

CITY OF POTWIN

POTWIN, KANSAS

**Special Financial Statements**

December 31, 2011

City of Potwin, Kansas

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December 31, 2011

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# Knudsen Monroe & Company LLC

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Potwin  
Potwin, Kansas

We have audited the accompanying financial statements of the City of Potwin, Kansas, as of and for the year ended December 31, 2011. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2010 financial statements and, in our report dated October 6, 2011, 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.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of these component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City 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, is presumed to be material.

In our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the City's policy to prepare its financial statements on the basis of accounting 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 Potwin, Kansas, as of December 31, 2011, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Primary Government of the City of Potwin, Kansas, as of December 31, 2011, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

*Knudsen, Monroe & Company, LLC*

Certified Public Accountants  
December 3, 2012

City of Potwin, Kansas  
SUMMARY STATEMENT OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH  
Year ended December 31, 2011

<u>Funds</u>	Unencumbered Cash Balance <u>12-31-10</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>12-31-11</u>	<u>Encumbrances</u>	Cash Balance <u>12-31-11</u>
General	\$ 24,504	262,574	248,997	38,081	-	38,081
Special Revenue						
Employee benefits	10,550	19,588	25,132	5,006	-	5,006
Library	861	13,622	13,176	1,307	-	1,307
Special fire equipment	21,354	11,741	21,294	11,801	-	11,801
Consolidated streets	32,925	30,090	50,113	12,902	-	12,902
Municipal equipment	28,391	38,396	-	66,787	-	66,787
Debt Service						
Bond and interest	10,355	33,915	33,468	10,802	-	10,802
Enterprise						
Waterworks						
Operating	22,837	197,001	193,388	26,450	-	26,450
Operation and maintenance	5,384	-	5,000	384	-	384
O & M (Whitewater)	19,257	5,000	-	24,257	-	24,257
Sewer						
Operating	6,373	48,771	49,064	6,080	-	6,080
Reserve	1,374	-	-	1,374	-	1,374
Replacement reserve	1,034	672	-	1,706	-	1,706
Refuse	1,154	31,538	31,301	1,391	-	1,391
Trust						
Community House Gift	<u>2,432</u>	<u>187</u>	<u>827</u>	<u>1,792</u>	<u>-</u>	<u>1,792</u>
Total primary government	<u>\$ 188,785</u>	<u>693,095</u>	<u>671,760</u>	<u>210,120</u>	<u>-</u>	<u>210,120</u>

City of Potwin, Kansas  
SUMMARY STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET  
Year ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
General	215,460	38,388	253,848	248,997	(4,851)
Special Revenue					
Employee benefits	26,400	-	26,400	25,132	(1,268)
Library	7,200	5,976	13,176	13,176	-
Special fire equipment	32,000	-	32,000	21,294	(10,706)
Consolidated streets	60,000	-	60,000	50,113	(9,887)
Debt Service					
Bond and interest	40,000	-	40,000	33,468	(6,532)
Enterprise					
Water operating	211,389	-	211,389	193,388	(18,001)
Sewer operating	58,225	-	58,225	49,064	(9,161)
Refuse	<u>37,300</u>	<u>-</u>	<u>37,300</u>	<u>31,301</u>	<u>(5,999)</u>
Expenditures subject to current budget	<u>\$ 687,974</u>	<u>44,364</u>	<u>732,338</u>	665,933	<u>(66,405)</u>
Expenditures not subject to budget				<u>5,827</u>	
Total primary government				<u>\$ 671,760</u>	

