

**CITY OF WEST MINERAL
WEST MINERAL, KANSAS**

For the Year Ended December 31, 2011

Special Financial Statement

Water and Sewer Utility Funds and
Independent Auditors' Report

CITY OF WEST MINERAL, KANSAS

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*Diehl
Banwart
Bolton*

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

To the Mayor and the City Council
City of West Mineral, Kansas

We have audited the Summary of Cash Receipts, Expenditures and Unencumbered Cash of the Water Utility Fund, Sewer Utility Fund, Sewer Bond and Interest Fund, and Sewer Reserve Fund of the City of West Mineral, Kansas, as of and for the year ended December 31, 2011. This financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As described in Note 1, the City's policy is to prepare its financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting practices generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As described in Note 1, the financial statements referred to above include only the Water and Sewer Utility Funds of the City and are not intended to present fairly the financial position of the City at December 31, 2011, or the proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statement referred to in the first paragraph does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of West Mineral, Kansas, as of December 31, 2011, or the results of its operations, or cash flows of its proprietary fund types for the year then ended.

Also, in our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash and unencumbered cash balances of Utility Funds for the City of West Mineral, Kansas, as of December 31, 2011, and revenues received and expenditures paid of such funds 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 budgeted and the individual fund schedules of cash receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the statutory financial statement. 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 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.

Diehl Banwart Bolton CPA's PA

DIEHL, BANWART, BOLTON, CPAs P.A.

June 21, 2012
Fort Scott, Kansas

CITY OF WEST MINERAL, KANSAS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus		Cash Balances December 31, 2011
					Encumbrances and Accounts Payable		
PROPRIETARY TYPE FUNDS							
Enterprise							
Water Utility	\$22,525.83	\$37,109.32	\$35,978.31	\$23,656.84	\$1,291.75		\$24,948.59
Sewer Utility	11,909.73	21,086.65	17,879.38	15,117.00	102.64		15,219.64
Sewer Bond and Interest	4,039.40	4,460.04	4,455.00	4,044.44	-		4,044.44
Sewer Reserve	4,435.00	-	-	4,435.00	-		4,435.00
Total Reporting Entity	\$42,909.96	\$62,656.01	\$58,312.69	\$47,253.28	\$1,394.39		\$48,647.67
				Composition of Cash			
				General Checking Account.....			\$48,647.67
				Total Reporting Entity			<u>\$48,647.67</u>

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

CITY OF WEST MINERAL, KANSAS

Notes to the Financial Statement
For the Year Ended December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the City of West Mineral, Kansas, has 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.

Reporting Entity

The City of West Mineral, Kansas, (the City) is a municipal corporation governed by an elected five member City Council. This financial statement presents only the utility funds of the City of West Mineral, Kansas (the primary government). Component units should be included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City has determined that there are no outside entities which should be included as component units.

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, restriction, or limitations.

The following types of funds comprise the financial activities of the Water and Sewer Utility Funds of West Mineral, Kansas:

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation - Statutory Basis Financial Statements

The City obtained a waiver from accounting principles generally accepted in the United States of America as provided by K.S.A. 1982 Sup. 75-1120a (c) for the year ended December 31, 2011. Accordingly, these financial statements are presented in compliance with the cash-basis and budget laws of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when cash is received and include cash receipts and transfers, expenditures include cash disbursements, transfers, accounts payable and encumbrances -- that is, commitments related to unperformed (executory) contracts for goods or services.

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

The basis of presentation described above results in a statement of revenues on the cash basis and expenditures on a modified accrual basis further modified by the inclusion of encumbrances. Balance Sheets that would have shown non-cash assets such as receivables, inventories, prepaid and fixed assets expense, liabilities such as deferred revenue and principal and interest payable, and reservations of the fund balance are not presented. Under U.S. generally accepted accounting principles, 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 U.S. generally accepted accounting principles. In addition, General Fixed Assets that account for the land, buildings and equipment owned by the City of West Mineral, Kansas, are not recorded.

The required balance sheet, income statement, and the statement of cash flows are not presented for the proprietary fund types. U.S. generally accepted accounting principles require these fund types to be accounted for by the full accrual method of accounting.

The audit was performed for the purpose of determining compliance with K.S.A. 12-866 and K.S.A. 10-1208. Though Enterprise Funds are an integral function of the City, the financial statement does not include other various funds and account groups of the City. Accordingly, the statement in this report is not intended to make any representations with regard to the financial position or results of operations of the City as a whole.

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 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 of the proposed budget and notice of public hearing on the budget on or before August 5.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)
Budgetary Information (Continued)

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.

