

Financial Statements

CITY OF WINONA
Winona, Kansas

For the Year Ended December 31, 2011

CITY OF WINONA, KANSAS
FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

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GUDENKAUF & MALONE, INC.

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James Malone, CPA

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Winona
Winona, Kansas

We have audited the accompanying financial statements of the City of Winona, Winona, 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 Winona's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial or summarized comparative information has been derived from the City's 2010 financial statements and, in our report dated August 17, 2011, we expressed an unqualified opinion on the respective financial statements.

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.

As described more fully in Note 1, the City of Winona, Winona, Kansas, has prepared these financial statements using the accounting practices prescribed or 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 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.

Further, in our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the

financial position of the City as of December 31, 2011, the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Winona, Winona, Kansas, as of December 31, 2011, and its cash receipts and disbursements, and budgetary results for the year then ended on the basis of accounting described in Note 1.

Gudenkauf & Malone, Inc.
Russell, Kansas
July 27, 2012

CITY OF WINONA, KANSAS

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

Statement 1

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 102,510	\$ 400	\$ 112,656	\$ 76,279	\$ 139,287	\$ 16,300	\$ 155,587
Special Revenue Funds							
Employee benefits	9,000	-	6,047	6,883	8,164	-	8,164
Special street and highway	2,763	-	4,540	4,838	2,465	-	2,465
Special machinery	41,483	-	10,000	728	50,755	-	50,755
Debt Service Fund							
Bond and interest	11,437	-	32,267	28,542	15,162	-	15,162
Enterprise Funds							
Water utility	71,983	-	55,359	40,621	86,721	-	86,721
Sewer utility	46,476	-	11,350	10,325	47,501	-	47,501
Gas utility	78,657	-	96,418	155,632	19,443	-	19,443
Gas utility revenue bond and interest	12,994	-	912	5,790	8,116	-	8,116
Gas surplus	897	-	-	-	897	-	897
Gas bond reserve	5,046	-	-	-	5,046	-	5,046
Total Reporting Entity	\$ 383,246	\$ 400	\$ 329,549	\$ 329,638	\$ 383,557	\$ 16,300	\$ 399,857

Composition of Cash	
Checking Account	\$ 399,857
The Bank, Winona, Kansas	\$ 399,857

CITY OF WINONA, KANSAS

Statement 2

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011**

Funds	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Under (Over)
General Fund	\$ 181,431	\$ 76,279	\$ 105,152
Special Revenue Funds			
Employee benefits	15,250	6,883	8,367
Special street and highway	7,391	4,838	2,553
Special machinery fund	80,833	728	80,105
Debt Service Fund			
Bond and interest	44,745	28,542	16,203
Enterprise Funds			
Water utility	111,020	40,621	70,399
Sewer utility	58,554	10,325	48,229
Gas utility	249,896	155,632	94,264
Gas utility revenue bond and interest	13,483	5,790	7,693

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

CITY OF WINONA, KANSAS

Statement 3-1

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET**

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GENERAL FUND

	Current Year		Variance Under (Over)	Prior Year Actual
	Actual	Budget		
Cash Receipts				
Taxes and shared revenues				
Ad valorem property tax	\$ 33,699	\$ 33,694	\$ 5	\$ 32,271
Motor & recreational vehicle tax	5,720	5,612	108	5,003
Intangible tax	1,181	788	393	2,111
Delinquent Tax	-	-	-	32
State proceeds	20,449	20,000	449	17,869
Licenses and permits	270	500	(230)	220
Cemetery	1,025	1,000	25	775
Franchise tax	5,872	5,750	122	5,807
Miscellaneous	4,440	6,000	(1,560)	4,766
Transfer from gas utility	40,000	10,000	30,000	10,000
Total Cash Receipts	<u>112,656</u>	<u>\$ 83,344</u>	<u>\$ 29,312</u>	<u>78,854</u>
Expenditures				
General Government				
Personal services	26,775	\$ 35,000	\$ 8,225	22,693
Utilities	5,536	10,000	4,464	4,909
Supplies and office expense	5,287	7,500	2,213	1,953
Equipment and building maintenance	2,195	12,000	9,805	1,671
Insurance and bond premium	5,974	10,000	4,026	5,811
Capital outlay	3,258	25,931	22,673	9,974
Miscellaneous	1,109	-	(1,109)	709
Professional services	7,791	15,000	7,209	7,607
Neighborhood Revitalization Rebate	460	-	(460)	496
Total General Government	<u>58,385</u>	<u>115,431</u>	<u>57,046</u>	<u>55,823</u>
Street Department				
Personal services	2,603	7,500	4,897	5,292
Repairs and maintenance	1,451	7,500	6,049	643

