

CITY OF GORHAM  
Gorham, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the Year Ended December 31, 2011

**CITY OF GORHAM**  
**GORHAM, KANSAS**  
**For the Year Ended December 31, 2011**

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# GUDENKAUF & MALONE, INC.

## Shareholder

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## Shareholder

James Malone, CPA

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of Gorham  
Gorham, Kansas

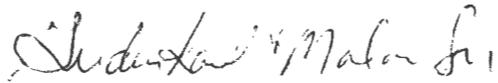
We have audited the accompanying financial statements of the City of Gorham, Kansas as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of the City of Gorham, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial (and summarized) comparative information has been derived from the City's December 31, 2010 financial statements and, in our report dated February 7, 2012, we expressed an unqualified opinion on the financial statements taken as a whole.

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 and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note A, the City of Gorham, Kansas has prepared these financial statements in conformity with the 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 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 paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Gorham, 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 the City of Gorham, Kansas, as of December 31, 2011, and its cash receipts and expenditures or disbursements, and budgetary comparisons for the year then ended, on the basis of accounting described in Note A.



Gudenkauf & Malone, Inc.  
Russell, Kansas  
August 1, 2012

**CITY OF GORHAM, KANSAS**

**SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
For the Year Ended December 31, 2011**

**Statement 1**

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
<b>Governmental Type Funds:</b>							
General Fund	\$ 16,490	68	\$ 123,351	\$ 115,607	\$ 24,302	\$ 5,500	\$ 29,802
<b>Special Revenue Funds:</b>							
City County Highway	4,106	-	15,811	7,736	12,181	7,736	19,917
Personal Benefits	10,195	-	13,191	10,457	12,929	-	12,929
<b>Debt Service Fund:</b>							
Bond and Interest	2,756	-	25,484	26,955	1,285	-	1,285
<b>Proprietary Type Funds:</b>							
<b>Enterprise Funds</b>							
Sewer	101,670	-	69,232	55,584	115,318	-	115,318
Water	9,839	-	106,370	85,198	31,011	-	31,011
Solid Waste	8,874	-	30,206	32,024	7,056	-	7,056
<b>Total Reporting Entity (Excluding Agency Funds)</b>	<b>\$ 153,930</b>	<b>\$ 68</b>	<b>\$ 383,645</b>	<b>\$ 333,561</b>	<b>\$ 204,082</b>	<b>\$ 13,236</b>	<b>\$ 217,318</b>
<b>Composition of Cash:</b>							
Petty Cash							\$ 100
Checking accounts							77,218
Certificate of Deposit							140,000
<b>Total</b>							<b>\$ 217,318</b>

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

**CITY OF GORHAM, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET  
(Budgeted Funds Only)  
For the Year Ended December 31, 2011**

**Statement 2**

Fund	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
<b>Governmental Type Funds:</b>					
General Fund	\$ 143,600	\$ -	\$ 143,600	\$ 115,607	\$ 27,993
<b>Special Revenue Funds:</b>					
City County Highway	16,000	-	16,000	7,736	8,264
Personal Benefits	14,400	-	14,400	10,457	3,943
<b>Debt Service Fund:</b>					
Bond and Interest	26,955	-	26,955	26,955	-
<b>Proprietary Type Funds:</b>					
<b>Enterprise Funds</b>					
Sewer	108,206	-	108,206	55,584	52,622
Water	118,455	-	118,455	85,198	33,257
Solid Waste	-	-	-	32,024	(32,024)
<b>Total</b>	<b>\$ 427,616</b>	<b>\$ -</b>	<b>\$ 427,616</b>	<b>\$ 333,561</b>	<b>\$ 94,055</b>