## City of Potwin, Kansas

## General Fund

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 78,426	84,602	90,488	(5,886)
Delinquent tax	6,321	13,815	3,500	10,315
Vehicle tax	14,449	14,915	14,968	(53)
Sales tax	4,007	8,029	6,000	2,029
Liquor tax	-	164	-	164
Franchise tax	20,663	23,652	21,000	2,652
Community house rent	1,240	1,228	1,500	(272)
Fire contracts	23,196	46,984	44,500	2,484
Siren grant	-	28,751	-	28,751
Fines, fees, permits and other	1,273	1,854	2,000	(146)
Vendor fees	-	3,610	-	3,610
Interest on investments	210	68	500	(432)
Insurance proceeds	-	19,725	-	19,725
Donation	-	10,000	-	10,000
Reimbursements	1,556	-	-	-
Miscellaneous	3,576	5,177	6,500	(1,323)
	154,917	262,574	190,956	71,618
EXPENDITURES, page 5	149,299	248,997		
Receipts over (under) expenditures	5,618	13,577		
UNENCUMBERED CASH, beginning	18,886	24,504		
UNENCUMBERED CASH, ending	\$ 24,504	38,081		

## City of Potwin, Kansas

## General Fund

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b>EXPENDITURES</b>				
General				
Personal services	\$ 36,536	45,843	43,000	2,843
Contractual services	14,751	24,740	25,000	(260)
Utilities	4,805	4,428	6,000	(1,572)
Commodities and other	16,527	10,597	10,000	597
Capital outlay	-	-	13,560	(13,560)
Fire				
Contractual services and other	18,268	19,543	20,000	(457)
Transfer to Municipal Equipment Fund	4,969	27,577	24,500	3,077
Capital outlay	-	28,751	-	28,751
Parks				
Personal services	373	922	3,600	(2,678)
Other	3,065	7,254	3,000	4,254
Court	2,358	751	1,500	(749)
Street lights	6,155	6,294	6,500	(206)
Community House	14,252	15,002	15,000	2
Scout House	682	280	1,000	(720)
Library	265	8,046	1,000	7,046
Police protection	15,697	16,798	16,800	(2)
Audit	3,239	12,050	-	12,050
Property tax	3,378	-	4,000	(4,000)
IRS tax levy	-	8,777	-	8,777
Other	3,979	11,344	10,000	1,344
Transfers				
Municipal Equipment Fund	-	-	8,000	(8,000)
Consolidated Streets Fund	-	-	3,000	(3,000)
	149,299	248,997	215,460	33,537
Adjustment for qualifying budget credits	-	-	38,388	(38,388)
<b>Total expenditures</b>	<b>\$ 149,299</b>	<b>248,997</b>	<b>253,848</b>	<b>(4,851)</b>

City of Potwin, Kansas  
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>EMPLOYEE BENEFITS FUND</u></b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 15,449	13,816	14,783	(967)
Delinquent tax	986	2,828	700	2,128
Vehicle tax	3,452	2,944	2,949	(5)
	<u>19,887</u>	<u>19,588</u>	<u>18,432</u>	<u>1,156</u>
<b>EXPENDITURES</b>				
FICA and Medicare	3,385	2,893	4,000	(1,107)
Unemployment	159	49	100	(51)
KPERS	5,749	4,915	5,500	(585)
Workers compensation	1,174	1,242	1,800	(558)
Health insurance	10,117	16,033	15,000	1,033
	<u>20,584</u>	<u>25,132</u>	<u>26,400</u>	<u>(1,268)</u>
Receipts over (under) expenditures	(697)	(5,544)		
UNENCUMBERED CASH, beginning	<u>11,247</u>	<u>10,550</u>		
UNENCUMBERED CASH, ending	<u>\$ 10,550</u>	<u>5,006</u>		
<b><u>LIBRARY FUND</u></b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 4,820	4,863	5,203	(340)
Delinquent tax	408	863	200	663
Vehicle tax	914	917	920	(3)
Reimbursements	4,626	6,979	-	6,979
	<u>10,768</u>	<u>13,622</u>	<u>6,323</u>	<u>7,299</u>
<b>EXPENDITURES</b>				
Salaries and benefits	5,640	5,656	-	5,656
Appropriations to Library Board	5,274	7,520	7,200	320
	10,914	13,176	7,200	5,976
Adjustment for qualifying budget credits	-	-	5,976	(5,976)
Total expenditures	<u>10,914</u>	<u>13,176</u>	<u>13,176</u>	<u>-</u>
Receipts over (under) expenditures	(146)	446		
UNENCUMBERED CASH, beginning	<u>1,007</u>	<u>861</u>		
UNENCUMBERED CASH, ending	<u>\$ 861</u>	<u>1,307</u>		

