CITY OF TROY, KANSAS

ANNUAL FINANCIAL REPORT

Year ended December 31, 2011

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CITY OF TROY, KANSAS

ANNUAL FINANCIAL REPORT
Year ended December 31, 2011

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MIZE HOUSER & COMPANY P.A.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Mayor and City Council
City of Troy, Kansas

We have audited the accompanying primary government financial statements of the City of Troy, Kansas (the City), 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's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2010. In our report dated March 9, 2011 on these financial statements, we expressed an adverse opinion as to the presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the "Kansas Municipal Audit Guide." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 component units. The primary government financial statements referred to above do not include the financial data of the component unit of the City of Troy, Kansas as of December 31, 2011.

As described in Note 1, the City of Troy, Kansas prepares its financial statements on a basis of accounting prescribed by the State of Kansas which demonstrates 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 those differences is also described in Note 1.

In our opinion, because of the omission of the financial data of the component unit of the City of Troy, Kansas, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Troy, Kansas, as of December 31, 2011, or the respective changes in financial position for the year then ended.

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

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2011, from which such partial information was derived.

Mize, Houser & Company

February 16, 2012

STATEMENT 1

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

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	$ 56,143	$ -	$ 247,012	$ 252,768	$ 50,387	$ 2,058	$ 52,445
Special Revenue Funds:							
Street and Highway Fund	46	-	26,354	25,558	842	-	842
Community Ambulance Fund	126,177	-	2,886	114,452	14,611	-	14,611
Ambulance District Fund	32,681	-	226,550	150,300	108,931	2,362	111,293
Employee Benefit Fund	9,398	-	50,138	61,140	[1,604]	1,612	8
Tort Liability Fund	52,415	-	610	5,622	47,403	-	47,403
Special Project Fund	40,518	-	16	9,816	30,718	-	30,718
Debt Service Fund	5,749	-	19,662	21,152	4,259	-	4,259
Community Center Fund	105,752	-	86,592	94,500	97,844	-	97,844
Water Construction Fund	1,036	-	131,919	132,955	-	-	-
Sewer Construction Fund	-	-	83,919	83,916	3	-	3
Enterprise Funds:							
Electric Fund	557,813	-	923,140	789,697	691,256	1,784	693,040
Water Fund	21,613	-	217,657	213,400	25,870	1,190	27,060
Sewer Fund	338,047	-	130,796	66,461	402,382	54	402,436
Total Primary Government	$ 1,347,388	$ -	$ 2,147,251	$ 2,021,737	$ 1,472,902	$ 9,060	$ 1,481,962

Composition of Cash:	
Commerce Bank	
Checking	$ 8,147
1st Bank of Troy	
Checking	3
Certificates of Deposit	357,000
Troy State Bank	
Checking	789,858
Outstanding Checks	[11,946]
Certificates of Deposit	338,500
Petty Cash	400
Total	$ 1,481,962

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

CITY OF TROY, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Positive [Negative]
General Fund	$ 290,000	$ -	$ 290,000	$ 252,768	$ 37,232
Special Revenue Funds:					
Street and Highway Fund	30,000	-	30,000	25,558	4,442
Community Ambulance Fund	114,478	-	114,478	114,452	26
Ambulance District Fund	149,794	-	149,794	150,300	[506]
Employee Benefit Fund	60,660	-	60,660	61,140	[480]
Tort Liability Fund	6,000	-	6,000	5,622	378
Special Project Fund	40,563	-	40,563	9,816	30,747
Debt Service Fund	23,640	-	23,640	21,152	2,488
Enterprise Funds:					
Electric Fund	790,000	-	790,000	789,697	303
Water Fund	215,000	-	215,000	213,400	1,600
Sewer Fund	702,583	-	702,583	66,461	636,122

