

CITY OF VALLEY CENTER, KANSAS

FINANCIAL STATEMENTS

Year ended December 31, 2012

CITY OF VALLEY CENTER, KANSAS

Financial Statements
Year ended December 31, 2012

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CITY OF VALLEY CENTER, KANSAS

Financial Statements
Year ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Valley Center, Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, budgetary comparison information, and the aggregate remaining fund information of the City of Valley Center, Kansas, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements 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 Accounting and Audit Guide." These 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Basis for Qualified Opinion

Management has not implemented GASB Statements No. 43 and 45.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities; the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Valley Center, Kansas, at December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Special Highway Fund and the Employee Benefits Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

Mize Houser & Company PA

August 21, 2013

CITY OF VALLEY CENTER, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012
Unaudited

Our discussion and analysis of the City of Valley Center, Kansas financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2012.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of 2012 by \$19,372,342.
- At the end of 2012, the fund balance for the General Fund was \$336,993 compared to \$440,492 for 2011.
- The City's total notes, debt and capital leases increased by \$1.1 million.

Using This Financial Report

This annual report consists of two distinct series of financial statements: government-wide and funds. In addition, the annual report includes budgetary-basis financial statement comparisons, in accordance with the State of Kansas cash basis and budget laws.

The government-wide statements are designed to provide information about the City's activities as a whole and provide a longer-term view of the City's finances. The fund financial statements tell how the City's services for both governmental and business-type activities were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the City's most significant funds. In addition, combining statements included in the supplemental information show detail of all other governmental funds.

Reporting on the City as a Whole (Government Wide)

Statement of Net Position and the Statement of Activities

The view of the City as a whole looks at all financial transactions and asks the question, "Are we in a better financial position as a result of the current year's financial activities?" The Statement of Net Position and the Statement of Activities provide the basis for answering this question. The statements include all assets and all liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the City's net position and current year change in those net positions. The change in net position is important because it tells the reader whether the City, as a whole, has improved or diminished its financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Causes of these changes may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, state mandates, and the financial condition of the State of Kansas general fund.

CITY OF VALLEY CENTER, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012
Unaudited

In the Statement of Net Position and the Statement of Activities, the City is divided into two distinct kinds of activities:

Governmental Activities - Most of the City's programs and services are reported here including general government, public safety, public works, and culture and recreation.

Business-Type Activities - These services are provided on a charge for goods and services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, solid waste and stormwater funds are reported as business-type activities.

Reporting the City's Most Significant Funds (Fund Financial Statements)

Fund financial statements provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. The main fund financial statements focus on the City's most significant funds. Combining fund balance sheets and statements of revenues, expenditures and changes in fund balances provide detailed information about all of the City's non-major governmental funds.

Governmental Funds - Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of the funds and balances left over at fiscal year end available to be spent in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps the reader to decide where there are more or fewer financial resources that can be spent in the near term to finance the City's programs. Major differences between the City's governmental activities as reported in the Statement of Net Position and the Statement of Activities and its governmental funds are reconciled in the Governmental Funds financial statements.

Proprietary Funds - Proprietary funds are enterprise funds that use the same basis of accounting as business-type activities, therefore, these statements replicate the information provided in the government-wide financial statements.

CITY OF VALLEY CENTER, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012
Unaudited

The City as a Whole

Government-Wide Assets

The Statement of Net Position provides the financial position of the City as a whole. The following is a summary of the City's Statement of Net Position as of December 31, 2012:

City of Valley Center
Condensed Statement of Net Position
December 31, 2012 and 2011

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 5,571,491	\$ 5,956,793	\$ 2,211,629	\$ 2,026,446	\$ 7,783,120	\$ 7,983,239
Net capital assets	<u>18,300,938</u>	<u>18,168,785</u>	<u>14,417,473</u>	<u>14,708,260</u>	<u>32,718,411</u>	<u>32,877,045</u>
Total assets	<u>\$ 23,872,429</u>	<u>\$ 24,125,578</u>	<u>\$ 16,629,102</u>	<u>\$ 16,734,706</u>	<u>\$ 40,501,531</u>	<u>\$ 40,860,284</u>
Current liabilities	\$ 3,895,125	\$ 7,139,955	\$ 703,826	\$ 563,429	\$ 4,598,951	\$ 7,703,384
Noncurrent liabilities	<u>11,742,221</u>	<u>7,749,565</u>	<u>4,788,017</u>	<u>5,401,460</u>	<u>16,530,238</u>	<u>13,151,025</u>
Total liabilities	<u>\$ 15,637,346</u>	<u>\$ 14,889,520</u>	<u>\$ 5,491,843</u>	<u>\$ 5,964,889</u>	<u>\$ 21,129,189</u>	<u>\$ 20,854,409</u>
Net Position:						
Invested in capital assets, net of debt	\$ 5,795,011	\$ 7,233,702	\$ 9,146,937	\$ 8,958,783	\$ 14,941,948	\$ 16,192,485
Restricted	1,363,395	927,427	-	-	1,363,395	927,427
Unrestricted	<u>1,076,677</u>	<u>1,074,929</u>	<u>1,990,322</u>	<u>1,811,034</u>	<u>3,066,999</u>	<u>2,885,963</u>
Total net position	<u>\$ 8,235,083</u>	<u>\$ 9,236,058</u>	<u>\$ 11,137,259</u>	<u>\$ 10,769,817</u>	<u>\$ 19,372,342</u>	<u>\$ 20,005,875</u>

The assets of the City are classified as current assets and capital assets. Cash and investments and accounts receivable are the largest current assets. These are assets that are available to provide resources for the near-term operations of the City. Capital assets are used in the operations of the City. These assets include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure.

Current and non-current liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued liabilities, customer deposits, and current portion of long-term obligations. Current assets exceed current liabilities by \$3.2 million, representing the City's ability to meet current obligations when due.

CITY OF VALLEY CENTER, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012
Unaudited

Government-Wide Activities

The following is a condensed statement of the City's change in net position for the year ended December 31, 2012. Major items of program revenues, grants and general revenues are detailed below. Government-wide activities decreased the net position of the City by \$1.1 million for the year ended December 31, 2012. A reconciliation of the total change in fund balances for the governmental funds to the Statement of Activities is located on page 14 of the basic financial statements. Major differences in the Statement of Activities and changes in the fund balances of governmental funds as expenditures in the funds statements include the repayment of bonds, temporary notes, and leases in the current fiscal year of \$5.8 million which are treated as an expenditure in the fund statements and a reduction of long term debt payable in the Government wide financial statements. Bonds proceeds of \$7.4 million are treated as a revenue source in the fund statements, but an increase of long term debt in the Government wide financial statements. In addition, the capital outlays of \$1.1 million are treated as expenditures in the fund statements, but are treated as capital assets in the Government wide financial statements.

City of Valley Center
Condensed Statement of Changes in Net Assets
For the Years Ending December 31, 2012 and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 186,070	\$ 232,216	\$ 2,905,702	\$ 2,827,543	\$ 3,091,772	\$ 3,059,759
Capital contributions	-	-	298,060	-	298,060	-
General revenues:						
Taxes	5,071,453	5,162,062	-	-	5,071,453	5,162,062
Transfers [net]	30,350	167,150	[30,350]	[167,150]	-	-
Other	216,185	319,344	33,762	1,851	249,947	321,195
Total revenues	<u>5,504,058</u>	<u>5,880,772</u>	<u>3,207,174</u>	<u>2,662,244</u>	<u>8,711,232</u>	<u>8,543,016</u>
Program expenses:						
General government	1,267,078	1,280,166	-	-	1,267,078	1,280,166
Public safety	1,301,228	1,234,086	-	-	1,301,228	1,234,086
Public works	2,683,447	1,845,546	-	-	2,683,447	1,845,546
Culture and recreation	697,946	699,381	-	-	697,946	699,381
Sewer	-	-	841,584	849,477	841,584	849,477
Water	-	-	1,354,976	1,308,098	1,354,976	1,308,098
Stormwater	-	-	38,591	137,824	38,591	137,824
Solid Waste	-	-	342,791	307,962	342,791	307,962
Interest on long term debt	654,103	457,101	185,525	174,105	839,628	631,206
Total expenses	<u>6,603,802</u>	<u>5,516,280</u>	<u>2,763,467</u>	<u>2,777,466</u>	<u>9,367,269</u>	<u>8,293,746</u>
Increase [decrease] in net assets	<u>\$ [1,099,744]</u>	<u>\$ 364,492</u>	<u>\$ 443,707</u>	<u>\$ [115,222]</u>	<u>\$ [656,037]</u>	<u>\$ 249,270</u>

CITY OF VALLEY CENTER, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012
Unaudited

Governmental Activities decreased the net position by \$1.1 million. Business-type activities increased the net position by \$.4 million. The key element in the changes in net position is the decrease in the capitalization of assets and the increase in current year depreciation.