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

CITY OF WINONA, KANSAS

Statement 3-1

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GENERAL FUND

	Current Year		Variance Under (Over)	Prior Year Actual
	Actual	Budget		
Expenditures (Continued)				
Street lighting	4,440	8,000	3,560	4,334
Gas and oil	1,891	5,000	3,109	764
Spraying trees	3,500	7,500	4,000	256
Capital outlay	-	15,000	15,000	-
Total Street Department	13,885	50,500	36,615	11,289
Fire Department				
Capital Outlay	-	-	-	501
Repairs	677	-	(677)	805
Total Fire Department	677	-	677	1,306
Noxious Weed				
Chemicals	756	2,500	1,744	957
Cemetery				
Repairs and maintenance	76	5,000	4,924	173
Supplies	-	5,000	5,000	87
Contractual services	2,500	3,000	500	4,000
Total Cemetery	2,576	13,000	10,424	4,260
Total Expenditures	76,279	\$ 181,431	\$ 105,152	73,635
Receipts Over (Under) Expenditures	36,377			5,219
Unencumbered Cash, Beginning	102,510			97,291
Prior year cancelled encumbrances	400			-
Unencumbered Cash, Ending	\$ 139,287			\$ 102,510

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

CITY OF WINONA, KANSAS

Statement 3-2

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

EMPLOYEE BENEFITS FUND

	Current Year			Prior Year Actual
	Actual	Budget	Variance Under (Over)	
Cash Receipts				
Ad valorem tax	\$ 5,137	\$ 5,228	\$ (91)	\$ 4,927
Delinquent Tax	-	-	-	5
Redemption Tax	21	-	21	31
Motor & recreational vehicle tax	889	870	19	788
Total Cash Receipts	<u>6,047</u>	<u>\$ 6,098</u>	<u>\$ (51)</u>	<u>5,751</u>
Expenditures				
Social Security	4,661	\$ 5,500	\$ 839	4,459
Unemployment insurance	61	250	189	59
Workman's compensation	393	3,000	2,607	1,799
Insurance	1,768	5,000	3,232	-
Retirement/Medical	-	1,500	1,500	-
Total Expenditures	<u>6,883</u>	<u>\$ 15,250</u>	<u>\$ 8,367</u>	<u>6,317</u>
Receipts Over Expenditures	(836)			(566)
Unencumbered Cash, Beginning	<u>9,000</u>			<u>9,566</u>
Unencumbered Cash, Ending	<u>\$ 8,164</u>			<u>\$ 9,000</u>

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

CITY OF WINONA, KANSAS

Statement 3-3

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET**

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL STREET AND HIGHWAY FUND

	Current Year			Prior Year Actual
	Actual	Budget	Variance Under (Over)	
Cash Receipts				
State proceeds	\$ 4,540	\$ 5,230	\$ (690)	\$ 5,035
Expenditures				
Personal services	3,412	\$ 4,391	\$ 979	4,317
Repairs and maintenance	657	2,000	1,343	166
Fuel	769	1,000	231	460
Total Expenditures	4,838	\$ 7,391	\$ 2,553	4,943
Receipts Over (Under) Expenditures	(298)			92
Unencumbered Cash, Beginning	2,763			2,671
Unencumbered Cash, Ending	\$ 2,465			\$ 2,763

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

CITY OF WINONA, KANSAS

Statement 3-4

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL MACHINERY FUND

	Current Year		Variance Under (Over)	Prior Year Actual
	Actual	Budget		
Cash Receipts				
Transfer from gas utility fund	\$ 10,000	\$ 40,000	\$ (30,000)	\$ 40,000
Total Cash Receipts	10,000	\$ 40,000	\$ (30,000)	-
Expenditures				
Equipment Repairs	728	\$ 80,833	\$ 80,105	-
Receipts Over (Under) Expenditures	9,272			40,000
Unencumbered Cash, Beginning	41,483			1,483
Unencumbered Cash, Ending	\$ 50,755			\$ 41,483