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

CITY OF TROY, KANSAS
GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual	Current Year Budget	Variance Positive [Negative]
Cash Receipts				
Taxes	$ 189,095	$ 184,976	$ 214,938	$ [29,962]
Intergovernmental	20	20	-	20
Franchise tax	25,750	24,172	27,000	[2,828]
Licenses and permits	3,608	3,144	3,000	144
Use of money	2,479	1,131	1,200	[69]
Fines and fees	10,903	3,977	9,200	[5,223]
ARRA reimbursements	31,237	29,592	-	29,592
Transfer in	36,306	-	-	-
Total Cash Receipts	299,398	247,012	$ 255,338	$ [8,326]
Expenditures and Transfers Subject to Budget				
General government	40,690	56,707	$ 93,000	$ 36,293
Highways and streets	187,236	127,262	137,000	9,738
Public safety	48,912	62,799	38,000	[24,799]
Debt service	21,152	-	22,000	22,000
Transfer out	-	6,000	-	[6,000]
Total Expenditures and Transfers Subject to Budget	297,990	252,768	$ 290,000	$ 37,232
Receipts Over [Under] Expenditures	1,408	[5,756]		
Unencumbered Cash, Beginning	54,735	56,143		
Unencumbered Cash, Ending	$ 56,143	$ 50,387		

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

CITY OF TROY, KANSAS
STREET AND HIGHWAY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Taxes	$ 26,973	$ 26,149	$ 27,760	$ [1,611]
Miscellaneous	3,952	198	-	198
Use of money and property	121	7	-	7
Total Cash Receipts	31,046	26,354	$ 27,760	$ [1,406]
Expenditures and Transfers Subject to Budget				
Commodities	35,991	23,554	$ 25,000	$ 1,446
Contractual	2,201	2,004	5,000	2,996
Total Expenditures and Transfers Subject to Budget	38,192	25,558	$ 30,000	$ 4,442
Receipts Over [Under] Expenditures	[7,146]	796		
Unencumbered Cash, Beginning	7,192	46		
Unencumbered Cash, Ending	$ 46	$ 842		

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

CITY OF TROY, KANSAS
COMMUNITY AMBULANCE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Intergovernmental	$ 385	$ -	$ -	$ -
Charges for service	17,469	2,402	-	2,402
Miscellaneous	12,550	-	14,000	[14,000]
Contributions	1,295	-	-	-
Use of money and property	814	484	-	484
Total Cash Receipts	32,513	2,886	$ 14,000	$ [11,114]
Expenditures and Transfers Subject to Budget				
Contractual services	13,019	209	$ -	$ [209]
Commodities	-	85	-	[85]
Capital outlay	-	114,158	114,478	320
Total Expenditures and Transfers Subject to Budget	13,019	114,452	$ 114,478	$ 26
Receipts Over [Under] Expenditures	19,494	[111,566]		
Unencumbered Cash, Beginning	106,683	126,177		
Unencumbered Cash, Ending	$ 126,177	$ 14,611		

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

CITY OF TROY, KANSAS
AMBULANCE DISTRICT FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Intergovernmental	$ 71,486	$ 76,400	$ 76,400	$ -
Charges for service	89,574	136,805	110,000	26,805
Contributions	5,745	13,324	5,000	8,324
Miscellaneous	1,495	-	-	-
Use of money and property	4	21	-	21
Total Cash Receipts	168,304	226,550	$ 191,400	$ 35,150
Expenditures and Transfers Subject to Budget				
Personal services	103,575	113,031	$ 99,000	$ [14,031]
Contractual services	12,745	14,945	35,582	20,637
Commodities	17,767	22,324	15,212	[7,112]
Capital outlay	1,536	-	-	-
Total Expenditures and Transfers Subject to Budget	135,623	150,300	$ 149,794	$ [506]
Receipts Over [Under] Expenditures	32,681	76,250		
Unencumbered Cash, Beginning	-	32,681		
Unencumbered Cash, Ending	$ 32,681	$ 108,931		

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

CITY OF TROY, KANSAS
EMPLOYEE BENEFIT FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Taxes	$ 15	$ -	$ -	$ -
Use of money and property	-	2	-	2
Transfer in	71,297	50,136	70,000	[19,864]
Total Cash Receipts	71,312	50,138	$ 70,000	$ [19,862]
Expenditures and Transfers Subject to Budget				
Social security	8,294	7,781	$ 10,000	$ 2,219
Retirement	7,140	7,249	7,500	251
Unemployment tax	329	334	160	[174]
Worker's compensation	7,662	6,999	8,000	1,001
Other employee benefits	37,219	38,777	35,000	[3,777]
Total Expenditures and Transfers Subject to Budget	60,644	61,140	$ 60,660	$ [480]
Receipts Over [Under] Expenditures	10,668	[11,002]		
Unencumbered Cash, Beginning	[1,270]	9,398		
Unencumbered Cash, Ending	$ 9,398	$ [1,604]		