Financial Analysis of the City's Funds

The City uses fund accounting to ensure and demonstrate compliance with state and federal finance related legal requirements. These funds are accounted for on the modified accrual basis of accounting.

The governmental funds of the City provide information on near-term inflows, outflows and balances of spendable resources. Unreserved fund balances, in particular, measure the City's net resources available for spending at the end of the City's fiscal year.

Total fund balances at December 31, 2012 for the governmental funds totaled \$2.8 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$336,993. The decrease in the General Fund's fund balance was \$103,499.

The Special Highway Fund fund balance, at the end of the current fiscal year, was \$539,475. The increase in the fund balance was \$58,588.

The Employee Benefit Fund fund balance, at the end of the current fiscal year, was \$171,827. The increase in the fund balance was \$50,173.

The Bond and Interest Fund is used to accumulate tax revenues and other revenues for the payment of principal and interest on general long-term debt.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer Fund at the end of the year amounted to \$583,731, the unrestricted Water Fund at the end of the year amounted to \$1,253,375, the unrestricted Stormwater Fund at the end of the year amounted to \$41,271, and the unrestricted Solid Waste Fund was \$111,945. The total change in net position in the Sewer, Water, Stormwater and Solid Waste Funds was \$392,129, \$30,935, [\$11,640] and \$32,283, respectively.

General Fund Budgeting Highlights

The City's budgets are prepared in accordance with Kansas law and are based primarily on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The City's final General Fund budget was \$2,297,500, the same as the original published budget. The revenues were less than budgetary estimates by \$17,827 and the expenditures were less than budgetary estimates by \$77,147.

CITY OF VALLEY CENTER, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2012

Unaudited

Fixed Assets and Debt Administration

The City's investment in fixed assets for its governmental and business-type activities totaled \$32.7 million (net of accumulated depreciation) as of December 31, 2012.

Additional information on the City's capital assets can be found in Note III of the financial statements.

At December 31, 2012, the City had total debt outstanding of \$17.8 million, backed by the full faith and credit of the City. Total long-term debt increased for the fiscal year ended December 31, 2012, in the amount of \$1.1 million. This was a result of the issuance of new bonds in the amount of \$7.4 million as well as payment of general obligation bond principal of \$5.8 million in the current year.

Additional information on the City's general long term debt can be found in Note III to the financial statements.

Contacting the City

This financial report is designed to provide a general overview of the City's finances. If you have questions about this report or need additional financial information, contact the City Clerk at P.O. Box 188, Valley Center, KS 67147.

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total Primary Government	Public Library
ASSETS				
Current assets:				
Cash and investments	\$ 2,614,559	\$ 1,960,578	\$ 4,575,137	\$ 552,687
Taxes receivable	2,712,717	-	2,712,717	-
Accounts receivable	231,917	251,051	482,968	-
Due from other funds	12,298	-	12,298	-
Total current assets	<u>5,571,491</u>	<u>2,211,629</u>	<u>7,783,120</u>	<u>552,687</u>
Noncurrent assets:				
Bond issuance costs	-	4,845	4,845	-
Capital assets:				
Nondepreciable capital assets:				
Land	400,514	21,247	421,761	-
Construction in progress	393,660	-	393,660	-
Depreciable capital assets:				
Capital assets	32,369,719	21,063,228	53,432,947	99,482
Less: accumulated depreciation	<u>14,862,955</u>	<u>6,671,847</u>	<u>21,534,802</u>	-
Total net capital assets	<u>18,300,938</u>	<u>14,412,628</u>	<u>32,713,566</u>	<u>99,482</u>
Total noncurrent assets	<u>18,300,938</u>	<u>14,417,473</u>	<u>32,718,411</u>	<u>99,482</u>
Total assets	<u>\$ 23,872,429</u>	<u>\$ 16,629,102</u>	<u>\$ 40,501,531</u>	<u>\$ 652,169</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 78,549	\$ 119,911	\$ 198,460	\$ -
Accrued liabilities	-	32,936	32,936	2,900
Accrued interest	101,130	-	101,130	-
Deferred revenue	2,712,717	-	2,712,717	-
Customer deposits	-	13,822	13,822	-
Due to other funds	-	12,298	12,298	-
KDHE Loan payable	-	140,865	140,865	-
Current portion of general obligation bonds payable	<u>1,002,729</u>	<u>383,994</u>	<u>1,386,723</u>	-
Total current liabilities (payable from current assets)	<u>3,895,125</u>	<u>703,826</u>	<u>4,598,951</u>	<u>2,900</u>
Noncurrent liabilities:				
Compensated absences	239,023	47,185	286,208	-
KDHE Loan payable	-	2,594,632	2,594,632	-
General obligation bonds payable	<u>11,503,198</u>	<u>2,146,200</u>	<u>13,649,398</u>	-
Total noncurrent liabilities	<u>11,742,221</u>	<u>4,788,017</u>	<u>16,530,238</u>	-
Total liabilities	<u>\$ 15,637,346</u>	<u>\$ 5,491,843</u>	<u>\$ 21,129,189</u>	<u>\$ 2,900</u>
Net Position				
Invested in capital assets, net of related debt	\$ 5,795,011	\$ 9,146,937	\$ 14,941,948	\$ 99,482
Restricted for:				
Enabling legislation	1,363,395	-	1,363,395	-
Unrestricted	<u>1,076,677</u>	<u>1,990,322</u>	<u>3,066,999</u>	<u>549,787</u>
Total net position	<u>\$ 8,235,083</u>	<u>\$ 11,137,259</u>	<u>\$ 19,372,342</u>	<u>\$ 649,269</u>

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

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	Program Revenues				Net [Expenses] Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Library
					Governmental Activities	Business Type Activities	Total	
Governmental activities:								
General government	\$ 1,267,078	\$ 124,169	\$ -	\$ -	\$ [1,142,909]	\$ -	\$ [1,142,909]	\$ -
Public works, infrastructure and streets	2,441,402	-	-	-	[2,441,402]	-	[2,441,402]	-
Parks and recreation	697,946	-	-	-	[697,946]	-	[697,946]	-
Public safety	1,301,228	61,901	-	-	[1,239,327]	-	[1,239,327]	-
Interest on long-term debt	654,103	-	-	-	[654,103]	-	[654,103]	-
Depreciation on infrastructure assets	242,045	-	-	-	[242,045]	-	[242,045]	-
Total governmental activities	<u>6,603,802</u>	<u>186,070</u>	<u>-</u>	<u>-</u>	<u>[6,417,732]</u>	<u>-</u>	<u>[6,417,732]</u>	<u>-</u>
Business-type activities:								
Water and sewer	<u>2,763,467</u>	<u>2,905,702</u>	<u>-</u>	<u>298,060</u>	<u>-</u>	<u>440,295</u>	<u>440,295</u>	<u>-</u>
Total business-type activities	<u>2,763,467</u>	<u>2,905,702</u>	<u>-</u>	<u>298,060</u>	<u>-</u>	<u>440,295</u>	<u>440,295</u>	<u>-</u>
Total primary government	<u>\$ 9,367,269</u>	<u>\$ 3,091,772</u>	<u>\$ -</u>	<u>\$ 298,060</u>	<u>[6,417,732]</u>	<u>440,295</u>	<u>[5,977,437]</u>	<u>-</u>
Component units:								
Valley Center Public Library	\$ 223,409	\$ 5,409	\$ 260,309	\$ -	-	-	-	42,309
Total component units	<u>\$ 223,409</u>	<u>\$ 5,409</u>	<u>\$ 260,309</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,309</u>
General revenues:								
Property taxes levied for								
General purposes					1,510,108	-	1,510,108	-
Debt service					830,697	-	830,697	-
Special assessments					786,935	-	786,935	-
Sales and use tax					1,202,378	-	1,202,378	-
Franchise tax					420,199	-	420,199	-
Liquor tax					14,765	-	14,765	-
Motor recreational vehicle tax					306,371	-	306,371	-
Investments earnings					6,584	381	6,965	1,518
Reimbursements					89,197	33,381	122,578	-
Miscellaneous					120,404	-	120,404	-
Transfers, net					30,350	[30,350]	-	-
Total general revenues					<u>5,317,988</u>	<u>3,412</u>	<u>5,321,400</u>	<u>1,518</u>
Change in net position					<u>[1,099,744]</u>	<u>443,707</u>	<u>[656,037]</u>	<u>43,827</u>
Net position - beginning					9,236,058	10,769,817	20,005,875	605,442
Prior period adjustment					<u>98,769</u>	<u>[76,265]</u>	<u>22,504</u>	<u>-</u>
Net position - beginning, restated					<u>9,334,827</u>	<u>10,693,552</u>	<u>20,028,379</u>	<u>605,442</u>
Net position - ending					<u>\$ 8,235,083</u>	<u>\$ 11,137,259</u>	<u>\$ 19,372,342</u>	<u>\$ 649,269</u>

