

City of McLouth

Financial Statements

December 31, 2011

ATC Accounting

City of McLouth, Kansas
Financial Statements
December 31, 2011

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INDEPENDENT AUDITOR'S REPORT
Component Units Are Omitted-Separate Entity Financial Statements Have Been Issued

Honorable Mayor and City Council
City of McLouth
McLouth, Kansas 66054

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

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 a component unit. Accounting principles generally accepted in United States of America require the financial data for those component units to be reported with the financial data of the City's primary government. The primary government financial statements referred to above do not include the financial data of component units of the City of McLouth, Kansas. The effect on the financial statements of the omission of the component units, although not reasonably determined, is presumed to be material.

As described more fully in Note 1, the City has prepared these financial statements using accounting practices prescribed and permitted by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects 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 matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of McLouth, Kansas, as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the City has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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 McLouth, Kansas as of December 31, 2011, and its cash receipts and expenditures, and budgetary comparisons, for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Respectfully submitted,

ATC Accounting

ATC Accounting

June 30, 2012

City of McLouth, Kansas
 Summary of Cash Receipts, Expenditures and Encumbered Cash
 For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances And Accounts Payable	Ending Cash Balance
Governmental Fund Types:						
General	\$ 66,930	\$ 376,596	\$ 401,990	\$ 41,536	\$ 7,890	\$ 49,426
Special Revenue:						
Law Enforcement	980	8,933	9,689	224	-	224
Fire Equipment	3,163	9,124	4,271	8,016	-	8,016
Library	333	21,009	21,342	-	-	-
Special Highway	29,506	22,222	35,336	16,392	-	16,392
Capital Improvement	159,603	70,000	21,963	207,640	-	207,640
Equipment Reserve	11,892	13,783	12,761	12,914	-	12,914
Debt Service:						
Bond and Interest	1,370	11,165	12,351	184	-	184
Proprietary Fund Types:						
Enterprise:						
Water Utility	84,690	242,087	222,466	104,311	5,984	110,295
Sewer Utility	252,257	187,060	203,729	235,588	2,164	237,752
Gas Utility	260,933	255,387	377,390	138,930	954	139,884
Total Reporting Entity	<u>\$ 871,657</u>	<u>\$ 1,217,366</u>	<u>\$ 1,323,288</u>	<u>\$ 765,735</u>	<u>\$ 16,992</u>	<u>\$ 782,727</u>

Checking Accounts	\$ 290,892
Money Market and Savings Accounts	250,951
Certificate of Deposits	<u>240,884</u>
Total Reporting Entity	<u>\$ 782,727</u>

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

City of McLouth, Kansas
 Summary of Expenditures – Actual and Budget
 For the Year Ended December 31, 2011

Description	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable To Current Year Budget	Variance Over (Under)
Governmental Fund Types:					
General	\$ 409,961	\$ -	\$ 409,961	\$ 401,990	\$ (7,971)
Special Revenue:					
Law Enforcement	16,361	-	16,361	9,689	(6,672)
Fire Equipment	11,396	-	11,396	4,271	(7,125)
Library	30,393	-	30,393	21,342	(9,051)
Special Highway	35,336	-	35,336	35,336	-
Debt Service:					
Bond and Interest	13,700	-	13,700	12,351	(1,349)
Proprietary Fund Types:					
Enterprise:					
Water Utility	283,654	-	283,654	222,466	(61,188)
Sewer Utility	407,763	-	407,763	203,729	(204,034)
Gas Utility	537,705	-	537,705	377,390	(160,315)