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

CITY OF TROY, KANSAS
TORT LIABILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Use of money and property	$ 803	$ 610	$ 800	$ [190]
Total Cash Receipts	803	610	$ 800	$ [190]
Expenditures and Transfers Subject to Budget				
Contractual services	5,000	5,622	$ 6,000	$ 378
Total Expenditures and Transfers Subject to Budget	5,000	5,622	$ 6,000	$ 378
Receipts Over [Under] Expenditures	[4,197]	[5,012]		
Unencumbered Cash, Beginning	56,612	52,415		
Unencumbered Cash, Ending	$ 52,415	$ 47,403		

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

CITY OF TROY, KANSAS
SPECIAL PROJECT FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Interest income	$ 25	$ 16	$ 25	$ [9]
Total Cash Receipts	25	16	$ 25	$ [9]
Expenditures and Transfers Subject to Budget				
Contractual services	9,816	9,816	$ 9,816	$ -
Capital outlay	-	-	30,747	30,747
Total Expenditures and Transfers Subject to Budget	9,816	9,816	$ 40,563	$ 30,747
Receipts Over [Under] Expenditures	[9,791]	[9,800]		
Unencumbered Cash, Beginning	50,309	40,518		
Unencumbered Cash, Ending	$ 40,518	$ 30,718		

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

CITY OF TROY, KANSAS
DEBT SERVICE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Taxes	$ 2,788	$ 19,641	$ 20,710	$ [1,069]
Use of money and property	221	21	-	21
Total Cash Receipts	3,009	19,662	$ 20,710	$ [1,048]
Expenditures and Transfers Subject to Budget				
Debt service				
Principal	-	-	$ 22,000	$ 22,000
Interest and other charges	-	21,152	1,640	[19,512]
Total Expenditures and Transfers Subject to Budget	-	21,152	$ 23,640	$ 2,488
Receipts Over [Under] Expenditures	3,009	[1,490]		
Unencumbered Cash, Beginning	2,740	5,749		
Unencumbered Cash, Ending	$ 5,749	$ 4,259		

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

CITY OF TROY, KANSAS
COMMUNITY CENTER FUND*
Statement of Cash Receipts and Expenditures - Actual Only
For the Years Ended December 31, 2011 and 2010

	2010	2011
Cash Receipts		
Sales tax	$ 75,121	$ 79,969
Miscellaneous	6,272	6,570
Use of money and property	43	53
Total Cash Receipts	81,436	86,592
Expenditures and Transfers Subject to Budget		
Capital outlay	8,772	45,905
Contractual	11,610	14,900
Miscellaneous	34,043	33,695
Total Expenditures and Transfers Subject to Budget	54,425	94,500
Receipts Over [Under] Expenditures	27,011	[7,908]
Unencumbered Cash, Beginning	78,741	105,752
Unencumbered Cash, Ending	$ 105,752	$ 97,844

* This fund is not required to be budgeted.

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

CITY OF TROY, KANSAS
WATER CONSTRUCTION FUND*
Statement of Cash Receipts and Expenditures - Actual Only
For the Years Ended December 31, 2011 and 2010

	2010	2011
Cash Receipts		
Intergovernmental	$ 247,881	$ 131,919
Total Cash Receipts	247,881	131,919
Expenditures and Transfers Subject to Budget		
Capital outlay	246,845	132,955
Total Expenditures and Transfers Subject to Budget	246,845	132,955
Receipts Over [Under] Expenditures	1,036	[1,036]
Unencumbered Cash, Beginning	-	1,036
Unencumbered Cash, Ending	$ 1,036	$ -

* This fund is not required to be budgeted.