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

CITY OF VALLEY CENTER, KANSAS

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	General	Special Highway	Employee Benefits	Bond and Interest	Capital Improvement	Capital Projects	Other Governmental Funds	Total
ASSETS								
Cash and cash equivalents	\$ 279,553	\$ 421,744	\$ 178,469	\$ 714,646	\$ 3,354	\$ 474,242	\$ 542,551	\$2,614,559
Receivables								
Taxes	779,519	-	593,106	1,103,130	-	-	236,962	2,712,717
Accounts	94,244	137,056	-	-	-	-	617	231,917
Due from other funds	-	-	-	-	-	9,798	2,500	12,298
Total assets	\$ 1,153,316	\$ 558,800	\$ 771,575	\$ 1,817,776	\$ 3,354	\$ 484,040	\$ 782,630	\$5,571,491
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 36,804	\$ 19,325	\$ 6,642	\$ -	\$ -	\$ 8,839	\$ 6,939	\$ 78,549
Deferred revenue	779,519	-	593,106	1,103,130	-	-	236,962	2,712,717
Total liabilities	816,323	19,325	599,748	1,103,130	-	8,839	243,901	2,791,266
FUND BALANCES								
Restricted	-	-	-	714,646	-	475,201	173,548	1,363,395
Committed	-	539,475	171,827	-	3,354	-	365,181	1,079,837
Unassigned	336,993	-	-	-	-	-	-	336,993
Total fund balances	336,993	539,475	171,827	714,646	3,354	475,201	538,729	2,780,225
Total liabilities and fund balances	\$ 1,153,316	\$ 558,800	\$ 771,575	\$ 1,817,776	\$ 3,354	\$ 484,040	\$ 782,630	\$5,571,491

CITY OF VALLEY CENTER, KANSAS

RECONCILIATION OF THE TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES

December 31, 2012

Total Governmental Fund Balances			\$ 2,780,225
Amounts reported for governmental activities in the statement of net position are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
The cost of capital assets is	33,163,893		
Accumulated depreciation is	<u>14,862,955</u>	18,300,938	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of:			
General obligation bonds payable	12,505,927		
Interest payable	101,130		
Compensated absences payable	<u>239,023</u>	[12,846,080]	
Net Position of Governmental Activities			\$ <u>8,235,083</u>

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

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General	Special Highway	Employee Benefits	Bond and Interest	Capital Improvement	Capital Projects	Other Governmental Funds	Total
Revenues								
Taxes	\$ 1,257,532	\$ 78,345	\$ 623,549	\$ 830,697	\$ -	\$ -	\$ 277,252	\$ 3,067,375
Special assessments	-	-	-	786,935	-	-	-	786,935
Intergovernmental	515,788	686,217	-	-	-	-	15,138	1,217,143
Licenses and permits	121,169	-	-	-	-	-	-	121,169
Charges for services	3,000	-	-	-	-	-	-	3,000
Fines and fees	61,901	-	-	-	-	-	-	61,901
Use of money and property	5,417	-	-	649	-	397	121	6,584
Reimbursements	27,619	178	17,983	-	-	-	43,417	89,197
Miscellaneous	119,428	826	-	-	-	-	150	120,404
Total revenues	2,111,854	765,566	641,532	1,618,281	-	397	336,078	5,473,708
Expenditures								
Current								
General government	529,748	-	591,359	-	-	-	-	1,121,107
Public safety	1,122,283	-	-	-	-	-	-	1,122,283
Public works	192,249	726,978	-	-	-	-	-	919,227
Culture and recreation	341,073	-	-	-	-	-	221,246	562,319
Capital outlay	-	-	-	-	-	2,178,309	89,003	2,267,312
Debt service								
Principal	-	-	-	3,440,000	-	2,360,000	-	5,800,000
Interest and other charges	-	-	-	478,662	-	142,680	-	621,342
Total expenditures	2,185,353	726,978	591,359	3,918,662	-	4,680,989	310,249	12,413,590
Excess [deficiency] of revenues over [under] expenditures	[73,499]	38,588	50,173	[2,300,381]	-	[4,680,592]	25,829	[6,939,882]
Other financing sources [uses]								
Sale of bonds	-	-	-	2,525,000	-	4,625,000	-	7,150,000
Bond premium	-	-	-	145,499	-	77,850	-	223,349
Transfers in	5,000	30,000	-	35,350	-	-	10,000	80,350
Transfers out	[35,000]	[10,000]	-	-	-	-	[5,000]	[50,000]
Total other financing sources [uses]	[30,000]	20,000	-	2,705,849	-	4,702,850	5,000	7,403,699
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	[103,499]	58,588	50,173	405,468	-	22,258	30,829	463,817
Fund balance, January 1	437,796	479,544	121,654	309,178	3,354	452,943	507,900	2,312,369
Prior period adjustment	2,696	1,343	-	-	-	-	-	4,039
Fund balance, January 1, Restated	440,492	480,887	121,654	309,178	3,354	452,943	507,900	2,316,408
Fund balance, December 31	\$ 336,993	\$ 539,475	\$ 171,827	\$ 714,646	\$ 3,354	\$ 475,201	\$ 538,729	\$ 2,780,225

CITY OF VALLEY CENTER, KANSAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Total Net Change In Fund Balances - Governmental Funds	\$	463,817
Amounts reported for governmental activities in the statement of activities are different because		
Capital outlays to purchase or build assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	1,075,606	
Depreciation expense	<u>[1,038,182]</u>	37,424
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which interest increased.		
		[32,761]
Some expenses reported in the statement of activities, such as compensated absences and net other post employment benefit obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		[22,036]
Proceeds of debt issues is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net position and does not affect the statement of activities.		
		[7,373,349]
Repayment of leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		
		24,657
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		
		<u>5,802,504</u>
Changes In Net Position of Governmental Activities	\$	<u>[1,099,744]</u>

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

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND
For the Year Ended December 31, 2012

	GAAP Basis Actual	Budgetary Basis Actual	Original/ Final Budget	Variance Positive [Negative]
Revenues				
Taxes	\$ 1,257,532	\$ 1,257,532	\$ 841,597	\$ 415,935
Intergovernmental	515,788	510,904	464,000	46,904
Licenses and permits	121,169	121,169	494,900	[373,731]
Charges for services	3,000	3,000	14,300	[11,300]
Fines and fees	61,901	61,901	65,000	[3,099]
Use of money and property	5,417	5,417	5,000	417
Reimbursements	27,619	27,619	-	27,619
Miscellaneous	119,428	119,428	105,000	14,428
Total revenues	2,111,854	2,106,970	1,989,797	117,173
Expenditures				
General government:				
Administration	529,748	529,748	529,200	[548]
Public Works:				
Community development	133,128	133,128	110,400	[22,728]
Environmental services	59,121	59,121	58,800	[321]
Public safety:				
Police department	667,098	667,098	723,800	56,702
Fire department	204,177	204,177	185,750	[18,427]
Legal and municipal court	98,847	98,847	148,750	49,903
Emergency communications	152,161	152,161	186,600	34,439
Culture and recreation:				
Parks	341,073	341,073	354,200	13,127
Total expenditures	2,185,353	2,185,353	2,297,500	112,147
Excess [deficiency] of revenues over [under] expenditures	[73,499]	[78,383]	[307,703]	229,320
Other financing [uses]				
Transfer in	5,000	5,000	140,000	[135,000]
Transfer [out]	[35,000]	[35,000]	-	[35,000]
Total other financing [uses]	[30,000]	[30,000]	140,000	[170,000]
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	[103,499]	[108,383]	\$ [167,703]	\$ 59,320
Unreserved fund balance, January 1	437,796	348,436		
Prior period adjustment	2,696	2,696		
Unreserved fund balance, January 1, Restatement	440,492	351,132		
Unreserved fund balance, December 31	\$ 336,993	\$ 242,749		

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

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET
SPECIAL HIGHWAY FUND
For the Year Ended December 31, 2012