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**GENERAL FUND**

**Statement 3**  
**1 of 7**

	2011		Variance - Under (Over)	
	2010 Actual	Actual		Budget
Cash receipts				
Ad valorem tax	\$ 45,205	\$ 48,308	\$ 50,013	\$ (1,705)
Delinquent tax	1,950	451	-	451
Motor vehicle tax	8,537	9,901	9,702	199
Liquor tax	1,619	871	500	371
Franchise tax	11,047	9,990	11,000	(1,010)
Sales use tax	43,979	48,288	45,000	3,288
Licenses & permits	365	832	900	(68)
Leases & rent	1,625	1,375	1,500	(125)
Miscellaneous	176	2,218	-	2,218
Interest	1,462	501	500	1
Reimbursement	<u>1,811</u>	<u>616</u>	<u>-</u>	<u>616</u>
Total cash receipts	<u>117,776</u>	<u>123,351</u>	<u>\$ 119,115</u>	<u>\$ 4,236</u>
Expenditures				
Personal services	36,706	39,224	42,000	2,776
Contractual	32,724	49,488	52,500	3,012
Commodities	1,400	6,050	12,500	6,450
Maintenance/Parts	11,279	8,722	-	(8,722)
Capital outlay	24,010	4,846	36,600	31,754
Transfer out	<u>-</u>	<u>7,277</u>	<u>-</u>	<u>(7,277)</u>
Total expenditures	<u>106,119</u>	<u>115,607</u>	<u>\$ 143,600</u>	<u>\$ 27,993</u>
Receipts over (under) expenditures	11,657	7,744		
Unencumbered cash, beginning	4,833	16,490		
Prior Year Cancelled Encumbrance	-	68		
Unencumbered cash, ending	<u>\$ 16,490</u>	<u>\$ 24,302</u>		

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**CITY COUNTY HIGHWAY FUND**

**Statement 3**  
**2 of 7**

		2011		
	2010 Actual	Actual	Budget	Variance - Under (Over)
Cash receipts				
State of Kansas Gas Tax	\$ 8,634	\$ 8,534	\$ 11,000	\$ (2,466)
Transfer In	-	7,277	-	7,277
Total cash receipts	<u>8,634</u>	<u>15,811</u>	<u>\$ 11,000</u>	<u>\$ 4,811</u>
Expenditures				
Street Repair	<u>8,882</u>	<u>7,736</u>	<u>16,000</u>	<u>8,264</u>
Total expenditures	<u>8,882</u>	<u>7,736</u>	<u>\$ 16,000</u>	<u>\$ 8,264</u>
Receipts over (under) expenditures	(248)	8,075		
Unencumbered cash, beginning	<u>4,354</u>	<u>4,106</u>		
Unencumbered cash, ending	<u>\$ 4,106</u>	<u>\$ 12,181</u>		

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**PERSONAL BENEFITS FUND**

Statement 3  
3 of 7

	2010 <u>Actual</u>	2011		Variance - Under (Over)
		<u>Actual</u>	<u>Budget</u>	
Cash receipts				
Ad valorem tax	\$ 11,421	\$ 10,873	\$ 11,259	(386)
Delinquent tax	442	93	-	93
Motor vehicle tax	<u>1,654</u>	<u>2,225</u>	<u>2,451</u>	<u>(226)</u>
Total cash receipts	<u>13,517</u>	<u>13,191</u>	<u>\$ 13,710</u>	<u>\$ (519)</u>
Expenditures				
Social Security	3,474	3,523	4,000	477
Medicare	811	809	1,000	191
Health Insurance	2,277	5,500	6,500	1,000
Workmens Compensation	-	-	1,500	1,500
Unemployment Tax	347	625	-	(625)
Retirement (IRA)	<u>441</u>	<u>-</u>	<u>1,400</u>	<u>1,400</u>
Total expenditures	<u>7,350</u>	<u>10,457</u>	<u>\$ 14,400</u>	<u>\$ 3,943</u>
Receipts over (under) expenditures	6,167	2,734		
Unencumbered cash, beginning	<u>4,028</u>	<u>10,195</u>		
Unencumbered cash, ending	<u>\$ 10,195</u>	<u>\$ 12,929</u>		