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

CITY OF WINONA, KANSAS

Statement 3-5

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

BOND AND INTEREST FUND

	Current Year		Variance Under (Over)	Prior Year Actual
	Actual	Budget		
Cash Receipts				
Ad valorem tax	\$ 27,234	\$ 27,719	\$ (485)	\$ 27,229
Delinquent Tax	-	-	-	28
Motor & Recreational Vehicle Tax	4,918	4,810	108	4,356
Redemption Tax	115	-	115	154
Total Cash Receipts	<u>32,267</u>	<u>\$ 32,529</u>	<u>\$ 262</u>	<u>31,767</u>
Expenditures				
Principal	25,000	\$ 25,000	\$ -	25,000
Interest	3,538	3,538	-	5,300
Cash Basis Reserve	-	16,207	16,207	-
Miscellaneous expense	4	-	(4)	2
Total Expenditures	<u>28,542</u>	<u>\$ 44,745</u>	<u>\$ 16,203</u>	<u>30,302</u>
Receipts Over (Under) Expenditures	3,725			1,465
Unencumbered Cash, Beginning	<u>11,437</u>			<u>9,972</u>
Unencumbered Cash, Ending	<u>\$ 15,162</u>			<u>\$ 11,437</u>

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

CITY OF WINONA, KANSAS

Statement 3-6

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET**

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

WATER UTILITY FUND

	Current Year		Variance Under (Over)	Prior Year Actual
	Actual	Budget		
Cash Receipts				
Water sales	\$ 54,376	\$ 42,000	\$ 12,376	\$ 38,337
Connection fees	525	500	25	490
Refunds and miscellaneous	-	50	(50)	-
Penalties	458	1,000	(542)	525
	<u>55,359</u>	<u>\$ 43,550</u>	<u>\$ 11,809</u>	<u>39,352</u>
Total Cash Receipts				
Expenditures				
Personal services	13,591	\$ 20,000	\$ 6,409	11,276
Utilities	9,065	10,000	935	7,965
Repairs	7,061	30,000	22,939	7,818
Taxes	745	1,500	755	579
Fuel	1,230	3,000	1,770	788
Chemicals	245	1,000	755	406
Capital Outlay	-	44,020	44,020	-
Miscellaneous	8,684	1,500	(7,184)	1,457
	<u>40,621</u>	<u>\$ 111,020</u>	<u>\$ 70,399</u>	<u>30,289</u>
Total Expenditures				
Receipts Over (Under) Expenditures	14,738			9,063
Unencumbered Cash, Beginning	<u>71,983</u>			<u>62,920</u>
Unencumbered Cash, Ending	<u>\$ 86,721</u>			<u>\$ 71,983</u>

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

CITY OF WINONA, KANSAS

Statement 3-7

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SEWER UTILITY FUND

	Current Year			Prior Year Actual
	Actual	Budget	Variance Under (Over)	
Cash Receipts				
Customer charges	\$ 11,350	\$ 12,500	\$ (1,150)	\$ 11,254
Total Cash Receipts	<u>11,350</u>	<u>\$ 12,500</u>	<u>\$ (1,150)</u>	<u>11,254</u>
Expenditures				
Personal services	5,342	\$ 9,000	\$ 3,658	5,051
Chemicals	636	1,000	364	61
Repairs	4,347	48,554	44,207	220
Total Expenditures	<u>10,325</u>	<u>\$ 58,554</u>	<u>\$ 48,229</u>	<u>5,332</u>
Receipts Over (Under) Expenditures	1,025			5,922
Unencumbered Cash, Beginning	<u>46,476</u>			<u>40,554</u>
Unencumbered Cash, Ending	<u>\$ 47,501</u>			<u>\$ 46,476</u>

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

CITY OF WINONA, KANSAS

Statement 3-8

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET**

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GAS UTILITY FUND

	Current Year			Prior Year Actual
	Actual	Budget	Variance Under (Over)	
Cash Receipts				
Gas sales	\$ 94,889	\$ 150,000	\$ (55,111)	\$ 96,468
Miscellaneous	82	1,000	(918)	59
Connection fees	675	1,000	(325)	750
Penalties	360	500	(140)	320
Interest income	412	2,000	(1,588)	686
Total Cash Receipts	<u>96,418</u>	<u>\$ 154,500</u>	<u>\$ (58,082)</u>	<u>98,283</u>
Expenditures				
Personal services	9,706	\$ 15,000	\$ 5,294	9,563
Operation and maintenance	91,566	179,396	87,830	66,495
Taxes	1,715	5,000	3,285	1,304
Telephone	-	500	500	-
Miscellaneous	1,815	-	(1,815)	2,036
Transfer to general fund	40,000	10,000	(30,000)	10,000
Transfer to gas revenue bond & int fund	830	-	(830)	4,980
Transfer to special machinery fund	10,000	40,000	30,000	40,000
Total Expenditures	<u>155,632</u>	<u>\$ 249,896</u>	<u>\$ 94,264</u>	<u>134,378</u>
Receipts Over (Under) Expenditures	(59,214)			(36,095)
Unencumbered Cash, Beginning	<u>78,657</u>			<u>114,752</u>
Unencumbered Cash, Ending	<u>\$ 19,443</u>			<u>\$ 78,657</u>