	GAAP Basis <u>Actual</u>	Budgetary Basis <u>Actual</u>	Original/ Final <u>Budget</u>	Variance Positive [Negative]
Revenues				
Taxes	\$ 764,562	\$ 761,574	\$ 713,860	\$ 47,714
Reimbursement	178	178	-	178
Miscellaneous	826	826	1,000	[174]
Total revenues	<u>765,566</u>	<u>762,578</u>	<u>714,860</u>	<u>47,718</u>
Expenditures				
Personal services	202,312	202,312	246,500	44,188
Contractual service	45,527	45,527	45,600	73
Commodities	50,387	50,387	79,800	29,413
Capital outlay	428,752	428,752	443,500	14,748
Total expenditures	<u>726,978</u>	<u>726,978</u>	<u>815,400</u>	<u>88,422</u>
Excess [deficiency] of revenues over [under] expenditures	<u>38,588</u>	<u>35,600</u>	<u>[100,540]</u>	<u>136,140</u>
Other financing [uses]				
Transfers in	30,000	30,000	100,000	[70,000]
Transfers out	<u>[10,000]</u>	<u>[10,000]</u>	<u>[11,000]</u>	<u>1,000</u>
Total other financing [uses]	<u>20,000</u>	<u>20,000</u>	<u>89,000</u>	<u>[69,000]</u>
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	<u>58,588</u>	<u>55,600</u>	<u>\$ [11,540]</u>	<u>\$ 67,140</u>
Unreserved fund balance, January 1	479,544	345,476		
Prior period adjustment	<u>1,343</u>	<u>1,343</u>		
Unreserved fund balance, January 1, Restated	<u>480,887</u>	<u>346,819</u>		
Unreserved fund balance, December 31	<u>\$ 539,475</u>	<u>\$ 402,419</u>		

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - ACTUAL AND BUDGET
 EMPLOYEE BENEFITS FUND
 For the Year Ended December 31, 2012

	GAAP Basis <u>Actual</u>	Budgetary Basis <u>Actual</u>	Original/ Final <u>Budget</u>	Variance Positive <u>[Negative]</u>
Revenues				
Taxes	\$ 623,549	\$ 623,549	\$ 629,806	\$ [6,257]
Reimbursement	17,983	17,983	15,000	2,983
Total revenues	<u>641,532</u>	<u>641,532</u>	<u>644,806</u>	<u>[3,274]</u>
Expenditures				
Personal services	<u>591,359</u>	<u>591,359</u>	<u>657,000</u>	<u>65,641</u>
Total expenditures	<u>591,359</u>	<u>591,359</u>	<u>657,000</u>	<u>65,641</u>
Excess [deficiency] of revenues over [under] expenditures	50,173	50,173	\$ [12,194]	\$ <u>62,367</u>
Unreserved fund balance, January 1	<u>121,654</u>	<u>121,654</u>		
Unreserved fund balance, December 31	<u>\$ 171,827</u>	<u>\$ 171,827</u>		

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2012

	Business-Type Activities: Enterprise Funds				Total Enterprise Funds
	Sewer	Water	Stormwater	Solid Waste	
Assets					
Current assets:					
Cash and cash equivalents	\$ 558,895	\$ 1,304,314	\$ 25,332	\$ 72,037	\$ 1,960,578
Accounts receivable	95,397	98,886	16,860	39,908	251,051
Total current assets	<u>654,292</u>	<u>1,403,200</u>	<u>42,192</u>	<u>111,945</u>	<u>2,211,629</u>
Noncurrent assets:					
Bond issuance costs	4,845	-	-	-	4,845
Capital assets:					
Nondepreciable capital assets:					
Land	21,247	-	-	-	21,247
Depreciable capital assets:					
Buildings and equipment	280,151	259,993	-	-	540,144
Plant and system	12,039,629	8,113,421	370,034	-	20,523,084
Accumulated depreciation	[4,211,729]	[2,423,718]	[36,400]	-	[6,671,847]
Total capital assets	<u>8,129,298</u>	<u>5,949,696</u>	<u>333,634</u>	<u>-</u>	<u>14,412,628</u>
Total noncurrent assets	<u>8,134,143</u>	<u>5,949,696</u>	<u>333,634</u>	<u>-</u>	<u>14,417,473</u>
Total assets	<u>\$ 8,788,435</u>	<u>\$ 7,352,896</u>	<u>\$ 375,826</u>	<u>\$ 111,945</u>	<u>\$ 16,629,102</u>
Liabilities					
Current liabilities (payable from current assets):					
Accounts payable	\$ 23,028	\$ 95,974	\$ 909	\$ -	\$ 119,911
Customer deposits	-	13,822	-	-	13,822
Accrued interest	28,615	4,321	-	-	32,936
Due to other funds	9,798	2,500	-	-	12,298
Current portion of KDHE loan payable	140,865	-	-	-	140,865
Current portion of general obligation bonds payable	175,000	208,994	-	-	383,994
Total current liabilities (payable from current assets)	<u>377,306</u>	<u>325,611</u>	<u>909</u>	<u>-</u>	<u>703,826</u>
Noncurrent liabilities:					
Accrued compensated absences	13,965	33,208	12	-	47,185
KDHE loan payable	2,594,632	-	-	-	2,594,632
General obligation bonds payable	195,000	1,951,200	-	-	2,146,200
Total noncurrent liabilities	<u>2,803,597</u>	<u>1,984,408</u>	<u>12</u>	<u>-</u>	<u>4,788,017</u>
Total liabilities	<u>\$ 3,180,903</u>	<u>\$ 2,310,019</u>	<u>\$ 921</u>	<u>\$ -</u>	<u>\$ 5,491,843</u>
Net Position					
Invested in capital assets, net of related debt	\$ 5,023,801	\$ 3,789,502	\$ 333,634	\$ -	\$ 9,146,937
Unrestricted	583,731	1,253,375	41,271	111,945	1,990,322
Total net position	<u>\$ 5,607,532</u>	<u>\$ 5,042,877</u>	<u>\$ 374,905</u>	<u>\$ 111,945</u>	<u>\$ 11,137,259</u>

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

CITY OF VALLEY CENTER, KANSAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Business-Type Activities: Enterprise Funds				Total Enterprise Funds
	Sewer	Water	Stormwater	Solid Waste	
Operating revenues					
Charges for services	\$ 1,001,158	\$ 1,459,707	\$ 46,951	\$ 375,074	\$ 2,882,890
Miscellaneous	22,812	-	-	-	22,812
Reimbursements	-	33,381	-	-	33,381
Total operating revenues	1,023,970	1,493,088	46,951	375,074	2,939,083
Operating expenses					
Personal services	156,733	320,778	-	-	477,511
Contractual	350,449	782,669	16,297	342,791	1,492,206
Commodities	23,010	32,139	3,792	-	58,941
Capital outlay	-	3,165	-	-	3,165
Depreciation	304,295	216,225	18,502	-	539,022
Miscellaneous	7,097	-	-	-	7,097
Total operating expenses	841,584	1,354,976	38,591	342,791	2,577,942
Operating income [loss]	182,386	138,112	8,360	32,283	361,141
Nonoperating revenues [expenses]					
Interest expense	[83,073]	[102,452]	-	-	[185,525]
Interest income	106	275	-	-	381
Total nonoperating revenues [expenses]	[82,967]	[102,177]	-	-	[185,144]
Income before operating transfers	99,419	35,935	8,360	32,283	175,997
Transfers [to] other funds					
Contributed capital	298,060	-	-	-	298,060
Transfers [out]	[5,350]	[5,000]	[20,000]	-	[30,350]
Total transfers	292,710	[5,000]	[20,000]	-	267,710
Changes in net position	392,129	30,935	[11,640]	32,283	443,707
Net position, January 1	5,294,975	5,008,618	386,562	79,662	10,769,817
Prior period adjustment	[79,572]	3,324	[17]	-	[76,265]
Net position, January 1, Restated	5,215,403	5,011,942	386,545	79,662	10,693,552
Net position, December 31	\$ 5,607,532	\$ 5,042,877	\$ 374,905	\$ 111,945	\$ 11,137,259

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

CITY OF VALLEY CENTER, KANSAS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2012

	Business-Type Activities: Enterprise Funds				Total Enterprise Funds
	Sewer	Water	Stormwater	Solid Waste	
Cash flows from operating activities					
Cash received from customers and users	\$ 1,024,225	\$ 1,493,196	\$ 43,443	\$ 373,567	\$ 2,934,431
Cash payments to employees for services	[156,814]	[317,477]	-	-	[474,291]
Cash payments to other suppliers of goods or services	[410,210]	[756,740]	[20,651]	[342,805]	[1,530,406]
Net cash provided by [used in] operating activities	<u>457,201</u>	<u>418,979</u>	<u>22,792</u>	<u>30,762</u>	<u>929,734</u>
Cash flows from noncapital financing activities					
Transfers [to] other funds	[5,350]	[5,000]	[20,000]	-	[30,350]
Net cash provided by [used in] noncapital financing activities	<u>[5,350]</u>	<u>[5,000]</u>	<u>[20,000]</u>	<u>-</u>	<u>[30,350]</u>
Cash flows from capital and related financing activities					
Purchase and construction of fixed assets, net	[12,000]	[49,727]	-	-	[61,727]
Interest payments - bonds and notes	[44,675]	[132,415]	-	-	[177,090]
Bond proceeds	-	2,260,194	-	-	2,260,194
Principal payments - bonds and notes	[302,394]	[2,400,880]	-	-	[2,703,274]
Net cash provided by [used in] capital and related financing activities	<u>[359,069]</u>	<u>[322,828]</u>	<u>-</u>	<u>-</u>	<u>[681,897]</u>
Cash flows from investing activities					
Interest received	106	275	-	-	381
Net cash provided by investing activities	<u>106</u>	<u>275</u>	<u>-</u>	<u>-</u>	<u>381</u>
Net increase [decrease] in cash and cash equivalents	92,888	91,426	2,792	30,762	217,868
Cash and cash equivalents, January 1	466,007	1,212,888	22,540	41,275	1,742,710
Cash and cash equivalents, December 31	<u>\$ 558,895</u>	<u>\$ 1,304,314</u>	<u>\$ 25,332</u>	<u>\$ 72,037</u>	<u>\$ 1,960,578</u>