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**BOND AND INTEREST FUND**

**Statement 3**  
**4 of 7**

	2010 <u>Actual</u>	2011		Variance - Under (Over)
		<u>Actual</u>	<u>Budget</u>	
Cash receipts				
Ad valorem tax	\$ 15,212	\$ 13,611	\$ 14,094	\$ (483)
Delinquent tax	1,150	142	-	142
Motor vehicle tax	3,756	3,231	3,265	(34)
Transfer from water utility	6,900	6,900	6,900	-
Transfer from sewer utility	<u>1,600</u>	<u>1,600</u>	<u>1,600</u>	<u>-</u>
Total cash receipts	<u>28,618</u>	<u>25,484</u>	<u>25,859</u>	<u>(375)</u>
Expenditures				
Principal	25,000	25,000	25,000	-
Interest	<u>2,780</u>	<u>1,955</u>	<u>1,955</u>	<u>-</u>
Total expenditures	<u>27,780</u>	<u>26,955</u>	<u>\$ 26,955</u>	<u>\$ -</u>
Receipts over (under) expenditures	838	(1,471)		
Unencumbered cash, beginning	<u>1,918</u>	<u>2,756</u>		
Unencumbered cash, ending	<u>\$ 2,756</u>	<u>\$ 1,285</u>		

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**SEWER FUND**

**Statement 3**  
**5 of 7**

	2010 <u>Actual</u>	2011		Variance - Under (Over)
		<u>Actual</u>	<u>Budget</u>	
Cash receipts				
Customer charges	\$ 33,367	\$ 29,518	\$ 45,000	\$ (15,482)
Grant receipts	208,600	39,714	-	39,714
State of KS revolving loan	<u>147,211</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash receipts	<u>389,178</u>	<u>69,232</u>	<u>\$ 45,000</u>	<u>\$ 24,232</u>
Expenditures				
Operations	4,489	7,385	106,606	99,221
Wages	5,410	6,365	-	(6,365)
Transfer to bond and interest fund	1,600	1,600	1,600	-
Principal payments	-	9,384	-	(9,384)
Interest payments	-	4,275	-	(4,275)
Capital outlay	<u>355,811</u>	<u>26,575</u>	<u>-</u>	<u>(26,575)</u>
Total expenditures	<u>367,310</u>	<u>55,584</u>	<u>\$ 108,206</u>	<u>\$ 52,622</u>
Receipts over (under) expenditures	21,868	13,648		
Unencumbered cash, beginning	<u>79,802</u>	<u>101,670</u>		
Unencumbered cash, ending	<u>\$ 101,670</u>	<u>\$ 115,318</u>		

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

**CITY OF GORHAM, KANSAS**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)**

**WATER FUND**

**Statement 3**  
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	2010 <u>Actual</u>	2011		Variance - Under (Over)
		<u>Actual</u>	<u>Budget</u>	
Cash receipts				
Customer charges	\$ 82,767	\$ 106,370	\$ 105,000	\$ 1,370
Sales Tax	\$ 160	\$ -	\$ -	\$ -
Total cash receipts	<u>82,927</u>	<u>106,370</u>	<u>\$ 105,000</u>	<u>\$ 1,370</u>
Expenditures				
Operations	53,091	64,382	90,000	25,618
Personal services	14,485	13,868	18,000	4,132
Contractual	821	-	-	-
Deposit refunds	520	48	3,555	3,507
Capital outlay	12,880	-	-	-
Transfer to bond and interest fund	<u>6,900</u>	<u>6,900</u>	<u>6,900</u>	<u>-</u>
Total expenditures	<u>88,697</u>	<u>85,198</u>	<u>\$ 118,455</u>	<u>\$ 33,257</u>
Receipts over (under) expenditures	(5,770)	21,172		
Unencumbered cash, beginning	<u>15,609</u>	<u>9,839</u>		
Unencumbered cash, ending	<u>\$ 9,839</u>	<u>\$ 31,011</u>		

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

CITY OF GORHAM, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
 For the Year Ended December 31, 2011  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