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

City of McLouth, Kansas
 General Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property	\$ 188,827	\$ 199,162	\$ (10,335)
Delinquent	4,740	3,000	1,740
Motor Vehicle	20,939	25,660	(4,721)
Recreational Vehicle	199	228	(29)
16/20M Truck	121	245	(124)
Alcohol	2,328	-	2,328
Franchise Fees	33,097	30,000	3,097
Sanitation	47,974	50,000	(2,026)
Sales Tax	41,523	44,500	(2,977)
Licenses, Fees and Permits	2,381	1,500	881
Intergovernmental	1,001	-	1,001
Municipal Court	27,781	18,500	9,281
Interest on Idle Funds	2,742	1,200	1,542
Miscellaneous	2,943	10,000	(7,057)
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	376,596	\$ 383,995	\$ (7,399)
Expenditures:			
Salaries and Wages	64,058	\$ 55,500	\$ 8,558
Employee Benefits	15,869	18,000	(2,131)
Police Salaries and Wages	87,259	91,500	(4,241)
Police Employee Benefits	24,088	23,000	1,088
General Government	23,596	36,400	(12,804)
Legal/Contract/Administration	14,940	15,000	(60)
Sanitation	47,838	48,000	(162)
Streets	36,960	50,661	(13,701)
Police Operations and Maintenance	19,126	17,000	2,126
Fire Operations and Maintenance	5,998	6,500	(502)
Court	42,258	8,400	33,858
Capital Outlay	-	30,000	(30,000)
Transfers	20,000	10,000	10,000
	<hr/>	<hr/>	<hr/>
Total Expenditures	401,990	\$ 409,961	\$ (7,971)
Cash Receipts Over (Under) Expenditures	(25,394)		
Unencumbered Cash, January 1	66,930		
	<hr/>		
Unencumbered Cash, December 31	\$ 41,536		

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

City of McLouth, Kansas
Law Enforcement Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property	\$ 7,278	\$ 7,774	\$ (496)
Delinquent	280	150	130
Motor Vehicle	824	1,006	(182)
Recreational Vehicle	8	9	(1)
16/20M Truck	5	10	(5)
Miscellaneous	538	-	538
	8,933	8,949	(16)
Expenditures:			
Capital Outlay	-	\$ 16,361	\$ (16,361)
Commodities	9,689	-	9,689
	-		
Total Expenditures	9,689	\$ 16,361	\$ (6,672)
Cash Receipts Over (Under) Expenditures	(756)		
Unencumbered Cash, January 1	980		
Unencumbered Cash, December 31	\$ 224		

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

City of McLouth, Kansas
 Fire Equipment Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property	\$ 7,658	\$ 8,193	\$ (535)
Delinquent	345	150	195
Motor Vehicle	1,006	1,206	(200)
Recreational Vehicle	9	11	(2)
16/20M Truck	6	12	(6)
Miscellaneous	100	-	100
	<hr/>		
Total Cash Receipts	9,124	\$ 9,572	\$ (448)
	<hr/>		
Expenditures:			
Public Safety	3,445	\$ 3,000	\$ 445
Capital Outlay	826	8,396	(7,570)
	<hr/>		
Total Expenditures	4,271	\$ 11,396	\$ (7,125)
	<hr/>		
Cash Receipts Over (Under) Expenditures	4,853		
Unencumbered Cash, January 1	3,163		
	<hr/>		
Unencumbered Cash, December 31	\$ 8,016		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
 Library Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property	\$ 18,225	\$ 19,466	\$ (1,241)
Delinquent	694	300	394
Motor Vehicle	2,059	2,512	(453)
Recreational Vehicle	19	22	(3)
16/20M Truck	12	24	(12)
Donations	-	5,000	(5,000)
	<hr/>		
Total Receipts	21,009	\$ 27,324	\$ (6,315)
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Expenditures:			
Recreation and Culture	21,342	\$ 30,393	\$ (9,051)
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Cash Receipts Over (Under) Expenditures	(333)		
Unencumbered Cash, January 1	333		
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Unencumbered Cash, December 31	\$ -		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
Bond and Interest Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes			
Ad Valorem Property	\$ 9,623	\$ 10,275	\$ (652)
Delinquent	390	100	290
Motor Vehicle	1,135	1,416	(281)
Recreational Vehicle	11	13	(2)
16/20M Truck	6	14	(8)
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Total Cash Receipts	11,165	\$ 11,818	\$ (653)
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Expenditures:			
Debt Service	12,351	\$ 12,200	\$ 151
Cash Basis Reserve	-	1,500	(1,500)
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Total Expenditures	12,351	\$ 13,700	\$ (1,349)
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Cash Receipts Over (Under) Expenditures	(1,186)		
Unencumbered Cash, January 1	1,370		
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Unencumbered Cash, December 31	\$ 184		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Special Highway Tax	\$ 22,222	\$ 22,580	\$ (358)
Miscellaneous	-	-	-
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Gas Tax	22,222	\$ 22,580	\$ (358)
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Expenditures:			
Street Repair and Maintenance	35,336	\$ 35,336	\$ -
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Total Expenditures	35,336	\$ 25,484	\$ -
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Cash Receipts Over (Under) Expenditures	(13,114)		
Unencumbered Cash, January 1	29,506		
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Unencumbered Cash, December 31	\$ 16,392		
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The notes to the financial statements are an integral part of this statement

