

CITY OF UDALL, KANSAS

**Financial Statements
December 31, 2012**

**with
Independent Auditors' Report**

CITY OF UDALL, KANSAS
Financial Statements
Year Ended December 31, 2012
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INDEPENDENT AUDITORS' REPORT

The Mayor and City Council
City of Udall, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of City of Udall, Kansas, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Udall to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Udall as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Udall as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

June 24, 2013

CITY OF UDALL, KANSAS
Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Current Year Ending Cash Balance
Governmental Funds:						
General	\$ 156,869	\$ 321,498	\$ 431,638	\$ 46,729	\$ 2,920	\$ 49,649
Special Purpose Funds:						
Special Highway	20,310	22,743	7,594	35,459	-	35,459
Library	242	7,588	7,587	243	199	442
Equipment Reserve	16,025	-	14,095	1,930	-	1,930
Capital Improvement	85,900	-	72,700	13,200	-	13,200
Grant Programs	8,620	90,688	107,437	(8,129)	17,295	9,166
City Sales Tax	75,797	59,192	75,797	59,192	-	59,192
Bond and Interest Fund	28,326	33,362	31,735	29,953	-	29,953
Business Funds:						
Electric System	238,031	815,822	790,820	263,033	26,482	289,515
Electric Reserve	20,000	-	-	20,000	-	20,000
Water System	109,272	285,966	281,903	113,335	3,065	116,400
Water Reserve	40,906	-	-	40,906	-	40,906
Sewer System	60,319	69,633	62,557	67,395	518	67,913
Sewer Reserve	5,000	-	-	5,000	-	5,000
Refuse System	10,194	53,587	54,147	9,634	4,241	13,875
Agency Funds:						
Swimming Pool Construction	-	10,176	-	10,176	-	10,176
Payroll Clearing	(1,997)	328,505	323,409	3,099	-	3,099
Total	<u>\$ 873,814</u>	<u>\$ 2,098,760</u>	<u>\$ 2,261,419</u>	<u>\$ 711,155</u>	<u>\$ 54,720</u>	<u>\$ 765,875</u>
Composition of cash:						
Petty cash						\$ 200
Union State Bank :						
Regular checking						60,936
Certificates of deposit						64,007
Corner Bank:						
NOW account						173,623
Certificates of deposit						<u>467,109</u>
Total						<u>\$ 765,875</u>

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

CITY OF UDALL, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Certified Budget	Expenditures Chargeable to Current Year	Variance - Over (Under)
Governmental Type Funds:			
General	\$ 443,530	\$ 431,638	\$ (11,892)
Special Purpose:			
Special Highway	54,307	7,594	(46,713)
Library	7,835	7,587	(248)
City Sales Tax	131,000	75,797	(55,203)
Bond and Interest	51,735	31,735	(20,000)
Business Funds:			
Electric System	790,820	790,820	-
Water System	307,748	281,903	(25,845)
Sewer System	102,527	62,557	(39,970)
Refuse System	67,178	54,147	(13,031)

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 General Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 153,662	\$ 160,761	\$ (7,099)
Delinquent	6,361	-	6,361
Motor vehicle	28,755	32,759	(4,004)
Licenses, permits and fees	5,619	3,200	2,419
Franchise fees	18,279	22,000	(3,721)
Fines, forfeitures and penalties	33,158	20,000	13,158
Interest	5,114	8,000	(2,886)
Cemetery	5,550	2,500	3,050
Grants and donations	5,802	-	5,802
3Phase install	30,300	-	30,300
Rents	2,380	1,440	940
Sales tax collected - utilities	24,120	18,000	6,120
Other	2,398	-	2,398
Total Cash Receipts	321,498	268,660	52,838
Expenditures:			
General government:			
Personnel services	23,882	23,000	(882)
Commodities	11,450	3,000	(8,450)
Contractual services	141,217	41,900	(99,317)
Capital outlay	68,210	33,200	(35,010)
Taxes remitted - utilities	25,486	20,000	(5,486)
Police department:			
Personnel services	96,854	65,000	(31,854)
Commodities	5,398	10,000	4,602
Contractual services	16,354	22,000	5,646
Vehicle and other expense	6,451	-	(6,451)
Court remittances	4,186	20,000	15,814
Capital outlay	18,000	20,000	2,000