CITY OF TROY, KANSAS
SEWER CONSTRUCTION FUND*
Statement of Cash Receipts and Expenditures - Actual Only
For the Year Ended December 31, 2011

Cash Receipts	
Intergovernmental	$ 83,919
Total Cash Receipts	83,919
Expenditures and Transfers Subject to Budget	
Capital outlay	83,916
Total Expenditures and Transfers Subject to Budget	83,916
Receipts Over [Under] Expenditures	3
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 3

* This fund is not required to be budgeted.

CITY OF TROY, KANSAS
ELECTRIC FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Charges for services	$ 740,912	$ 907,278	$ 690,000	$ 217,278
Use of money and property	6,078	4,834	5,000	[166]
Miscellaneous	12,578	11,028	6,000	5,028
Total Cash Receipts	759,568	923,140	$ 701,000	$ 222,140
Expenditures and Transfers Subject to Budget				
Personal services	88,750	78,392	$ 100,000	$ 21,608
Contractual services	19,998	17,335	40,000	22,665
Commodities	570,785	649,834	580,000	[69,834]
Transfer out	107,603	44,136	70,000	25,864
Total Expenditures and Transfers Subject to Budget	787,136	789,697	$ 790,000	$ 303
Receipts Over [Under] Expenditures	[27,568]	133,443		
Unencumbered Cash, Beginning	585,381	557,813		
Unencumbered Cash, Ending	$ 557,813	$ 691,256		

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

CITY OF TROY, KANSAS
WATER FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Charges for services	$ 201,809	$ 211,652	$ 200,000	$ 11,652
Use of money and property	156	12	50	[38]
Reimbursement	3,349	5,993	4,000	1,993
Total Cash Receipts	205,314	217,657	$ 204,050	$ 13,607
Expenditures and Transfers Subject to Budget				
Personal services	110,799	115,237	$ 95,000	$ [20,237]
Contractual services	45,036	36,188	60,000	23,812
Commodities	57,841	61,975	60,000	[1,975]
Debt payment	1,150	-	-	-
Total Expenditures and Transfers Subject to Budget	214,826	213,400	$ 215,000	$ 1,600
Receipts Over [Under] Expenditures	[9,512]	4,257		
Unencumbered Cash, Beginning	31,125	21,613		
Unencumbered Cash, Ending	$ 21,613	$ 25,870		

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

CITY OF TROY, KANSAS
SEWER FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Positive [Negative]
Cash Receipts				
Charges for services	$ 106,972	$ 128,807	$ 178,000	$ [49,193]
Grant income	-	-	555,333	[555,333]
Use of money and property	1,747	1,473	5,000	[3,527]
Miscellaneous	269	516	-	516
Total Cash Receipts	108,988	130,796	$ 738,333	$ [607,537]
Expenditures and Transfers Subject to Budget				
Personal services	20,729	27,418	$ 22,250	$ [5,168]
Contractual services	17,501	26,555	10,000	[16,555]
Commodities	3,457	1,822	5,000	3,178
Debt service	11,151	10,576	12,000	1,424
Capital outlay	-	-	653,333	653,333
Miscellaneous	46	90	-	[90]
Total Expenditures and Transfers Subject to Budget	52,884	66,461	$ 702,583	$ 636,122
Receipts Over [Under] Expenditures	56,104	64,335		
Unencumbered Cash, Beginning	281,943	338,047		
Unencumbered Cash, Ending	$ 338,047	$ 402,382		

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

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Troy (the City) is a municipal corporation governed by a mayor and a five member council. As required by accounting principles generally accepted in the United States of America, these financial statements should present the City and its component unit entities for which the government is considered to be financially accountable. However, the City's only component unit, the Troy Public Housing Authority, is not included in these financial statements.

Basis of Accounting

These financial statements are presented on a 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. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

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

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with 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, temporary notes, and compensated absences are not presented in the financial statements.

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the City to use the prescribed basis of accounting.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The City's governmental fund types are:

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

Special Revenue Funds - to account for revenues derived from specific taxes, governmental grants or other revenue sources which are restricted to finance particular functions or activities of the City.

Debt Service Fund - to account for the accumulation of cash for, and the payment of, principal, interest and other related costs of the City's general obligation bonds.

Capital Project Fund - to account for the construction of major capital projects.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body 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.

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 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 the final budget on or before August 25th.