## City of Potwin, Kansas

## Special Revenue Funds

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>SPECIAL FIRE EQUIPMENT FUND</u></b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 6,199	6,255	6,690	(435)
Delinquent tax	458	1,035	200	835
Vehicle tax	1,042	1,176	1,183	(7)
Other	-	175	-	175
State of Kansas grant	-	3,100	-	3,100
	<u>7,699</u>	<u>11,741</u>	<u>8,073</u>	<u>3,668</u>
<b>EXPENDITURES</b>				
Capital outlay	10,345	19,274	32,000	(12,726)
No fund warrant	-	2,020	-	2,020
	<u>10,345</u>	<u>21,294</u>	<u>32,000</u>	<u>(10,706)</u>
Receipts over (under) expenditures	(2,646)	(9,553)		
UNENCUMBERED CASH, beginning	<u>24,000</u>	<u>21,354</u>		
UNENCUMBERED CASH, ending	<u>\$ 21,354</u>	<u>11,801</u>		
<b><u>CONSOLIDATED STREETS FUND</u></b>				
<b>RECEIPTS</b>				
State payments	\$ 11,630	11,522	11,880	(358)
County payments	1,920	2,044	2,150	(106)
Other	8	-	-	-
Sales tax	16,723	11,978	20,000	(8,022)
Transfer from Refuse Fund	4,686	4,546	4,800	(254)
Transfer from Sewer Fund	5,000	-	-	-
Transfer from Water Operating Fund	5,000	-	5,000	(5,000)
Transfer from General Fund	-	-	3,000	(3,000)
	<u>44,967</u>	<u>30,090</u>	<u>46,830</u>	<u>(16,740)</u>
<b>EXPENDITURES</b>				
Personal services	2,253	1,663	-	1,663
Contractual services	43,430	47,093	60,000	(12,907)
Commodities and other	1,277	1,357	-	1,357
	<u>46,960</u>	<u>50,113</u>	<u>60,000</u>	<u>(9,887)</u>
Receipts over (under) expenditures	(1,993)	(20,023)		
UNENCUMBERED CASH, beginning	<u>34,918</u>	<u>32,925</u>		
UNENCUMBERED CASH, ending	<u>\$ 32,925</u>	<u>12,902</u>		

City of Potwin, Kansas  
**Special Revenue Funds**

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>MUNICIPAL EQUIPMENT FUND</u></b>				
<b>RECEIPTS</b>				
Interest	\$ 26	10		
Other	-	10,809		
Transfer from General Fund	<u>4,969</u>	<u>27,577</u>		
	4,995	38,396		
<b>EXPENDITURES</b>				
Capital outlay	<u>-</u>	<u>-</u>		NOT APPLICABLE
Receipts over (under) expenditures	4,995	38,396		
UNENCUMBERED CASH, beginning	<u>23,396</u>	<u>28,391</u>		
UNENCUMBERED CASH, ending	<u>\$ 28,391</u>	<u>66,787</u>		

## City of Potwin, Kansas

**Debt Service Fund**

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>BOND AND INTEREST FUND</u></b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 22,538	19,087	20,427	(1,340)
Delinquent tax	2,052	4,196	1,000	3,196
Vehicle tax	4,646	4,300	4,303	(3)
Special assessments	6,799	6,332	4,716	1,616
	<u>36,035</u>	<u>33,915</u>	<u>30,446</u>	<u>3,469</u>
<b>EXPENDITURES</b>				
Principal	22,000	23,000	23,000	-
Interest	11,555	10,465	10,465	-
Commission	2	3	535	(532)
Cash basis reserve	-	-	6,000	(6,000)
	<u>33,557</u>	<u>33,468</u>	<u>40,000</u>	<u>(6,532)</u>
Receipts over (under) expenditures	2,478	447		
UNENCUMBERED CASH, beginning	<u>7,877</u>	<u>10,355</u>		
UNENCUMBERED CASH, ending	<u>\$ 10,355</u>	<u>10,802</u>		