CITY OF VALLEY CENTER, KANSAS
 STATEMENT OF CASH FLOWS (Continued)
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2012

	Business-Type Activities: Enterprise Funds				Total Enterprise Funds
	<u>Sewer</u>	<u>Water</u>	<u>Stormwater</u>	<u>Solid Waste</u>	
Reconciliation of operating income [loss] to net cash provided by [used in] operating activities					
Operating income [loss]	\$ 182,386	\$ 138,112	\$ 8,360	\$ 32,283	\$ 361,141
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities					
Depreciation expense	304,295	216,225	18,502	-	539,022
[Increase] decrease in accounts receivable	255	[1,541]	[3,508]	[1,507]	[6,301]
Increase [decrease] in accounts payable	[29,654]	61,233	[562]	[14]	31,003
Increase [decrease] in customer deposits	-	1,649	-	-	1,649
Increase [decrease] in accrued compensated absences	[81]	3,301	-	-	3,220
Net cash provided by operating activities	<u>\$ 457,201</u>	<u>\$ 418,979</u>	<u>\$ 22,792</u>	<u>\$ 30,762</u>	<u>\$ 929,734</u>

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

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The City of Valley Center (the City) is a municipal corporation governed by a Mayor and an eight member City Council. The City provides services to citizens in the areas of highway and streets, water service, wastewater treatment, public improvement, public safety, planning and zoning, recreation and general administrative services. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in separate columns in the combined financial statements to emphasize they are legally separate from the City.

Component Unit that is Discretely Presented. The Edna Buschow Memorial Library Board operates the public library (Library). The Library serves the citizens within the City's jurisdiction. Acquisition or disposition of real property by the Library must be approved by the City Council. Bond issues must also be approved by the City Council. The Library is presented as a governmental fund type with a December 31st year-end.

B. *Government-wide and fund financial statements*

The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Taxes and other items which are not classified as program revenues are presented as general revenues of the City.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column in the fund financial statements.

C. *Measurement Focus, Basis of Accounting and Basis of Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. However, as mentioned in the auditor's report, the City has chosen not to present the relevant GASB 43 and 45 disclosure and accounting.

Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

The Special Highway Fund is used to account for the accumulation of resources used for street and road maintenance and repair.

The Employee Benefit Fund accounts for a special levy to provide employee benefits to City workers such as health insurance, KPERS contributions and other payroll taxes.

The Bond and Interest Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The Capital Improvement Fund is used to account for those resources set aside for other capital assets.

The Capital Projects Fund is used to account for larger infrastructure projects and related debt payments and project reimbursement revenues.

CITY OF VALLEY CENTER, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)*

The City reports the following major proprietary funds:

Sewer Fund is used to account for all sewer operations including administration, maintenance, financing and related debt service and billing collection. All operations are financed by means of customer user fees which are established by the governing body.

Water Fund is used to account for the provision of water service to the residents of the City. All activities necessary to provide water service are accounted for in this fund, including administration, operations, maintenance, financing and related debt service and billing collection.

Stormwater Fund is used to account for the provision of stormwater operations including administration, maintenance, financing and related debt service and billing collections.

Solid Waste Fund is used to account for the provision of solid waste operations including administration, maintenance and billing collections.

D. *Assets, Liabilities and Equity*

1. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible, if any.

Collection of current year property tax by the County Treasurer is not completed, apportioned or 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 year operations of the City and therefore are not susceptible to accrual. Accruals of uncollected current year property taxes are offset by deferred revenue and are identical to the adopted budget for 2013.

It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the accounting period, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Assets, Liabilities and Equity (Continued)*

1. Receivables and Payables (Continued)

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied as of November 1 and become a lien on the property as of that date. Payments are due November 1, becoming delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year.

The County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the City, is on or before January 20 of the ensuing year. Additional amounts are distributed on five (5) subsequent dates throughout the calendar year.

2. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets used in governmental fund types of the City are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type is included in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-75
Improvements Other Than Buildings	20-75
Machinery and Equipment	5-10
Infrastructure	20-75

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Assets, Liabilities and Equity (Continued)*

3. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. Vacation and sick pay is accrued when incurred in the government-wide and proprietary funds and reported as a fund liability. Vacation and sick pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

4. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Fund Equity

In the fund financial statements, governmental funds report fund balance in the following classifications: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance indicates that constraints have been placed on the use of resources either by being externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city council. Assigned fund balances include amounts that are constrained by the City management's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available restricted amounts is considered to be spent first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the following is the order in which resources will be expended: committed, assigned and unassigned.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

5. Fund Equity (Continued)

The following is the detail for fund balance classifications in the financial statements:

	Major Governmental Funds						Other Governmental Funds	Total Governmental Funds
	General	Special Highway	Employee Benefits	Bond and Interest	Capital Improvement	Capital Projects		
Fund Balances:								
Restricted for:								
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,848	\$ 7,848
Culture and recreation	-	-	-	-	-	-	60,590	60,590
Equipment improvements	-	-	-	-	-	-	103,967	103,967
Capital improvements	-	-	-	-	-	475,201	1,143	476,344
Debt payments	-	-	-	714,646	-	-	-	714,646
Committed for:								
Culture and recreation	-	-	-	-	-	-	8,187	8,187
Public safety	-	-	-	-	-	-	6,872	6,872
Public works	-	539,475	-	-	-	-	-	539,475
Personnel benefit costs	-	-	171,827	-	-	-	-	171,827
Equipment improvements	-	-	-	-	-	-	341,495	341,495
Capital improvements	-	-	-	-	3,354	-	8,627	11,981
Unassigned:	336,993	-	-	-	-	-	-	336,993
Total Fund Balances	\$ 336,993	\$ 539,475	\$ 171,827	\$ 714,646	\$ 3,354	\$ 475,201	\$ 538,729	\$ 2,780,225

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Deferred Revenue

The City reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized on the statement of revenues, expenditures and changes in fund balances.

8. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 Fund, 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 the 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 the 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 City Council may amend the budget at that time. During the current year the City amended the budget for the Water and Solid Waste Funds.

The statutes permit management to transfer 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. 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, capital project funds and trust funds.

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

The actual data presented in the budgetary comparison statements differs from the data presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

The following is a summary of the effects on the ending fund balances caused by the difference in accounting between the budgetary basis and GAAP.

	Major Governmental Funds							Other Governmental Funds	Total Governmental Funds
	General	Special Highway	Employee Benefit	Bond and Interest	Capital Improvement	Capital Projects			
	GAAP FUND BALANCE								
December 31, 2012	\$ 336,993	\$ 539,475	\$ 171,827	\$ 714,646	\$ 3,354	\$ 475,201	\$ 538,729	\$ 2,780,225	
Adjustments:									
Unreserved fund balances not subject to the Kansas Budget Law:	-	-	-	-	[3,354]	[475,201]	[411,807]	[890,362]	
Accounts receivable	[94,244]	[137,056]	-	-	-	-	-	[231,300]	
Total deductions	[94,244]	[137,056]	-	-	[3,354]	[475,201]	[411,807]	[1,121,662]	
BUDGETARY FUND BALANCE									
December 31, 2012	\$ 242,749	\$ 402,419	\$ 171,827	\$ 714,646	\$ -	\$ -	\$ 126,922	\$ 1,658,563	

	Sewer Fund	Water Fund	Storm Water Fund	Solid Waste Fund	Total Enterprise Funds
	Change in net position, GAAP				
	December 31, 2012	\$ 392,129	\$ 30,935	\$ [11,640]	\$ 32,283
Adjustments:					
Unreserved fund balances not subject to the KS Budget Law:	-	-	-	[32,283]	[32,283]
Depreciation expense	304,295	216,225	18,502	-	539,022
Accounts receivable	255	[1,541]	[3,508]	-	[4,794]
Customer deposits	-	1,649	-	-	1,649
Debt principal payments	[302,394]	[2,400,880]	-	-	[2,703,274]
Bond proceeds	-	2,260,194	-	-	2,260,194
Accrued interest payable	2,867	-	-	-	2,867
Contributing capital	[298,060]	-	-	-	[298,060]
Capital asset additions	[12,000]	[49,727]	-	-	[61,727]
Compensated absence payable	[81]	3,301	-	-	3,220
Total deductions	[305,118]	29,221	14,994	[32,283]	[293,186]
Change in net position, Budgetary					
December 31, 2012	\$ 87,011	\$ 60,156	\$ 3,354	\$ -	\$ 150,521

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS

A. *Deposits and Investments*

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 the City and the banks provide an acceptable rate for active funds.