SOLID WASTE FUND

Statement 3  
 7 of 7

	2010 Actual	2011		Variance - Under (Over)
		Actual	Budget	
Cash receipts				
Customer charges	\$ 35,614	\$ 30,206	\$ -	\$ 30,206
Total cash receipts	<u>35,614</u>	<u>30,206</u>	<u>\$ -</u>	<u>\$ 30,206</u>
Expenditures				
Contractual	<u>31,648</u>	<u>32,024</u>	<u>-</u>	<u>(32,024)</u>
Total expenditures	<u>31,648</u>	<u>32,024</u>	<u>\$ -</u>	<u>\$ (32,024)</u>
Receipts over (under) expenditures	3,966	(1,818)		
Unencumbered cash, beginning	<u>4,908</u>	<u>8,874</u>		
Unencumbered cash, ending	<u>\$ 8,874</u>	<u>\$ 7,056</u>		

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY

The City of Gorham is a municipal corporation governed by an elected Mayor and an elected Council. The City provides the following services: general government administration, water, sewer, and refuse services.

BASIS OF PRESENTATION/FUND ACCOUNTING

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for separately. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

Governmental Funds

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund – This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. This fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than special assessments, private purpose trust, or major capital projects that are legally restricted to expenditures for specific purposes.

Debt Service Funds – These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds and Special Assessment Funds.

Proprietary Funds

These funds account for operations that are self-supporting through user charges. The funds included in this category are Enterprise Funds.

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the 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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fiduciary Funds

These funds account for assets held by the City as a trustee or agent for individuals, private organizations and other units of governments. These funds are as follows:

Agency Funds – These funds are used to account for assets received for, held for, and disbursed to individuals, other State and Local Government unit funds or other governmental or private sector organizations.

STATUTORY BASIS OF ACCOUNTING

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

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

DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of 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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

REIMBURSEMENTS

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

NOTE B – 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:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the 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 the year 2011.

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.

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

NOTE B – BUDGETARY INFORMATION – CONTINUED

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 budget expenditure authority lapses at year-end.

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

NOTE C – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

COMPLIANCE WITH KANSAS STATUTES

K.S.A. 12-1608 – The City did not publish an annual financial statement as required by the statute.

K.S.A. 12-822 – The City did not credit or pay interest on utility deposits as required by the statute.

K.S.A. 79-2934 – The City had no budget authority for the solid waste fund as required by the statute.

NOTE D – 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 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.

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

NOTE D – DEPOSITS AND INVESTMENTS – CONTINUED

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. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the carrying amount of the City's deposits was \$217,318 and the bank balance was \$219,053. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$219,053 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.

NOTE E – PROPERTY TAXES

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

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Property taxes are assessed on a calendar year basis and become a lien on property on November 1 of each year. The taxes

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

NOTE E – PROPERTY TAXES – CONTINUED

are due one-half on December 20<sup>th</sup> and one-half the following May 10<sup>th</sup>. Any taxes unpaid at the due dates are considered delinquent.

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

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

NOTE F – INTERFUND TRANSACTIONS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Water Fund	Bond and Interest Fund	K.S.A. 12-825d	\$ 6,900
Sewer Fund	Bond and Interest Fund	K.S.A. 12-825d	\$ 1,600
General Fund	City-County Hwy Fund	K.S.A. 12-1,119	\$ 7,277

NOTE G – COMPENSATED ABSENCES

The City's employees have accumulated no sick leave or vacation as of December 31, 2011. Total estimated liability for compensated absences is \$0 due to staff turnover. Paid time off is available only to full time employees who have been employed by the City for at least one year.

NOTE H – CLAIMS AND JUDGEMENTS

The City participates in federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government.

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

NOTE H – CLAIMS AND JUDGEMENTS – CONTINUED

The City is exposed to various risks of loss related to property loss; torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2010 to 2011 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations, the City is a party to various claims, legal actions, and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.