City of McLouth, 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)
Cash Receipts:			
Charges for Services	\$ 237,917	\$ 236,400	\$ 1,517
Interest on Idle Funds	418	500	(82)
Miscellaneous	3,752	-	3,752
	<hr/>		
Total Cash Receipts	242,087	\$ 236,900	\$ 5,187
	<hr/>		
Expenditures:			
Salaries and Wages	\$ 40,136	\$ 38,500	\$ 1,636
Employee Benefits	11,207	11,300	(93)
Debt Service	72,360	72,360	-
Training, Testing and Fees	3,005	3,000	5
Operations and Maintenance	26,076	60,200	(34,124)
Insurance	3,922	3,000	922
Legal and Contract Services	6,046	5,000	1,046
Water Purchase	37,480	33,044	4,436
Capital Outlay	-	45,000	(45,000)
Miscellaneous	2,234	12,250	(10,016)
Transfer – Capital Improvements	20,000	-	20,000
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Total Expenditures	222,466	\$ 283,654	\$ (61,188)
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Cash Receipts Over (Under) Expenditures	19,621		
Unencumbered Cash, January 1	84,690		
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Unencumbered Cash, December 31	\$ 104,311		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
Sewer Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Charges for Services	\$ 182,586	\$ 183,800	\$ (1,214)
Interest on Idle Funds	-	900	(900)
Miscellaneous	4,474	-	4,474
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Charges for Services	187,060	\$ 184,700	\$ (2,360)
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Expenditures:			
Salaries and Wages	\$ 19,508	\$ 28,000	\$ (8,492)
Employee Benefits	8,243	9,900	(1,657)
Training, Testing and Fees	764	2,000	(1,236)
Operations and Maintenance	22,775	13,500	9,275
Insurance	3,922	3,000	922
Legal and Contract Services	6,665	2,500	4,165
Capital Outlay	-	230,842	(230,842)
Miscellaneous	16,331	12,500	3,831
Debt Service	105,521	105,521	-
Transfer – Capital Improvements	20,000	-	20,000
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Total Expenditures	203,729	\$ 407,763	\$ (204,034)
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Cash Receipts Over (Under) Expenditures	(16,669)		
Unencumbered Cash, January 1	252,257		
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Unencumbered Cash, December 31	\$ 235,588		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
Gas Utility Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Charges for Services	\$ 248,176	\$ 350,000	\$ (101,824)
Interest on Idle Funds	415	400	15
Miscellaneous	6,796	-	6,796
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Total Cash Receipts	255,387	\$ 350,400	\$ (95,013)
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Expenditures:			
Salaries and Wages	\$ 50,715	\$ 24,084	\$ 26,631
Employee Benefits	12,707	12,630	77
Training, Testing and Fees	1,528	1,200	328
Operations and Maintenance	32,592	38,000	(5,408)
Insurance	3,922	3,000	922
Legal and Contract Services	6,209	5,000	1,209
Gas Purchase	185,084	210,000	(24,916)
Capital Outlay	62,356	241,291	(178,935)
Miscellaneous	2,277	2,500	(223)
Transfer – Capital Improvements	20,000	-	20,000
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Total Expenditures	377,390	\$ 537,705	\$ (160,315)
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Cash Receipts Over (Under) Expenditures	(122,003)		
Unencumbered Cash, January 1	260,933		
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Unencumbered Cash, December 31	\$ 138,930		
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The notes to the financial statements are an integral part of this statement