The statutes allow for the city council 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 Community Building Fund, Community Ambulance Fund, Electric Fund and the Water Fund.

The statutes permit transferring budgeted amounts between accounts 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.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the City 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 certain special revenue 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 city council.

NOTE 2 - Deposits

The City's cash is considered to be active funds by management and is invested according to K.S.A. 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located or in a county adjacent to that county and the banks provide an acceptable rate for active funds.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to K.S.A. 9-1402.

The City does not have any formal investment policies that would further limit concentration of credit risk, interest rate, or custodial credit risks beyond state statutes.

NOTE 3 - Retirement Plan

Plan Description - The City's employees participate in the Kansas Public Employees Retirement System ("System"), 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 required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue; Topeka, Kansas 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate up 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 by an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 7.74% from January 1 to December 31, 2011. The employer contributions to KPERS for years ending December 31, 2011, 2010 and 2009 were $22,050, $20,354, and $15,010 respectively, equal to the required contributions for each year.

NOTE 4 - Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for the proprietary funds if they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year.

Certificates of participation outstanding at year end are as follows:

Purpose	Date Issued	Final Maturity	Interest Rate	Original Amount	Current Balance
2005A Certificates of Participation	February 1, 2005	July 1, 2025	4.75%	$ 433,000	$ 343,000

Annual debt service requirements to maturity for the certificates of participation are as follows:

Year Ending December 31,	
2012	$ 34,292
2013	34,438
2014	34,535
2015	33,585
2016	33,635
2017 - 2021	170,120
2022 - 2025	136,868
Total Principal and Interest	477,473
Less: Interest	134,473
Total Principal	$ 343,000

Changes in Long-term Debt. During the year ended December 31, 2011, the following changes occurred in long term debt:

	January 1, 2011	Additions	Retirements	December 31, 2011
General Obligation Debt	$ 30,000	$ -	$ 30,000	$ -
Certificates of Participation	360,000	-	17,000	343,000
Backhoe Lease	9,305	-	9,305	-
KDHE Loan	-	83,919	-	83,919
Totals	$ 399,305	$ 83,919	$ 56,305	$ 426,919

NOTE 4 - Long-Term Debt (Continued)

Conduit Debt Obligations. The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2011 there was one series of Industrial Revenue Bonds outstanding, with an original principal amount payable of $1,300,000. The current principal balance remaining as of December 31, 2011 is $487,423.

On March 30, 2011, the City entered into a loan agreement with the Kansas Department of Health and Environment for a loan of $270,800 with an interest rate of 3.06% and service fee rate of 0.25%. Total draws as of December 31, 2011, were $83,919. An amortization schedule for the loan is not yet available since the loan has not been finalized.

NOTE 5 - 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. The City carries commercial insurance for risks of loss. The City's insurance coverage does not cover the risk of loss to the electrical distribution system due to wind or ice storms. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 - Interfund Transfers

A reconciliation of transfers by fund type for 2011 follows:

Fund	To	From
General	$ -	$ 6,000
Employee Benefit	50,136	-
Electric	-	44,136
Total	$ 50,136	$ 50,136

NOTE 7 – Compensated Absences

It is the City's policy to pay employees' accrued vacation pay upon termination of employment, subject to the maximum hours of accumulation authorization in the following schedule:

	Years of Cumulative Employment			
	0 - 5	5 - 10	10 - 15	> 15
Hours Earned Per Month	6.67	8	10	12
Maximum Hours Accumulation	80	96	120	144
Equivalent Work Days	10	12	15	18
Maximum Hours for One time Leave	80	96	120	144

NOTE 7 – Compensated Absences (Continued)

It is the City's policy to pay employees, with five or more years of cumulative employment, for accrued sick leave pay upon termination of employment, subject to the maximum hours of accumulation authorization in the following schedule:

	Years of Cumulative Employment		
	5 - 10	10 - 15	> 15
Maximum Hours Accumulation	120	160	240

As of December 31, 2011, the liability for earned vacation and sick pay was $6,664.

NOTE 8 – Statutory violation

Actual expenditures exceeded budgeted expenditures in the Ambulance District Fund and Employee Benefit Fund, which is a violation of K.S.A. 79-2935.