## City of Potwin, Kansas

## Enterprise Funds

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b>WATER OPERATING FUND</b>				
<b>RECEIPTS</b>				
Water sales - residents	\$ 112,514	120,369	108,000	12,369
Water sales - Whitewater	51,081	51,974	58,000	(6,026)
Penalties and taxes	5,152	7,207	6,000	1,207
Connect fees	810	1,065	750	315
City of Whitewater fee	14,981	15,211	15,000	211
Interest	<u>1,415</u>	<u>1,175</u>	<u>1,000</u>	<u>175</u>
	<u>185,953</u>	<u>197,001</u>	<u>188,750</u>	<u>8,251</u>
<b>EXPENDITURES</b>				
Personal services	36,614	38,310	29,500	8,810
Utilities	5,279	5,684	5,500	184
Contractual services	20,384	25,402	22,000	3,402
Commodities and other	17,574	17,873	20,000	(2,127)
Miscellaneous	-	2,782	10,000	(7,218)
Capital outlay	4,760	-	4,000	(4,000)
Purchase of water	83,950	87,948	95,000	(7,052)
KDHE revolving loan	10,389	10,389	10,389	-
Transfer to Consolidated Streets Fund	5,000	-	5,000	(5,000)
Transfer to Water Reserve	5,000	-	5,000	(5,000)
Transfer to Waterworks O & M	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
	<u>193,950</u>	<u>193,388</u>	<u>211,389</u>	<u>(18,001)</u>
Receipts over (under) expenditures	(7,997)	3,613		
UNENCUMBERED CASH, beginning	<u>30,834</u>	<u>22,837</u>		
UNENCUMBERED CASH, ending	<u>\$ 22,837</u>	<u>26,450</u>		

City of Potwin, Kansas  
Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance- Over (Under)
		Actual	Budget	
<b><u>WATERWORKS OPERATION AND MAINTENANCE</u></b>				
<b>RECEIPTS</b>				
Transfer from Water Operating	\$ 5,000	-		
<b>EXPENDITURES</b>				
Maintenance expenditures	-	5,000		NOT APPLICABLE
Receipts over (under) expenditures	5,000	(5,000)		
UNENCUMBERED CASH, beginning	384	5,384		
UNENCUMBERED CASH, ending	<u>\$ 5,384</u>	<u>384</u>		
<b><u>WATERWORKS O &amp; M (Whitewater)</u></b>				
<b>RECEIPTS</b>				
Transfer from Water Operating	\$ 5,000	5,000		
<b>EXPENDITURES</b>				
Maintenance expenditures	8,327	-		NOT APPLICABLE
Receipts over (under) expenditures	(3,327)	5,000		
UNENCUMBERED CASH, beginning	22,584	19,257		
UNENCUMBERED CASH, ending	<u>\$ 19,257</u>	<u>24,257</u>		

## City of Potwin, Kansas

## Enterprise Funds

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>SEWER OPERATING FUND</u></b>				
<b>RECEIPTS</b>				
Sewer fees	\$ 49,255	48,771	52,000	(3,229)
<b>EXPENDITURES</b>				
Personal services	15,800	18,367	16,000	2,367
Utilities	2,008	1,398	4,500	(3,102)
Contractual services	11,368	13,029	14,000	(971)
Commodities and other	547	2,545	5,000	(2,455)
Capital outlay	2,380	-	-	-
Miscellaneous	-	-	5,000	(5,000)
KDHE revolving loan	13,053	13,053	13,053	-
Transfer to Consolidated Streets	5,000	-	-	-
Transfer to Sewer Replacement Reserve	672	672	672	-
	<u>50,828</u>	<u>49,064</u>	<u>58,225</u>	<u>(9,161)</u>
Receipts over (under) expenditures	(1,573)	(293)		
UNENCUMBERED CASH, beginning	7,946	6,373		
UNENCUMBERED CASH, ending	<u>\$ 6,373</u>	<u>6,080</u>		
<b><u>SEWER RESERVE</u></b>				
<b>RECEIPTS</b>				
	\$ -	-		
<b>EXPENDITURES</b>				
	-	-		
Receipts over (under) expenditures	-	-		
UNENCUMBERED CASH, beginning	1,374	1,374		
UNENCUMBERED CASH, ending	<u>\$ 1,374</u>	<u>1,374</u>		