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 General Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Expenditures: continued			
Parks:			
Commodities	\$ 10,882	\$ 8,000	\$ (2,882)
Capital outlay	-	15,000	15,000
Street department:			
Contractual services	-	120,000	120,000
Commodities	2,100	10,000	7,900
Other:			
Planning	120	15,430	15,310
Civil defense	1,048	17,000	15,952
Total Expenditures	431,638	443,530	11,892
Receipts Over (Under) Expenditures	(110,140)	(174,870)	
Unencumbered Cash, Beginning	156,869	174,870	
Unencumbered Cash, Ending	\$ 46,729	\$ -	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Special Highway Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
State fuel tax	\$ 12,102	\$ 20,576	\$ (8,474)
County fuel tax	10,641	3,000	7,641
Total Cash Receipts	<u>22,743</u>	<u>23,576</u>	<u>(833)</u>
Expenditures:			
Commodities	3,469	10,000	(6,531)
Contractual services	1,192	14,307	(13,115)
Capital outlay	2,933	30,000	(27,067)
Total Expenditures	<u>7,594</u>	<u>54,307</u>	<u>(46,713)</u>
Receipts Over (Under) Expenditures	15,149	(30,731)	
Unencumbered Cash, Beginning	<u>20,310</u>	<u>30,731</u>	
Unencumbered Cash, Ending	<u>\$ 35,459</u>	<u>\$ -</u>	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Library Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 6,404	\$ 6,514	\$ (110)
Delinquent	75	-	75
Motor vehicle	1,109	1,269	(160)
Total Cash Receipts	7,588	7,783	(195)
Expenditures:			
Contractual	7,587	7,835	(248)
Receipts Over (Under) Expenditures	1	(52)	
Unencumbered Cash, Beginning	242	52	
Unencumbered Cash, Ending	\$ 243	\$ -	

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Equipment Reserve Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Expenditures:	
Capital outlay	<u>\$ 14,095</u>
Receipts Over (Under) Expenditures	(14,095)
Unencumbered Cash, Beginning	<u>16,025</u>
Unencumbered Cash, Ending	<u><u>\$ 1,930</u></u>

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Capital Improvement Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Expenditures:	
Capital outlay	<u>\$ 72,700</u>
Receipts Over (Under) Expenditures	(72,700)
Unencumbered Cash, Beginning	<u>85,900</u>
Unencumbered Cash, Ending	<u><u>\$ 13,200</u></u>

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Grant Programs Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Federal aid - Department of Commerce	\$ 90,688
Expenditures:	
Community building improvements	<u>107,437</u>
Receipts Over (Under) Expenditures	(16,749)
Unencumbered Cash, Beginning	<u>8,620</u>
Unencumbered Cash, Ending	<u><u>\$ (8,129) *</u></u>

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

* Grant receipts are received on a reimbursement basis. Reimbursement received after year-end.

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 City Sales Tax Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Local sales tax	\$ 59,192	\$ 51,000	\$ 8,192
Expenditures:			
Capital outlay	-	131,000	131,000
Transfer to Water System Fund	75,797	-	(75,797)
Total Expenditures	<u>75,797</u>	<u>131,000</u>	<u>55,203</u>
Receipts Over (Under) Expenditures	(16,605)	(80,000)	
Unencumbered Cash, Beginning	<u>75,797</u>	<u>80,000</u>	
Unencumbered Cash, Ending	<u>\$ 59,192</u>	<u>\$ -</u>	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Bond and Interest Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 15,659	\$ 15,933	\$ (274)
Delinquent	275	-	275
Motor vehicle	3,219	3,651	(432)
Special assessments	14,209	11,000	3,209
Total Cash Receipts	33,362	30,584	2,778
Expenditures:			
Principal	25,000	25,000	-
Interest	6,735	6,735	-
Cash basis reserve	-	20,000	(20,000)
Total Expenditures	31,735	51,735	(20,000)
Receipts Over (Under) Expenditures	1,627	(21,151)	
Unencumbered Cash, Beginning	28,326	21,151	
Unencumbered Cash, Ending	\$ 29,953	\$ -	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Electric System Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Cash Receipts:			
Electric sales	\$ 780,400	\$ 650,000	\$ 130,400
New meter set	8,200	-	8,200
Penalties	15,043	7,500	7,543
Connect fees	2,085	4,500	(2,415)
Other	10,094	1,000	9,094
Total Cash Receipts	815,822	663,000	152,822
Expenditures:			
Personnel services	184,181	169,870	14,311
Contractual services	571,611	551,971	19,640
Commodities	31,499	63,196	(31,697)
Capital outlay	-	1,207	(1,207)
Refunds	3,529	4,576	(1,047)
Total Expenditures	790,820	790,820	-
Receipts Over (Under) Expenditures	25,002	(127,820)	
Unencumbered Cash, Beginning	238,031	127,820	
Unencumbered Cash, Ending	\$ 263,033	\$ -	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Water System Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Water sales	\$ 170,159	\$ 150,000	\$ 20,159
New meter set	770	1,500	(730)
Utility meter deposits	3,240	2,500	740
Tower rent	36,000	43,200	(7,200)
Transfer from City Sales Tax Fund	75,797	-	75,797
Total Cash Receipts	<u>285,966</u>	<u>197,200</u>	<u>88,766</u>
Expenditures:			
Personnel services	66,107	81,752	(15,645)
Contractual services	59,272	26,500	32,772
Commodities	59,644	32,000	27,644
Capital outlay	-	69,163	(69,163)
Debt service principal	49,967	49,965	2
Debt service interest	46,370	46,368	2
Refunds	543	2,000	(1,457)
Total Expenditures	<u>281,903</u>	<u>307,748</u>	<u>(25,845)</u>
Receipts Over (Under) Expenditures	4,063	(110,548)	
Unencumbered Cash, Beginning	<u>109,272</u>	<u>110,548</u>	
Unencumbered Cash, Ending	<u>\$ 113,335</u>	<u>\$ -</u>	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Sewer System Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	Actual	Budget	Variance - Over (Under)
Cash Receipts:			
Charges for service	\$ 69,633	\$ 45,000	\$ 24,633
Expenditures:			
Personnel services	13,115	11,493	1,622
Contractual services	20,487	22,450	(1,963)
Commodities	2,321	4,719	(2,398)
Capital outlay	-	37,230	(37,230)
Debt service principal	20,071	20,071	-
Debt service interest	6,563	6,564	(1)
Total Expenditures	62,557	102,527	(39,970)
Receipts Over (Under) Expenditures	7,076	(57,527)	
Unencumbered Cash, Beginning	60,319	57,527	
Unencumbered Cash, Ending	\$ 67,395	\$ -	