City of McLouth, Kansas
 Non-Budgeted Funds
 Statement of Cash Receipts and Expenditures - Actual
 For the Year Ended December 31, 2011

	Capital Improvement	Equipment Reserve
Cash Receipts:		
Miscellaneous	\$ -	\$ 3,783
Transfers	70,000	10,000
	70,000	13,783
Total Receipts	70,000	13,783
Expenditures:		
Commodities	3,745	515
Capital Outlay	18,218	12,246
	21,963	12,761
Total Expenditures	21,963	12,761
Cash Receipts Over (Under) Expenditures	48,037	1,022
Unencumbered Cash, January 1	159,603	11,892
	207,640	12,914
Unencumbered Cash, December 31	\$ 207,640	\$ 12,914

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

City of McLouth, Kansas
Notes to the Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies

Reporting Entity

The City of McLouth, Kansas operates as a third class city in accordance with the laws of the State of Kansas. The City operates under a mayor – council form of government and provides the following services: public safety (fire protection), highways and streets, water, sewer, gas, planning and zoning, public improvements, and general administrative services.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization’s governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Library is a component unit of the City. Financial information for the component unit has not been reported in the City’s financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles.

The governing bodies of the following are appointed by the City:

- 1) Library. The McLouth City Library operates the City’s Public Library. Acquisition or disposition of real property by the board must be approved by the City. The City levies taxes for the Library. Bond issuances must be approved by the City.

The Library’s unaudited financial statements can be obtained from the City Clerk.

Fund Accounting

In governmental 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 McLouth for the year 2011.

Governmental Funds:

General Fund—To account for all unrestricted financial 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 Funds – To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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 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.

Reimbursed Expenditures

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

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. Encumbrances are commitments related to unperformed (executor) 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 is charged in the fund from which the transfer is made.

The municipality has adopted a resolution that is in compliance with Kansas Statutes, waiving the requirement for application of generally accepted accounting principles and allowing the municipality to revert to the statutory 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 receipts, cash disbursements, 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 balances 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 accounting principles generally accepted in the United States of America. General fixed assets that account for the land, building, and equipment owned by

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

2. 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.

The statutes provide for the following sequence and timetable in adoption of the legal annual operating budgets:

- 1 Preparation of the 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 final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously non-budgeted 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. No funds were amended for the year ended December 31, 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.

All legal annual operating budgets are prepared using the statutory basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as purchase order or contract. All unencumbered appropriations lapse at year-end.

A legal operating budget is not required for the Special Revenue Funds and Capital Improvements.

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.

3. Property Taxes

Property taxes are levied November 1st of the calendar year. A lien is placed on the property when the taxes are levied. The taxes are due ½ on December 20th and ½ the following May 10th. Any taxes unpaid at the due dates are considered delinquent. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year: such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operation of the City and therefore are not susceptible to accrual.

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.

4. Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, are recorded as expenditures during the year of purchase.

5. Deposits and Investments

At December 31, 2011, the City had no 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 municipality is located and the banks provide an acceptable rate of return of the 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, except during designated "peak periods" when required coverage is 50%. The City has not designated any "peak periods" with eligible depositories. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$782,727 and the bank balance was \$790,492. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and \$540,492 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

6. Defined Benefit Plan

Plan Description

The City of McLouth contributes to the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issue a publicly available financial report that includes financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100; Topeka, KS 66603) 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 with employees hired after July 1, 2009 contributing 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 basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for 2011, which includes pension contributions and group death disability insurance, was 7.74%. The employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$18,795, \$14,390 and \$7,058, respectively, equal to the required contributions for each year.