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 individual funds.

Annual operating budgets are prepared using the cash basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. Expenditures include cash 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 a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

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

Cash and Investments

Cash and investments include an interest bearing checking account. Kansas Statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences

The City does not provide sick or vacation benefits beyond the year earned.

Pension Plan

The City does not participate in the State of Kansas Public Employees Retirement System, which is a multi-employer statewide pension plan.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 on 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 or 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.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Revenue Bond Covenants

The bond ordinance to issue Series 1981 Sewer Revenue Bonds, contains the following requirements:

The bond ordinance requires the City to fix and establish sewer rates sufficient to produce a net income after the payment of the operation and maintenance expenses, in an amount equal to 125% of the next years principal and interest requirements of all outstanding sewer revenue bonds. For the year ended December 31, 2011, 125% of the next year's principal and interest would be \$5,531.25. Net income is computed as follows:

Sewer Utility Fund	
Total Receipts	\$ 21,086.65
Less: Operations and Maintenance	<u>(2,305.68)</u>
Net Income	<u>\$ 18,780.97</u>
Net Income Required	<u>\$ 5,531.25</u>

The City is required to maintain certain reserve funds as follows:

	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
Bond and Interest Account for 1981 Sewer Revenue Bonds - requires transfers monthly of 1/12 of the next maturing principal and interest.	\$ 4,432.50	\$ 4,460.00

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (Continued)

	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
Reserve Account for 1981 Sewer Revenue Bonds - Requires monthly transfers until a maximum of \$4,435 is reached.	4,435.00	4,435.00

Compliance with Kansas Statutes

The financial statement and supplemental schedule 1 have been prepared in order to show compliance with the cash-basis and budget laws of Kansas. As shown in the statement and schedule, it appears the City was in compliance with the cash basis and budget laws of Kansas.

3. **CASH, INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS**

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 and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

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

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the 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%. At December 31, 2011, the City's deposits were adequately secured.

At December 31, 2011 the City's carrying amount of deposits was \$112,818.63 and the bank balance was \$111,165.09. The bank balance was held by one bank resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance.

4. 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 continues to carry commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

5. OTHER COMMITMENTS

The City of West Mineral entered into an agreement dated February 5, 1993, to purchase a minimum of 200,000 gallons of water and a maximum of 400,000 gallons of water per month from Public Wholesale Water Supply District No. 11. The term of the agreement is 40 years. The current price, which may be adjusted, is \$3.75 per 1,000 gallons.

6. INTERFUND TRANSFERS

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Sewer Utility	Sewer Bond and Interest	K.S.A. 10-1204	\$ 4,460.04

7. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2011 through the date of the issuance of the financial statements as shown in the Independent Auditors' Report on page two of these financial statements. During this period, there were no subsequent events requiring recognition in the financial statements or disclosure in the notes to the financial statements.

8. LONG-TERM DEBT

Attached are schedules detailing the changes in long-term debt and the maturities of long-term debt payable from the utility funds.

8. **LONG TERM DEBT** (Continued)

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Revenue Bonds Sewer Utility System Series 1981	5.00%	4/1/1981	74,100.00	04/01/21	\$ 37,100.00	\$ -	\$ 2,600.00	\$ 34,500.00	\$ 1,855.00
Kansas Department of Health and Environment Revolving Sewer Loan	3.11%	4/4/2002	360,350.00	03/01/25	125,367.28	-	7,270.83	118,096.45	3,842.83
					\$162,467.28	\$ -	\$ 9,870.83	\$ 152,596.45	\$ 5,697.83

8. LONG TERM DEBT (Continued)

Issue	2012	2013	2014	2015	2016	2017 to 2021	2022 to 2024	Totals
<u>PRINCIPAL</u>								
Revenue Bonds								
Sewer Utility System								
Series 1981	\$ 2,700.00	\$ 2,800.00	\$ 3,000.00	\$ 3,100.00	\$ 3,300.00	\$ 19,600.00	\$ -	\$ 34,500.00
Kansas Department of Health and Environment Revolving Sewer Loan	7,498.70	7,733.73	7,976.11	8,226.10	8,483.93	46,578.81	31,599.07	118,096.45
	<u>\$ 10,198.70</u>	<u>\$ 10,533.73</u>	<u>\$ 10,976.11</u>	<u>\$ 11,326.10</u>	<u>\$ 11,783.93</u>	<u>\$ 66,178.81</u>	<u>\$ 31,599.07</u>	<u>\$ 152,596.45</u>
<u>INTEREST</u>								
Revenue Bonds								
Sewer Utility System								
Series 1981	\$ 1,725.00	\$ 1,590.00	\$ 1,450.00	\$ 1,300.00	\$ 1,145.00	\$ 3,080.00	\$ -	\$ 10,290.00
Kansas Department of Health and Environment Revolving Sewer Loan	3,614.96	3,379.93	3,137.55	2,887.56	2,629.73	8,989.49	1,741.91	26,381.13
	<u>\$ 5,339.96</u>	<u>\$ 4,969.93</u>	<u>\$ 4,587.55</u>	<u>\$ 4,187.56</u>	<u>\$ 3,774.73</u>	<u>\$ 12,069.49</u>	<u>\$ 1,741.91</u>	<u>\$ 36,671.13</u>