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

CITY OF WINONA, KANSAS

Statement 3-9

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GAS UTILITY REVENUE BOND AND INTEREST FUND

	Current Year			Prior Year Actual
	Actual	Budget	Variance Under (Over)	
Cash Receipts				
Interest	\$ 82	\$ 250	\$ (168)	\$ 137
Transfer from gas utility fund	830	-	830	4,980
Total Cash Receipts	912	\$ 250	\$ 662	5,117
Expenditures				
Principal	5,000	\$ 5,000	\$ -	4,000
Interest	790	790	-	1,106
Cash basis reserve	-	7,693	7,693	-
Total Expenditures	5,790	\$ 13,483	\$ 7,693	5,106
Receipts Over (Under) Expenditures	(4,878)			11
Unencumbered Cash, Beginning	12,994			12,983
Unencumbered Cash, Ending	\$ 8,116			\$ 12,994

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

CITY OF WINONA, KANSAS

Statement 3-10

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GAS SURPLUS FUND

	Current Year Actual	Prior Year Actual
Cash Receipts	\$ -	\$ -
Expenditures		
Contingency expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	897	897
Unencumbered Cash, Ending	\$ 897	\$ 897

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

CITY OF WINONA, KANSAS

Statement 3-11

STATEMENT OF CASH RECEIPTS AND EXPENDITURES
ACTUAL AND BUDGET

For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

GAS BOND RESERVE FUND

	Current Year Actual	Prior Year Actual
Cash Receipts		
Transfer from gas utility fund	\$ -	\$ -
Expenditures		
Contingency expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	5,046	5,046
Unencumbered Cash, Ending	\$ 5,046	\$ 5,046

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

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 1: Summary of Significant Accounting Policies

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The City of Winona, Kansas, was organized in 1886 and operates as a third class city in accordance with the laws of the State of Kansas. The City has a population of approximately 170 and is governed by an elected mayor and five-member council. This report includes all services provided by the City to residents and businesses within its boundaries. Services provided include highway and streets, sanitation, culture and recreation, planning and zoning, public improvements and general administrative services. In addition the City owns and operates three enterprise activities: a water system, a natural gas system and a local sewer system.

The City 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 City has no such component units.

Basis of Accounting

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

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

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 1: Summary of Significant Accounting Policies - Continued

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

This basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Fund Accounting

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

Governmental Funds

General Fund – The general fund is the general operating fund of the city and accounts for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds are used 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 expenditures for specified purposes.

Debt Service Fund – The debt service fund accounts for the accumulation of resources for the payment of interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

Capital Projects Fund – The capital projects fund accounts for the resources to be used for the acquisition or construction of major capital facilities.

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 1: Summary of Significant Accounting Policies - Continued

Proprietary Funds

Enterprise Funds – Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost 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.

Inventories and Prepaid Expenses

Inventories and prepaid expenses that benefit future periods are recorded as expenditures during the year of purchase as required by state statutes.

Restricted Cash Balances

The cash balances in the gas utility revenue bond & interest, gas surplus and gas bond reserve funds are restricted for future use as required by the gas revenue bond ordinance.

Reimbursed Expenses

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

Note 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. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 2: 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. There were no such budget amendments during 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, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

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

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Note 3: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 3: Deposits and Investments - Continued

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

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City did not designate any "peak periods" in 2011. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$399,857. The bank balance was \$427,079. 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 deposit insurance and \$177,079 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments be adequately secured.

Note 4: Property Taxes

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

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Property taxes

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 4: Property Taxes – Continued

are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The taxes are due one-half on December 20th and one-half 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 operation of the City and therefore are not susceptible to accrual.