7. Compensated Absences

Vacation Pay

A full-time employee may accrue vacation of 6.67 hours per month with 0 to 5 years of service, 8 hours per month with 6 to 10 years of service, 10 hours per month with 11 to 15 years of service and 12 hours per month with more than 15 years of service. The maximum amount of vacation available is three weeks per year. Vacation is vested, and terminating employees will be paid for vacation not taken. The cost of accumulated vacation leave is shown in Footnote 12 and will be recorded as an expenditure at the time the vacation is utilized, as normal personal service expenditure.

Sick Leave

Full-time employees may accrue sick leave at the rate of 1 day per month with a maximum accumulation of 90 days. Upon termination or resignation, no payment for unused sick leave will be made. The cost of accumulated sick pay has not been estimated or accrued by the City as of December 31, 2011 since no liability to pay upon termination.

8. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. Each retiree would pay the full amount of the applicable premium, conceptually; the City would be subsidizing the retirees because each participant would be charged a level premium regardless of age. As of December 31, 2011 the City had no retirees participating in the group health insurance plan.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

9. Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Water	Capital Improvements	K.S.A. 12-852d	20,000
Sewer	Capital Improvements	K.S.A. 12-852d	20,000
Gas	Capital Improvements	K.S.A. 12-852d	20,000
General	Capital Improvements	K.S.A. 12-1,118	10,000
General	Equipment Reserve	K.S.A. 12-1,118	10,000

10. Risk Management

The city is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the City purchases commercial insurance.

During the year ended December 31, 2011, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

11. Subsequent Events

In preparing the financial statements, the City of McLouth's management has performed an evaluation of activity for potential recognition or disclosure through June 30, 2012, the date the financial statements were available to be issued. Management has concluded that there are no significant subsequent events requiring disclosure.

12. Long Term Debt

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

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds: 2005 Issue	3.75% to 5.00%	6/1/2005	\$ 100,000	10/1/2015	\$ 50,000	-	\$ 10,000	\$ -	\$ 40,000	\$ 2,350
KDHE Loans:										
Water Improvements	4.31%	11/18/1997	1,132,133	02/1/2019	510,445	-	50,903	-	459,542	21,458
Sewer Improvements	3.57%	04/05/2000	1,702,238	09/1/2021	953,015	-	72,136	-	880,879	33,385
Total Contractual Indebtedness					1,513,460		133,039	-	1,380,421	57,193
Compensated Absences					10,632	-	-	3,337	13,969	
Total Long-Term Debt					\$1,524,092	-	\$ 133,039	\$ 3,337	\$1,394,390	\$ 57,193

Current maturities of long-term debt and interest through maturity are as follows:

	2012	2013	2014	2015	2016	2017-2021	Total
Principal							
General Obligation Bonds	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ -	\$ -	\$ 40,000
KDHE Loan – Water	53,120	55,434	57,849	60,370	62,999	169,770	459,542
KDHE Loan – Sewer	74,735	77,426	80,215	83,104	86,098	479,301	880,879
Leases	-	-	-	-	-	-	-
Total Principal	137,855	142,860	148,064	153,474	149,097	649,071	1,380,421
Interest:							
General Obligation Bonds	1,910	1,460	990	500	-	-	4,860
KDHE Loan – Water	19,240	16,926	14,511	11,991	9,361	11,132	83,161
KDHE Loan – Sewer	30,786	28,094	25,306	22,416	19,423	48,303	174,328
Leases							
Total Interest	51,936	46,480	40,807	34,907	28,784	59,435	262,349
Total Principal and Interest	\$ 189,791	\$ 189,340	\$ 188,871	\$ 188,381	\$ 177,881	\$ 708,506	\$ 1,642,770