Various City investments are considered to be idle funds by management and are invested according to K.S.A. 12-1675. The statute requires that the City invest its idle funds in only temporary notes of the City, bank certificates of deposit, repurchase agreements, and if eligible banks do not offer an acceptable rate for the funds: U.S. Treasury bills or notes or the Municipal Investment Pool (KMIP). Maturities of the above investments may not exceed two years by statute.

Some of the City's investments are bond proceeds invested pursuant to K.S.A. 10-131. This statute allows additional investment authority beyond that of K.S.A. 12-1675. Investments of bond proceeds may follow K.S.A. 12-1675 or include other investments such as the KMIP, direct obligations of the US government or any agency thereof, investment agreements with a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's investors service or Standard and Poor's corporation, and various other investments as specified in K.S.A. 10-131.

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.

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.

B. *Receivables*

Receivables as of year-end are as follows:

	General	Special Highway	Employee Benefits	Bond and Interest	Capital Projects	Other Governmental	Sewer	Water	Stormwater	Solid Waste	Totals
Receivables:											
Taxes	\$ 779,519	\$ -	\$ 593,106	\$ 1,103,130	\$ -	\$ 236,962	\$ -	\$ -	\$ -	\$ -	\$ 2,712,717
Accounts	94,244	137,056	-	-	-	617	95,397	98,886	16,860	39,908	482,968
Due from other funds	-	-	-	-	9,798	2,500	-	-	-	-	12,298
Total receivables	\$ 873,763	\$ 137,056	\$ 593,106	\$ 1,103,130	\$ 9,798	\$ 240,079	\$ 95,397	\$ 98,886	\$ 16,860	\$ 39,908	\$ 3,207,983

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Restated Balance <u>12/31/2011</u>	Additions	Retirements	Balance <u>12/31/2012</u>
City governmental activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 94,750	\$ 959,298	\$ 660,388	\$ 393,660
Land	400,514	-	-	400,514
Capital assets, being depreciated				
Buildings	5,172,714	-	-	5,172,714
Improvements other than buildings	272,290	-	-	272,290
Machinery and equipment	3,686,272	116,308	15,000	3,787,580
Infrastructure	22,476,747	660,388	-	23,137,135
Total capital assets	<u>32,103,287</u>	<u>1,735,994</u>	<u>675,388</u>	<u>33,163,893</u>
Less accumulated depreciation for:				
Buildings	1,715,156	126,564	-	1,841,720
Improvements other than buildings	111,193	16,735	-	127,928
Machinery and equipment	2,524,511	251,257	15,000	2,760,768
Infrastructure	9,488,911	643,628	-	10,132,539
Total accumulated depreciation	<u>13,839,771</u>	<u>1,038,184</u>	<u>15,000</u>	<u>14,862,955</u>
Governmental activities capital assets, net	<u>\$ 18,263,516</u>	<u>\$ 697,810</u>	<u>\$ 660,388</u>	<u>\$ 18,300,938</u>
Business-type activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 76,022	\$ 298,060	\$ 374,082	\$ -
Land	21,247	-	-	21,247
Capital assets, being depreciated				
Plant	20,163,296	359,788	-	20,523,084
Machinery and equipment	540,144	-	-	540,144
Total capital assets	<u>20,800,709</u>	<u>657,848</u>	<u>374,082</u>	<u>21,084,475</u>
Less accumulated depreciation for:				
Plant and equipment	<u>6,132,826</u>	<u>539,021</u>	<u>-</u>	<u>6,671,847</u>
Total accumulated depreciation	<u>6,132,826</u>	<u>539,021</u>	<u>-</u>	<u>6,671,847</u>
Business-type activities capital assets, net	<u>\$ 14,667,883</u>	<u>\$ 118,827</u>	<u>\$ 374,082</u>	<u>\$ 14,412,628</u>

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

The City's depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General government	\$ 145,970
Public safety	156,909
Highways and streets	355,126
Culture and recreation	132,477
Library	3,150
Infrastructure	<u>244,552</u>

Total depreciation \$ 1,038,184

Business-type Activities:

Water	\$ 216,225
Sewer	304,294
Stormwater	<u>18,502</u>

Total depreciation \$ 539,021

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-term Debt

During the year ended December 31, 2012, the following changes, including the reallocation of the general obligation bonds outstanding between governmental and business-type activities, occurred in long term liabilities:

Governmental Activities	Balance	Additions/		Balance	Amounts
	January 1, 2012	Adjustments	Reductions	December 31, 2012	Due Within One Year
General obligation bonds	\$ 8,575,083	\$ 7,373,349	\$ 3,442,505	\$ 12,505,927	\$ 1,002,729
Temporary notes payable	2,360,000	-	2,360,000	-	-
Capital leases payable	24,657	-	24,657	-	-
	<u>\$ 10,959,740</u>	<u>\$ 7,373,349</u>	<u>\$ 5,827,162</u>	<u>\$ 12,505,927</u>	<u>\$ 1,002,729</u>

Business-Type Activities

Business-Type Activities	Balance	Additions/		Balance	Amounts
	January 1, 2012	Adjustments	Reductions	December 31, 2012	Due Within One Year
General obligation bonds	\$ 535,000	\$ 2,260,194	\$ 265,000	\$ 2,530,194	\$ 383,994
Loans payable	5,174,101	-	2,438,604	2,735,497	140,865
	<u>\$ 5,709,101</u>	<u>\$ 2,260,194</u>	<u>\$ 2,703,604</u>	<u>\$ 5,265,691</u>	<u>\$ 524,859</u>

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-term Debt (Continued)

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 both general government and proprietary fund activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund other general obligation bonds.

General Obligation Bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with set amounts of principal maturing each year. General Obligation Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Improvement and Refunding		
2003-1	3.375% to 4.70%	\$ 1,275,000
2006-1	4.00% to 4.60%	190,000
2006-2	3.75% to 5.00%	165,000
2007-1	3.75% to 4.75%	635,000
2009-1	3.00% to 4.375%	1,395,000
2009-2	3.00%	370,000
2010-1	2.25% to 3.875%	1,472,578
2012-1	2.00% to 3.00%	4,830,693
2012-2	2.00% to 3.375%	2,114,298
2012-3	2.00% to 3.00%	<u>2,588,552</u>
Total		<u>\$ 15,036,121</u>
<u>Allocation</u>		
Governmental Activities	\$ 12,505,927	
Business Type Activities	<u>2,530,194</u>	
Total	<u>\$ 15,036,121</u>	

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year Ending December 31,	Governmental Activities	Business- Type Activities	Totals
2013	\$ 1,458,877	\$ 452,344	\$ 1,911,222
2014	1,469,166	448,194	1,917,360
2015	1,405,408	288,944	1,694,353
2016	1,393,692	272,194	1,665,887
2017	1,315,383	270,744	1,586,128
2018-2022	4,717,358	783,376	5,500,734
2023-2027	3,480,853	401,595	3,882,449
2028-2032	157,639	-	157,639
Total Principal and Interest	15,398,377	2,917,394	18,315,771
Total Interest	2,892,450	387,200	3,279,650
Total Principal	\$ 12,505,927	\$ 2,530,194	\$ 15,036,121

KDHE Loans Payable The city is currently indebted to the KDHE revolving loans program for the following loans outstanding as of December 31, 2012:

Fund	Description	Outstanding Balance
Wastewater Fund	KDHE Project No. C20 1740 01 WWTP	\$ 2,735,497

Annual debt service requirements to maturity for the KDHE loans payable are as follows:

Year Ending December 31,	KDHE Loan
2013	\$ 201,896
2014	202,250
2015	202,614
2016	202,986
2017	203,368
2018-2022	1,022,915
2023-2027	1,034,018
2028	208,262
Total Principal and Interest	3,278,309
Total Interest	542,812
Total Principal	\$ 2,735,497

CITY OF VALLEY CENTER, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. *Long-term Debt (Continued)*

During 2012, the City issued \$4,665,000 in general obligation refunding bonds with interest rates ranging from 2.00% to 3.00% to refund \$1,255,000 of Series 2006-1 General Obligation Bonds with interest rates ranging from 4.00% to 4.60%, to refund \$1,145,000 of Series 2006-2 General Obligation Bonds with interest rates ranging from 3.75% to 5.00%, to refund \$1,243,993 of the KDHE Water Supply Loan 2174 and to refund \$964,508 of the KDHE Water Supply Loan 2406. The transaction resulted in an economic gain of \$223,715 and a decrease of \$236,473 in future debt payments.