City of Potwin, Kansas  
Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<b><u>SEWER REPLACEMENT RESERVE</u></b>				
<b>RECEIPTS</b>				
Transfer from Sewer Operating	\$ 672	672		
<b>EXPENDITURES</b>				
Transfer to Sewer Project	-	-		NOT APPLICABLE
Receipts over (under) expenditures	672	672		
UNENCUMBERED CASH, beginning	362	1,034		
UNENCUMBERED CASH, ending	\$ 1,034	1,706		
<b><u>REFUSE FUND</u></b>				
<b>RECEIPTS</b>				
Refuse fees	\$ 30,204	29,838	35,000	(5,162)
Other	1,720	1,700	1,600	100
	31,924	31,538	36,600	(5,062)
<b>EXPENDITURES</b>				
Contractual services	24,162	22,203	27,000	(4,797)
Personal services and other	3,699	4,552	5,500	(948)
Transfer to Consolidated Streets	4,686	4,546	4,800	(254)
	32,547	31,301	37,300	(5,999)
Receipts over (under) expenditures	(623)	237		
UNENCUMBERED CASH, beginning	1,777	1,154		
UNENCUMBERED CASH, ending	\$ 1,154	1,391		

City of Potwin, Kansas  
**Trust Fund - Community House Gift**  
**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**  
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b><u>TRUST</u></b>		
<b>RECEIPTS</b>		
Other	\$ 170	140
Interest	<u>17</u>	<u>21</u>
	187	161
<b>EXPENDITURES</b>	<u>827</u>	<u>-</u>
Receipts over (under) expenditures	(640)	161
UNENCUMBERED CASH, beginning	<u>2,432</u>	<u>2,271</u>
UNENCUMBERED CASH, ending	<u>\$ 1,792</u>	<u>2,432</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Potwin is a municipal corporation governed by an elected five-member council. These financial statements present only the City of Potwin as the primary government.

Component Units

The following entities are component units of the City of Potwin that have not been presented in these financial statements. The governing bodies of the component units are appointed by the City.

Potwin Public Library--The Potwin Public Library board operates the City's public library. The City makes appropriations to the library to assist in funding capital expenditures and operating expenses.

Potwin Recreation Commission--The Potwin Recreation Commission is responsible for organizing the City's various youth and adult recreational activities.

Potwin Volunteer Fire Department--The Potwin Volunteer Fire Department raises funds to buy equipment and other items for the fire department.

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws 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 (executory) contracts for good 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 City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash 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 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 accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FUND DESCRIPTION

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 for the year 2011:

Governmental Funds

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

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

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

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.

Fiduciary Funds

Trust Funds--to account for assets held by a governmental unit in a trustee capacity.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. BUDGETARY INFORMATION (Continued)

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

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 a modified accrual 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 a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for enterprise reserve funds, capital project funds, trust and agency funds, and the following special revenue fund:

Municipal Equipment Fund

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.

4. 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 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 investment policy 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. As of December 31, 2011, the City's investments included only bank certificates of deposits with a fair value of \$86,041, which are not subject to investment rating.

City of Potwin, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. DEPOSITS AND INVESTMENTS (Continued)

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

At December 31, 2011, the carrying amount of the City's deposits, including component units, was \$210,120. The bank balance totaled \$208,351. The balance was held by one bank resulting in a concentration of credit risk. At December 31, 2011, 100% of bank deposits were covered by FDIC insurance.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2011:

Amount on deposit with financial institutions:

Checking account	\$ 23,501
Savings and money market accounts	100,578
Time deposits	<u>86,041</u>
	<u>\$ 210,120</u>

5. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2011.