NOTE I – RELATED PARTY TRANSACTIONS

In a governmental entity, related parties include members of the governing body, board members, administrative officials, and immediate family of administrative officials, board members, and members of the governing body. The following are not required to be reported, but are presented for information only.

	<u>2011</u>
Gorham Telephone Council member Mike Murphy, his spouse, Mayor Craig Rohleder's spouse, and City Clerk Amber Washburn's spouse are employees	\$2,206
Heartland Building Center Former Mayor/Superintendent Neil Unrein was an employee	\$836
Insurance Planning Inc Former Mayor/Superintendent Neil Unrein's spouse is an employee	\$7,000
Nex-Tech Wireless/Rural Telephone Council member Dru Miller is an employee	\$1,022
Russell Regional Hospital Council member Rob Corley's spouse is an employee	\$1,501

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

**NOTE J – COMPARATIVE DATA**

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, presentation of prior year totals by fund type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain comparative data have been reclassified to present such amounts in a manner consistent with the current year's presentation.

**NOTE K – SUBSEQUENT EVENTS**

Management has evaluated the effects on the financial statements of subsequent events occurring through August 1, 2012 which is the date at which the financial statements were available to be issued.

**NOTE L – USES OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Note M - LONG-TERM DEBT

Changes in Long-term liabilities for the City of Gorham 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	Principal Payments/ Reductions	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Series 2004 Refunding	3.50%	12/01/04	270,000	09/01/12	\$ 55,000	\$ -	\$ (25,000)	\$ (25,000)	\$ 30,000	\$ 1,955
Revolving Loans:										
Wastewater - C20 1702-01	2.58%	01/20/10	\$ 188,202	09/01/30	148,488	39,714	(9,384)	30,330	178,818	3,860
Compensated Absences	N/A	N/A	N/A	N/A	1,241	-	(1,241)	(1,241)	-	N/A
Total Long-Term Debt					<u>\$ 204,729</u>	<u>\$ 39,714</u>	<u>\$ (35,625)</u>	<u>\$ 4,089</u>	<u>\$ 208,818</u>	<u>\$ 5,815</u>

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

Note M - LONG-TERM DEBT - Continued

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2030</u>	<u>Total</u>
<b>PRINCIPAL</b>									
General Obligation Bonds:									
Series 2004 Refunding	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Revolving Loans:									
* Wastewater - C20 1702-01	<u>7,399</u>	<u>7,591</u>	<u>7,788</u>	<u>7,991</u>	<u>8,198</u>	<u>44,298</u>	<u>50,355</u>	<u>45,198</u>	<u>178,818</u>
<b>TOTAL PRINCIPAL</b>	<u>\$ 37,399</u>	<u>\$ 7,591</u>	<u>\$ 7,788</u>	<u>\$ 7,991</u>	<u>\$ 8,198</u>	<u>\$ 44,298</u>	<u>\$ 50,355</u>	<u>\$ 45,198</u>	<u>\$ 208,818</u>
<b>INTEREST</b>									
General Obligation Bonds:									
Series 2004 Refunding	1,080	-	-	-	-	-	-	-	1,080
Revolving Loans:									
* Wastewater - C20 1702-01	<u>4,566</u>	<u>4,374</u>	<u>4,177</u>	<u>3,974</u>	<u>3,767</u>	<u>15,530</u>	<u>9,472</u>	<u>2,663</u>	<u>48,523</u>
<b>TOTAL INTEREST</b>	<u>5,646</u>	<u>4,374</u>	<u>4,177</u>	<u>3,974</u>	<u>3,767</u>	<u>15,530</u>	<u>9,472</u>	<u>2,663</u>	<u>49,603</u>
<b>TOTAL PRINCIPAL AND INTEREST</b>	<u>\$ 43,045</u>	<u>\$ 11,965</u>	<u>\$ 11,965</u>	<u>\$ 11,965</u>	<u>\$ 11,965</u>	<u>\$ 59,828</u>	<u>\$ 59,827</u>	<u>\$ 47,861</u>	<u>\$ 258,421</u>