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

CITY OF UDALL, KANSAS
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Refuse System Fund
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Charges for service	\$ 53,587	\$ 51,000	\$ 2,587
Expenditures:			
Contractual services	<u>54,147</u>	<u>67,178</u>	<u>(13,031)</u>
Receipts Over (Under) Expenditures	(560)	(16,178)	
Unencumbered Cash, Beginning	<u>10,194</u>	<u>16,178</u>	
Unencumbered Cash, Ending	<u>\$ 9,634</u>	<u>\$ -</u>	

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Electric Reserve Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 20,000</u>
Unencumbered Cash, Ending	<u><u>\$ 20,000</u></u>

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Water Reserve Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 40,906</u>
Unencumbered Cash, Ending	<u><u>\$ 40,906</u></u>

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

CITY OF UDALL, KANSAS
Schedule of Cash Receipts and Expenditures - Actual
Sewer Reserve Fund
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 5,000</u>
Unencumbered Cash, Ending	<u><u>\$ 5,000</u></u>

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

CITY OF UDALL, KANSAS
 Agency Funds
 Schedule of Cash Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2012

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Payroll Clearing Fund	\$ (1,997)	\$ 328,505	\$ 323,409	\$ 3,099
Swimming Pool Construction Fund	-	10,176	-	10,176
Total Agency Funds	<u>\$ (1,997)</u>	<u>\$ 338,681</u>	<u>\$ 323,409</u>	<u>\$ 13,275</u>

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

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Udall, Kansas (the City) is presented to assist in understanding the City's financial statement. The financial statement and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and, with exception of year-end salary accruals as detailed in Note 13, have been consistently applied in the preparation of the financial statement.

Reporting Entity

The City of Udall is a municipal corporation governed by an elected five-member council. This financial statement presents the City of Udall (the primary government). The City has no component units.

Basis of Presentation

The financial activities of the City are recorded and presented on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Udall, Kansas for the year 2012:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.).

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2012

1. Summary of Significant Accounting Policies (continued)

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, etc.).

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

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 regulatory basis of accounting.

2. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business 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 the 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.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2012

3. Budgetary Information (continued)

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 schedules 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 regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures including disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's 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. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose funds:

- Equipment Reserve
- Grant Programs
- Payroll Clearing
- Electric Reserve
- Water Reserve
- Sewer Reserve

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.

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2012

3. Defined Benefit Pension Plan

Plan description. The City participates in the Kansas Public Employees Retirement System (KPERS). It is part of a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-419 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

4. Special Assessments

Projects, financed in part by special assessments, are financed through general obligation bonds of the City and are retired primarily from the Debt Service Fund. Special assessments paid prior to the issuance of the bonds are recorded as revenue in the appropriate project account. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund.

5. Compensated Absences

Vacation

All full time employees of the City shall be entitled to vacation as follows:

From date of employment to December 31 of that year, considered the first calendar year, one week (5 working days) will be earned. After the second calendar year, two weeks (10 working days) will be earned. After ten calendar years, three weeks (15 working days) will be earned. Annual vacation shall be paid at the employee's regular rate during each leave period. Half of the employee's accrued vacation may be carried over from one year to the next. All requests for vacation shall be submitted to the appropriate supervisor. The estimated liability at December 31, 2012, assuming all employees with a carryover balance were to terminate employment, would be \$0.

