under) Expenditures	(774.57)	1,911.10		
Unencumbered Cash, Beginning	20,237.62	19,463.05		
Unencumbered Cash, Ending	<u>\$ 19,463.05</u>	<u>\$ 21,374.15</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
WATER UTILITY BOND & INTEREST FUND
Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	<u>Prior</u> Year Actual	<u>Current</u> Year Actual
Cash Receipts		
Operating Transfers from Water Utility Fund	\$ 22,217.04	\$ 22,217.04
Total Cash Receipts	<u>22,217.04</u>	<u>22,217.04</u>
Expenditures and Transfers		
Debt Service		
Principal	12,000.00	12,000.00
Interest	<u>11,150.00</u>	<u>10,550.00</u>
Total Expenditures and Transfers	<u>23,150.00</u>	<u>22,550.00</u>
Receipts Over(Under) Expenditures	(932.96)	(332.96)
Unencumbered Cash, Beginning	<u>12,959.74</u>	<u>12,026.78</u>
Unencumbered Cash, Ending	<u>\$ 12,026.78</u>	<u>\$ 11,693.82</u>

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
WATER UTILITY LEASE PURCHASE
PRINCIPAL & INTEREST FUND

Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfers from Water Utility Fund	\$ 11,163.00	\$ 11,163.00
Total Cash Receipts	<u>11,163.00</u>	<u>11,163.00</u>
Expenditures and Transfers		
Debt Service		
Principal	3,432.12	5,200.26
Interest	<u>4,575.30</u>	<u>2,807.16</u>
Total Expenditures and Transfers	<u>8,007.42</u>	<u>8,007.42</u>
Receipts Over(Under) Expenditures	3,155.58	3,155.58
Unencumbered Cash, Beginning	<u>12,872.87</u>	<u>16,028.45</u>
Unencumbered Cash, Ending	<u>\$ 16,028.45</u>	<u>\$ 19,184.03</u>

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
WATER UTILITY RESERVE FUND

Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfer From Water Utility Fund	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures and Transfers		
Debt Service		
Principal	-	-
Interest	-	-
Total Expenditures and Transfers	-	-
Receipts Over(Under) Expenditures	-	-
Unencumbered Cash, Beginning	22,500.00	22,500.00
Unencumbered Cash, Ending	<u>\$ 22,500.00</u>	<u>\$ 22,500.00</u>

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
SEWER UTILITY FUND

Schedule of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts For the Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Operating Revenues				
User Fees	\$ 27,634.47	\$ 27,374.80	\$ 32,000.00	\$ (4,625.20)
Other Revenues				
Reimbursed Expense	34.07	-	-	-
Miscellaneous	160.00	180.23	-	180.23
Total Cash Receipts	27,828.54	27,555.03	\$ 32,000.00	\$ (4,444.97)
Expenditures and Transfers				
Subject to Budget				
Operating Expenditures				
Personal Services	4,142.60	3,759.01	\$ 4,100.00	\$ (340.99)
Contractual Services	3,668.14	4,017.82	5,500.00	(1,482.18)
Commodities	1,958.95	1,160.37	4,000.00	(2,839.63)
Capital Outlay	625.00	-	4,732.00	(4,732.00)
Operating Transfers to:				
General Fund	-	-	5,000.00	(5,000.00)
Special Highway Improvement Reserve Fund	3,000.00	3,000.00	5,000.00	(2,000.00)
G.O. Sewer Utility Bond & Interest Fund	18,052.08	18,052.08	18,052.00	0.08
Total Expenditures and Transfers Subject to Budget	31,446.77	29,989.28	\$ 46,384.00	\$ (16,394.72)
Receipts Over(Under) Expenditures	(3,618.23)	(2,434.25)		
Unencumbered Cash, Beginning	16,479.16	12,860.93		
Unencumbered Cash, Ending	<u>\$ 12,860.93</u>	<u>\$ 10,426.68</u>		

See accompanying independent auditors' report

CITY OF BUFFALO, KANSAS
AGENCY FUNDS
Schedule of Cash Receipts and Cash Disbursements
For the Year Ended December 31, 2011

Agency Funds	Beginning Cash Balances	Cash Receipts	Cash Disbursements	Ending Cash Balances
Meter Deposits Fund	\$ 2,885.00	\$ 950.00	\$ 975.00	\$ 2,860.00
Community Fire Fund	11,034.38	6,752.32	3,709.93	14,076.77
Total Agency Funds	\$ 13,919.38	\$ 7,702.32	\$ 4,684.93	\$ 16,936.77

See accompanying independent auditors' report