City of Potwin, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. LONG-TERM DEBT

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

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12-31-10	Additions	Retirements	Balance 12-31-11	Interest Paid
<b>General Obligation Bonds</b>									
McNary Addition	5.00-7.75%	04/01/01	\$ 145,000	09/01/16	\$ 70,000	-	10,000	60,000	3,450
Community House	4.750%	12/04/03	100,000	09/01/18	62,000	-	7,000	55,000	2,945
Equipment	5.500%	12/29/05	100,000	12/01/20	74,000	-	6,000	68,000	4,070
					<u>206,000</u>	<u>-</u>	<u>23,000</u>	<u>183,000</u>	<u>10,465</u>
<b>KDHE Revolving Loans</b>									
Public Water Supply	3.770%	10/12/04	145,000	08/01/25	118,193	-	5,989	112,204	4,400
Water Pollution Control	2.790%	02/25/04	200,000	09/01/24	127,140	-	9,572	117,568	3,481
					<u>245,333</u>	<u>-</u>	<u>15,561</u>	<u>229,772</u>	<u>7,881</u>
<b>Capital Lease</b>									
2012 Ford Truck	4.750%	10/10/11	50,100	01/01/16	-	50,100	-	50,100	-
<b>Total long-term debt</b>					<u>\$451,333</u>	<u>50,100</u>	<u>38,561</u>	<u>462,872</u>	<u>18,346</u>

Scheduled payments of long-term debt and interest through maturity are as follows:

	Year ending December 31							Total
	2012	2013	2014	2015	2016	2017-2021	2022-Mat.	
<b>Principal</b>								
General Obligation Bonds	\$ 23,000	23,000	24,000	30,000	31,000	52,000	-	183,000
Revolving Loans	16,057	16,571	17,101	17,647	18,213	100,211	43,972	229,772
Capital Lease	10,548	9,211	9,648	10,106	10,587	-	-	50,100
Total principal	<u>49,605</u>	<u>48,782</u>	<u>50,749</u>	<u>57,753</u>	<u>59,800</u>	<u>152,211</u>	<u>43,972</u>	<u>462,872</u>
<b>Interest</b>								
General Obligation Bonds	9,328	8,190	7,028	5,810	4,295	5,927	-	40,578
Revolving Loans	7,385	6,870	6,341	5,794	5,229	16,996	3,394	52,009
Capital Lease	541	1,879	1,441	983	503	-	-	5,347
Total interest	<u>17,254</u>	<u>16,939</u>	<u>14,810</u>	<u>12,587</u>	<u>10,027</u>	<u>22,923</u>	<u>3,394</u>	<u>97,934</u>
<b>Total principal and interest</b>	<u>\$ 66,859</u>	<u>65,721</u>	<u>65,559</u>	<u>70,340</u>	<u>69,827</u>	<u>175,134</u>	<u>47,366</u>	<u>560,806</u>

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

7. DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% to 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 by Statute, was 7.74% at December 31, 2011. The City's employer contribution to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$4,915, \$5,749 and \$4,452 respectively, equal to the statutory required contribution for each year.

8. COMPENSATED ABSENCES

Vacations

Full-time employees earn one week of paid vacation upon completion of one year of employment, two weeks annually for two through nine years, and three weeks annually upon completion of ten or more years of employment. Vacation time must be used during the year and may not be accumulated or carried forward to subsequent years.

Sick Leave

Full-time employees earn ten days of paid sick leave per year, cumulative to thirty days at full pay and thirty days at half pay. Unused sick leave is not paid to employees upon termination of employment. Unused sick leave has not been recorded in the accompanying financial statements.

9. INTERFUND TRANSFERS

Transfers between funds consisted of the following during the year ended December 31, 2011:

Transfers to	Transfer from				Total
	General	Water Operating	Sewer Operating	Refuse	
Consolidated Streets	\$ -	-	-	4,546	4,546
Sewer Replacement Reserve	-	-	672	-	672
Water O & M	-	5,000	-	-	5,000
Municipal Equipment	27,577	-	-	-	27,577
	<u>\$ 27,577</u>	<u>5,000</u>	<u>672</u>	<u>4,546</u>	<u>37,795</u>