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2012

5. Compensated Absences (continued)

Sick Leave

All full-time employees of the City shall be entitled to five (5) days of sick leave per calendar year or 1.54 hours per payroll period. Sick leave shall be paid at the employee's regular rate of pay during such sick leave. The term "sick leave" shall also include any necessary absence from duty caused by injury sustained on the job, but does not include absence from work after the employee becomes eligible for worker's compensation benefits. Sick leave may be accumulated from year-to-year but no employee shall be credited with more than ten (10) days of accumulated sick leave. The Council may require satisfactory evidence of any illness or absence from duty at the time any payroll is approved.

Changes in the employee handbook, including reimbursement for sick leave accrued over eighty (80) hours, resulted in a reduction of accumulated sick leave. This reimbursement is included in the first pay check of the following year. The cost of accumulated sick leave is recorded in the financial statements at the time payments are made to employees. The estimated liability at December 31, 2012, assuming all employees with accumulated sick leave were to terminate employment, would be \$3,563.

6. Deposits

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. The City was under secured 5 days in the year.

At December 31, 2012, the City's carrying amount of deposits was \$765,875 and the bank balance was \$766,192. The bank balance was held by Union State bank and Corner Bank. Of the bank balance, \$500,000 was covered by federal depository insurance and \$266,192 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

7. Compliance with Kansas Statutes

The City was in violation of K.S.A 9-1402 regarding the adequate pledging of securities during five days of the year.

Management is aware of no statutory violations for the year ended December 31, 2012.

CITY OF UDALL, KANSAS
Notes to Financial Statements
December 31, 2012

8. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Regulatory Authority</u>	<u>Amount</u>
City Sales Tax Fund	Water Utility Fund	K.S.A. 72-6428	\$75,797

9. Risk Management

The City continues to carry commercial insurance for all other risks of loss, including property, liability, crime, inland marine, automobile, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Concentrations

The City buys all of its electricity from the Kansas Power Pool.

11. Operating Leases

The City receives \$120 per month for a building lease with a hair salon.

The City receives \$1,800 per month for space on the water tower for a cell site lease.

The City receives \$400 per month for a house lease with an individual.

12. Subsequent Events

Subsequent events have been evaluated through June 24, 2013, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

CITY OF UDALL, KANSAS
 Note - Long-Term Debt
 For the Year Ended December 31, 2012

13. Long Term Debt Schedule

Changes in long-term liabilities for the City for the year ended December 31, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bond:										
Internal improvements - Series 2001	4.1% to 5.0%	9/15/2001	300,000	9/1/2016	\$ 140,000	\$ -	\$ 25,000	\$ -	\$ 115,000	\$ 6,735
Revolving Loan Program:										
KWPCRF Project No. C20-1325-01	3.26%	9/1/2000	400,252	9/1/2020	206,302	-	20,071	-	186,231	6,563
KDHE Loan Project No 2490	3.63%	11/29/2007	1,365,000	2/1/2030	1,289,791	-	49,967	-	1,239,824	46,370
Total Revolving Loans					<u>1,496,093</u>	<u>-</u>	<u>70,038</u>	<u>-</u>	<u>1,426,055</u>	<u>52,933</u>
Total Contractual Indebtedness					<u>\$ 1,636,093</u>	<u>\$ -</u>	<u>\$ 95,038</u>	<u>\$ -</u>	<u>\$ 1,541,055</u>	<u>\$ 59,668</u>

Maturities	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	Total
Principal:									
General obligation bond	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ 115,000
Revolving loans program	72,528	75,106	77,777	80,542	83,407	409,115	399,316	228,264	1,426,055
Total Principal	<u>\$ 97,528</u>	<u>\$ 105,106</u>	<u>\$ 107,777</u>	<u>\$ 110,542</u>	<u>\$ 83,407</u>	<u>\$ 409,115</u>	<u>\$ 399,316</u>	<u>\$ 228,264</u>	<u>\$ 1,541,055</u>
Interest:									
General obligation bond	\$ 5,585	\$ 4,410	\$ 2,970	\$ 1,500	\$ -	\$ -	\$ -	\$ -	\$ 14,465
Revolving loans program	50,443	47,865	45,194	42,428	39,564	152,471	82,367	12,578	472,910
Total Interest	<u>\$ 56,028</u>	<u>\$ 52,275</u>	<u>\$ 48,164</u>	<u>\$ 43,928</u>	<u>\$ 39,564</u>	<u>\$ 152,471</u>	<u>\$ 82,367</u>	<u>\$ 12,578</u>	<u>\$ 487,375</u>