CITY OF WEST MINERAL, KANSAS
For the Year Ended December 31, 2011

SUPPLEMENTAL INFORMATION

CITY OF WEST MINERAL, KANSAS

Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget For Comparison	Expenditures		Variance - Favorable (Unfavorable)
				Charged to Current Year Budget	Charged to Current Year Budget	
PROPRIETARY TYPE FUNDS						
Enterprise						
Water Utility	\$55,000.00	-	\$55,000.00	\$35,978.31	\$19,021.69	
Sewer Utility	31,100.00	-	31,100.00	17,879.38	13,220.62	
Sewer Bond and Interest	4,855.00	-	4,855.00	4,455.00	400.00	
Total Reporting Entity	<u>\$86,100.00</u>					

CITY OF WEST MINERAL, KANSAS
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Charges for Services			
Customer charges	\$37,109.32	\$40,000.00	(\$2,890.68)
Other	-		
Total Cash Receipts	<u>37,109.32</u>	<u>\$40,000.00</u>	<u>(\$2,890.68)</u>
Expenditures			
Operations and Maintenance	35,978.31	\$45,000.00	\$9,021.69
Capital Outlays	-	10,000.00	10,000.00
Operating Transfers to Other Funds			
Sewer Utility	-	-	-
General	-	-	-
Total Expenditures	<u>35,978.31</u>	<u>\$55,000.00</u>	<u>\$19,021.69</u>
Receipts Over (Under) Expenditures	1,131.01		
Unencumbered Cash, Beginning	<u>22,525.83</u>		
Unencumbered Cash, Ending	<u>\$23,656.84</u>		

CITY OF WEST MINERAL, KANSAS
SEWER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Charges for services			
Customer charges	\$21,086.65	\$22,000.00	(\$913.35)
Operating Transfers from Other Funds			
Water Utility	-	-	-
Total Cash Receipts	<u>21,086.65</u>	<u>\$22,000.00</u>	<u>(\$913.35)</u>
Expenditures			
Operations and Maintenance	2,305.68	\$15,000.00	\$12,694.32
Capital Outlays	-	-	-
KDHE Sewer Loan Payments	11,113.66	11,500.00	386.34
Operating Transfer to Other Funds			
Sewer Bond and Interest	4,460.04	4,600.00	139.96
Total Expenditures	<u>17,879.38</u>	<u>\$31,100.00</u>	<u>\$13,220.62</u>
Receipts Over (Under) Expenditures	3,207.27		
Unencumbered Cash, Beginning	<u>11,909.73</u>		
Unencumbered Cash, Ending	<u>\$15,117.00</u>		

CITY OF WEST MINERAL, KANSAS
SEWER BOND AND INTEREST FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Operating Transfer from Sewer Utility Fund	\$4,460.04	\$4,500.00	(\$39.96)
Total Cash Receipts	<u>4,460.04</u>	<u>\$4,500.00</u>	<u>(\$39.96)</u>
Expenditures			
Debt Service			
Principal	2,600.00	\$2,600.00	-
Interest	1,855.00	1,855.00	-
Other	-	400.00	400.00
Total Expenditures	<u>4,455.00</u>	<u>\$4,855.00</u>	<u>\$400.00</u>
Receipts Over (Under) Expenditures	5.04		
Unencumbered Cash, Beginning	<u>4,039.40</u>		
Unencumbered Cash, Ending	<u>\$4,044.44</u>		

CITY OF WEST MINERAL, KANSAS
SEWER RESERVE FUND
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011

	Current Year Actual
Cash Receipts	
Miscellaneous	-
Total Cash Receipts	-
Expenditures	
Debt Service	-
Total Expenditures	-
Receipts Over (Under) Expenditures	-
Unencumbered Cash, Beginning	4,435.00
Unencumbered Cash, Ending	<u>\$4,435.00</u>