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Debt Service Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund. The special assessments receivable are not recorded as revenue when levied against the respective property owners as such amounts are not available to finance current year operations. The special assessment debt is a contingent liability of the City to the extent of property owner defaults which have historically been immaterial.

IV. OTHER INFORMATION

A. *Contingent Liabilities*

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

IV. OTHER INFORMATION (Continued)

B. Defined Benefit Pension Plan

Plan description - The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Fireman's Retirement System (KP&F). Both are cost-sharing multiple-employer defined benefit pension plans as provided by Kansas statutes (K.S.A. 74-4901 et seq). KPERS and KP&F provide retirement benefits, life insurance, disability income benefits and death benefits. Kansas law established and amends benefit provisions. KPERS and KP&F issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to 611 South Kansas Ave., Suite 100, Topeka, Kansas 66603 or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-419 and K.S.A. 74-49,210 establish 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. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates. The employer rate was 8.34% from January 1 to December 31, 2012. The City employer contributions to KPERS for the year ended December 31, 2012, 2011 and 2010 were \$138,072, \$125,190, and \$116,113, respectively, equal to the required contributions for each year.

C. Deferred Compensation Plan

The City offers employees a deferred compensation plan (the Plan) created in accordance with IRS code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the Plan is a benefit provided by the City after one year of employment. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan is administered by an independent plan administrator who performs investing functions. The Plan assets are held in trust for the exclusive benefit of the Plan participants and their beneficiaries. The assets will not be diverted to any other purpose. Accordingly, the financial activity of the City's deferred compensation plan is not reported in the City's financial statements.

CITY OF VALLEY CENTER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

IV. OTHER INFORMATION (Continued)

D. Interfund Transfers

A reconciliation of all transfers by fund type for 2012 follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 5,000	\$ 35,000
Special Highway	30,000	10,000
Bond and Interest	35,350	-
Other Governmental	10,000	5,000
Sewer	-	5,350
Water	-	5,000
Stormwater	-	20,000
	<u>\$ 80,350</u>	<u>\$ 80,350</u>

E. 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; and natural disasters for which the City carries commercial insurance. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF VALLEY CENTER, KANSAS
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended December 31, 2012

IV. OTHER INFORMATION (Continued)

F. Restatement of Equity

The equity reclassification is the result of the reclassification of capital assets between the governmental activities and business type and the restatement of various liabilities.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Net Assets, December 31, 2011	\$ 9,236,058	\$ 10,769,817
Prior Period Adjustment	<u>98,769</u>	<u>[76,265]</u>
Net Assets, December 31, 2011, Restated	<u>\$ 9,334,827</u>	<u>\$ 10,693,552</u>

SUPPLEMENTARY INFORMATION

CITY OF VALLEY CENTER, KANSAS
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 December 31, 2012

ASSETS	Fire Vehicle Replacement	Building & Equipment Reserve	Equipment Reserve	Public Works Building	Library	Emergency Equipment	Active Aging
Cash and cash equivalents	\$ 640	\$ 111,178	\$ 232,307	\$ 8,627	\$ 22,955	\$ 105,776	\$ 5,000
Taxes receivable	-	-	-	-	193,882	43,080	-
Accounts receivable	-	-	-	-	-	-	-
Due from other funds	-	-	2,500	-	-	-	-
Total assets	\$ 640	\$ 111,178	\$ 234,807	\$ 8,627	\$ 216,837	\$ 148,856	\$ 5,000
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 5,130	\$ -	\$ -	\$ 1,809	\$ -
Deferred revenue	-	-	-	-	193,882	43,080	-
Total liabilities	-	-	5,130	-	193,882	44,889	-
Fund balances							
Restricted	-	-	-	-	22,955	103,967	-
Committed	640	111,178	229,677	8,627	-	-	5,000
Total fund balances [deficit]	640	111,178	229,677	8,627	22,955	103,967	5,000
Total liabilities and fund balances	\$ 640	\$ 111,178	\$ 234,807	\$ 8,627	\$ 216,837	\$ 148,856	\$ 5,000

<u>Park Beautification</u>	<u>Business Improvement District</u>	<u>D.A.R.E</u>	<u>Drug Tax Distribution</u>	<u>Law Enforcement Block Grant</u>	<u>Special Parks</u>	<u>Special Alcohol</u>	<u>ADSAP Program</u>	<u>Totals</u>
\$ 3,187	\$ 1,143	\$ 4,162	\$ 5,348	\$ 2,500	\$ 18,040	\$ 18,978	\$ 2,710	\$ 542,551
-	-	-	-	-	-	-	-	236,962
-	-	-	-	-	617	-	-	617
-	-	-	-	-	-	-	-	2,500
<u>\$ 3,187</u>	<u>\$ 1,143</u>	<u>\$ 4,162</u>	<u>\$ 5,348</u>	<u>\$ 2,500</u>	<u>\$ 18,657</u>	<u>\$ 18,978</u>	<u>\$ 2,710</u>	<u>\$ 782,630</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,939
-	-	-	-	-	-	-	-	236,962
-	-	-	-	-	-	-	-	243,901
-	1,143	-	5,348	2,500	18,657	18,978	-	173,548
3,187	-	4,162	-	-	-	-	2,710	365,181
<u>3,187</u>	<u>1,143</u>	<u>4,162</u>	<u>5,348</u>	<u>2,500</u>	<u>18,657</u>	<u>18,978</u>	<u>2,710</u>	<u>538,729</u>
<u>\$ 3,187</u>	<u>\$ 1,143</u>	<u>\$ 4,162</u>	<u>\$ 5,348</u>	<u>\$ 2,500</u>	<u>\$ 18,657</u>	<u>\$ 18,978</u>	<u>\$ 2,710</u>	<u>\$ 782,630</u>

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended December 31, 2012

	Fire Vehicle Replacement	Building & Equipment Reserve	Equipment Reserve	Public Works Building	Library	Emergency Equipment	Active Aging
Revenues							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 227,127	\$ 50,125	\$ -
Intergovernmental	-	-	-	-	-	-	5,000
Use of money and property	-	-	121	-	-	-	-
Reimbursements	-	-	42,553	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Total revenues	-	-	42,674	-	227,127	50,125	5,000
Expenditures							
Current							
Contractual services	-	-	-	-	220,629	-	-
Capital outlay	-	-	31,101	-	-	57,902	-
Total expenditures	-	-	31,101	-	220,629	57,902	-
Excess [deficiency] of revenues over [under] expenditures	-	-	11,573	-	6,498	[7,777]	5,000
Other financing sources [uses]							
Transfers in	-	-	10,000	-	-	-	-
Transfers [out]	-	-	-	-	-	-	[5,000]
Total other financing sources [uses]	-	-	10,000	-	-	-	[5,000]
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	-	-	21,573	-	6,498	[7,777]	-
Fund balances [deficit], January 1	640	111,178	208,104	8,627	16,457	111,744	5,000
Fund balances [deficit], December 31	\$ 640	\$ 111,178	\$ 229,677	\$ 8,627	\$ 22,955	\$ 103,967	\$ 5,000

Park Beautification	Business Improvement District	D.A.R.E	Drug Tax Distribution	Law Enforcement Block Grant	Special Parks	Special Alcohol	ADSAP Program	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$277,252
-	-	-	-	-	5,217	4,921	-	15,138
-	-	-	-	-	-	-	-	121
35	-	829	-	-	-	-	-	43,417
-	-	-	-	-	-	-	150	150
<u>35</u>	<u>-</u>	<u>829</u>	<u>-</u>	<u>-</u>	<u>5,217</u>	<u>4,921</u>	<u>150</u>	<u>336,078</u>
-	-	-	-	-	617	-	-	221,246
-	-	-	-	-	-	-	-	89,003
-	-	-	-	-	617	-	-	310,249
<u>35</u>	<u>-</u>	<u>829</u>	<u>-</u>	<u>-</u>	<u>4,600</u>	<u>4,921</u>	<u>150</u>	<u>25,829</u>
-	-	-	-	-	-	-	-	10,000
-	-	-	-	-	-	-	-	[5,000]
-	-	-	-	-	-	-	-	5,000
35	-	829	-	-	4,600	4,921	150	30,829
<u>3,152</u>	<u>1,143</u>	<u>3,333</u>	<u>5,348</u>	<u>2,500</u>	<u>14,057</u>	<u>14,057</u>	<u>2,560</u>	<u>507,900</u>
\$ 3,187	\$ 1,143	\$ 4,162	\$ 5,348	\$ 2,500	\$ 18,657	\$ 18,978	\$ 2,710	\$538,729