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

Note 5: Compensated Absences

The City's policies regarding vacation and sick pay allow full-time employees to accumulate a maximum of 10 days vacation and 12 days of sick pay per year. No employee may accrue more than 22 days of sick pay. Employees are not allowed to accrue vacation days beyond the City's fiscal year. Policies prohibit payment of vacation time in lieu of time off and the time in which the vacation is used must be in mutual agreement between the employee and the council. All accumulated sick pay is payable upon employment termination. The costs of accumulated compensated absences are not recorded at the time the benefits are earned, but rather at the time such benefits are paid. The City has estimated the unpaid sick leave amount to be \$3,003 as of December 31, 2011.

Note 6: 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. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. The City council declined insurance coverage on the water tower and terrorism for 2011.

Note 7: Commitments

The City entered into a gas supply agreement in August 1993 for the delivery of natural gas. The original agreement was for the term of eighty-four (84) months and is annually renewable after the original term. The City is obligated to purchase a mini-

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

num of 4,060 MMBtu annually with at least 45% of that quantity being purchased

Note 7: Commitments - continued

during April through October of each contract year. The cost of natural gas is determined annually based on the escalation clause stated in the contract.

Note 8: Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Gas	Gas Bond & Interest	K.S.A. 12-825d	\$ 830
Gas	Special Machinery	K.S.A. 12-825d	\$10,000
Gas	General	K.S.A. 12-825d	\$40,000

Note 9: Contingent Liabilities

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursements which may arise as the result of these audits is not believed to be material.

Note 10: Uses of Estimates in the Preparation of Financial Statements

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

Note 11: Related Party Transactions

In a governmental entity, related parties include members of the governing body, board members, administrative officials, and immediate families of administrative officials, board members, and members of the governing body. Required disclosures on related party transactions do not include compensation arrangements, expense allowance and similar items incurred in the ordinary course of operations. The following are not required to be reported, but are presented for information only.

CITY OF WINONA, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
For Year Ended December 31, 2011

Note 11: Related Party Transactions - Continued

	<u>2011</u>
The Bank Guy Gaskill, Council Member is an employee of the bank. Miscellaneous office expenses in the amount of:	\$ 310
Winona Feed & Grain Donita Goyen, City Treasurer is an employee of company. Supplies in the amount of:	\$ 65

Note 12: Comparative Data

The amounts shown for 2010 in the accompanying financial statements are included to provide a basis for comparison with 2011 and are not intended to present all information necessary for a fair presentation. Certain amounts for 2010 may have been restated to conform with the presentation of similar amounts for 2011.

Note 13: Subsequent Events

Management has evaluated the effects on the financial statements of subsequent events occurring through July 27, 2012 which is the date at which the financial statements were available to be used.

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

NOTE 13: Long-Term Debt

Changes in long-term liabilities for the City of Winona 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 Changes	Balance End of Year	Interest Paid
General Obligation Bonds:										
Gas System Bonds	6.7-7.1%	4/1/1992	\$ 300,000	9/1/2012	\$ 50,000	\$ -	\$ 25,000	\$ (25,000)	\$ 25,000	\$ 3,538
Revenue Bonds:										
Gas System Bonds	7.9%	4/1/1992	\$ 50,000	9/1/2012	<u>10,000</u>	<u>-</u>	<u>5,000</u>	<u>(5,000)</u>	<u>5,000</u>	<u>790</u>
Total Bonded Indebtedness					60,000	-	30,000	(30,000)	30,000	4,328
Compensated Absences	N/A	N/A	N/A	N/A	2,359	644	-	644	3,003	-
Total Long-Term Debt					<u>\$ 62,359</u>	<u>\$ 644</u>	<u>\$ 30,000</u>	<u>\$ (29,356)</u>	<u>\$ 33,003</u>	<u>\$ 4,328</u>

N/A - Not Applicable

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

NOTE 13: Long-Term Debt - Continued

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

	<u>2012</u>	<u>Total</u>
PRINCIPAL		
General Obligation Bonds	\$ 25,000	\$ 25,000
Revenue Bonds	<u>5,000</u>	<u>5,000</u>
TOTAL PRINCIPAL	<u>30,000</u>	<u>30,000</u>
INTEREST		
General Obligation Bonds	1,775	1,775
Revenue Bonds	<u>395</u>	<u>395</u>
TOTAL INTEREST	<u>2,170</u>	<u>2,170</u>
TOTAL PRINCIPAL AND INTEREST	<u>\$ 32,170</u>	<u>\$ 32,170</u>