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET
LIBRARY FUND

For the Year Ended December 31, 2012

	GAAP Basis <u>Actual</u>	Budgetary Basis <u>Actual</u>	Original/ Final <u>Budget</u>	Variance Positive <u>[Negative]</u>
Revenues				
Taxes	\$ 227,127	\$ 227,127	\$ 229,843	\$ [2,716]
Total revenues	<u>227,127</u>	<u>227,127</u>	<u>229,843</u>	<u>[2,716]</u>
Expenditures				
Culture and recreation	<u>220,629</u>	<u>220,629</u>	<u>229,300</u>	<u>8,671</u>
Total expenditures	<u>220,629</u>	<u>220,629</u>	<u>229,300</u>	<u>8,671</u>
Excess [deficiency] of revenues over [under] expenditures	6,498	6,498	\$ 543	\$ 5,955
Unreserved fund balance, January 1	<u>16,457</u>	<u>16,457</u>		
Unreserved fund balance, December 31	<u>\$ 22,955</u>	<u>\$ 22,955</u>		

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - ACTUAL AND BUDGET
 EMERGENCY EQUIPMENT FUND
 For the Year Ended December 31, 2012

	GAAP Basis <u>Actual</u>	Budgetary Basis <u>Actual</u>	Original/ Final <u>Budget</u>	Variance Positive [Negative]
Revenues				
Taxes	\$ 50,125	\$ 50,125	\$ 49,580	\$ 545
Total revenues	<u>50,125</u>	<u>50,125</u>	<u>49,580</u>	<u>545</u>
Expenditures				
Emergency equipment	<u>57,902</u>	<u>57,902</u>	<u>72,000</u>	<u>14,098</u>
Total expenditures	<u>57,902</u>	<u>57,902</u>	<u>72,000</u>	<u>14,098</u>
Excess [deficiency] of revenues over [under] expenditures	[7,777]	[7,777]	\$ [22,420]	\$ 14,643
Unreserved fund balance, January 1	<u>111,744</u>	<u>111,744</u>		
Unreserved fund balance, December 31	<u>\$ 103,967</u>	<u>\$ 103,967</u>		

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - ACTUAL AND BUDGET
 BOND AND INTEREST FUND
 For the Year Ended December 31, 2012

	GAAP Basis Actual	Budgetary Basis Actual	Original/ Final Budget	Variance Positive [Negative]
Revenues				
Taxes	\$ 830,697	\$ 830,697	\$ 81,488	\$ 749,209
Special assessments	786,935	786,935	796,000	[9,065]
Use of money and property	649	649	2,500	[1,851]
Total revenues	<u>1,618,281</u>	<u>1,618,281</u>	<u>879,988</u>	<u>738,293</u>
Expenditures				
Debt service				
Principal	3,440,000	915,000	1,210,000	295,000
Interest	478,662	478,662	450,300	[28,362]
Capital outlay	-	-	171,300	171,300
Total expenditures	<u>3,918,662</u>	<u>1,393,662</u>	<u>1,831,600</u>	<u>437,938</u>
Excess [deficiency] of revenues over [under] expenditures	<u>[2,300,381]</u>	<u>224,619</u>	<u>[951,612]</u>	<u>1,176,231</u>
Other financing sources				
Sale of bonds	2,525,000	-	-	-
Bond premium	145,499	145,499	-	145,499
Transfer in	35,350	35,350	210,500	[175,150]
Total other financing sources	<u>2,705,849</u>	<u>180,849</u>	<u>210,500</u>	<u>[29,651]</u>
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	<u>405,468</u>	<u>405,468</u>	<u>\$ [741,112]</u>	<u>\$ 1,146,580</u>
Unreserved fund balance, January 1	<u>309,178</u>	<u>309,178</u>		
Unreserved fund balance, December 31	<u>\$ 714,646</u>	<u>\$ 714,646</u>		

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET
SEWER FUND

For the Year Ended December 31, 2012

	GAAP Basis Actual	Budgetary Basis Actual	Original/ Final Budget	Variance Positive [Negative]
Revenues				
Charges to customers	\$ 1,001,158	\$ 1,001,413	\$ 1,008,000	\$ [6,587]
Miscellaneous	22,812	22,812	3,500	19,312
Use of money and property	106	106	200	[94]
Total revenues	<u>1,024,076</u>	<u>1,024,331</u>	<u>1,011,700</u>	<u>12,631</u>
Expenditures				
Personnel services	156,733	156,814	239,800	82,986
Contractual	350,449	350,449	304,100	[46,349]
Commodities	23,010	23,010	27,200	4,190
Capital outlay	-	12,000	19,000	7,000
Depreciation	304,295	-	-	-
Debt service	83,073	382,600	228,500	[154,100]
Miscellaneous	7,097	7,097	40,000	32,903
Total expenditures	<u>924,657</u>	<u>931,970</u>	<u>858,600</u>	<u>[73,370]</u>
Excess [deficiency] of revenues over [under] expenditures	<u>99,419</u>	<u>92,361</u>	<u>153,100</u>	<u>[60,739]</u>
Other financing [uses]				
Contributing capital	298,060	-	-	-
Transfer out	[5,350]	[5,350]	[181,000]	175,650
Total other financing [uses]	<u>292,710</u>	<u>[5,350]</u>	<u>[181,000]</u>	<u>175,650</u>
Change in net assets	<u>392,129</u>	<u>\$ 87,011</u>	<u>\$ [27,900]</u>	<u>\$ 114,911</u>
Unreserved fund balance, January 1	5,294,975			
Prior period adjustment	<u>[79,572]</u>			
Unreserved fund balance, January 1, Restated	<u>5,215,403</u>			
Unreserved fund balance, December 31	<u>\$ 5,607,532</u>			

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET
WATER FUND

For the Year Ended December 31, 2012

	GAAP Basis Actual	Budgetary Basis Actual	Final Budget	Variance Positive [Negative]
Revenues				
Charges to customers	\$ 1,459,707	\$ 1,458,166	\$ 1,100,000	\$ 358,166
Reimbursements	33,381	33,381	-	33,381
Use of money and property	275	275	1,000	[725]
Total revenues	<u>1,493,363</u>	<u>1,491,822</u>	<u>1,101,000</u>	<u>390,822</u>
Expenditures				
Personnel services	320,778	317,477	298,700	[18,777]
Contractual	782,669	781,020	752,300	[28,720]
Commodities	32,139	32,139	39,000	6,861
Capital outlay	3,165	52,892	49,000	[3,892]
Depreciation	216,225	-	-	-
Miscellaneous	-	-	15,000	15,000
Debt service	102,452	243,138	274,230	31,092
Total expenditures	<u>1,457,428</u>	<u>1,426,666</u>	<u>1,428,230</u>	<u>1,564</u>
Excess [deficiency] of revenues over [under] expenditures	<u>35,935</u>	<u>65,156</u>	<u>[327,230]</u>	<u>392,386</u>
Other financing [uses]				
Transfer out	[5,000]	[5,000]	[5,000]	-
Total other financing [uses]	<u>[5,000]</u>	<u>[5,000]</u>	<u>[5,000]</u>	<u>-</u>
Change in net assets	<u>30,935</u>	<u>\$ 60,156</u>	<u>\$ [332,230]</u>	<u>\$ 392,386</u>
Unreserved fund balance, January 1	5,008,618			
Prior period adjustment	<u>3,324</u>			
Unreserved fund balance, January 1, Restated	<u>5,011,942</u>			
Unreserved fund balance, December 31	<u>\$ 5,042,877</u>			

See independent auditor's report on the financial statements.

CITY OF VALLEY CENTER, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - ACTUAL AND BUDGET
 STORMWATER FUND
 For the Year Ended December 31, 2012

	GAAP Basis <u>Actual</u>	Budgetary Basis <u>Actual</u>	Original/ Final <u>Budget</u>	Variance Positive <u>[Negative]</u>
Revenues				
Charges to customers	\$ 46,951	\$ 43,443	\$ 56,000	\$ [12,557]
Total revenues	<u>46,951</u>	<u>43,443</u>	<u>56,000</u>	<u>[12,557]</u>
Expenditures				
Contractual	16,297	16,297	25,000	8,703
Commodities	3,792	3,792	2,500	[1,292]
Depreciation	<u>18,502</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>38,591</u>	<u>20,089</u>	<u>27,500</u>	<u>7,411</u>
Excess [deficiency] of revenues over [under] expenditures	<u>8,360</u>	<u>23,354</u>	<u>28,500</u>	<u>[5,146]</u>
Other financing [uses]				
Transfer out	<u>[20,000]</u>	<u>[20,000]</u>	<u>[20,000]</u>	<u>-</u>
Total other financing [uses]	<u>[20,000]</u>	<u>[20,000]</u>	<u>[20,000]</u>	<u>-</u>
Change in net assets	<u>[11,640]</u>	<u>\$ 3,354</u>	<u>\$ 8,500</u>	<u>\$ [5,146]</u>
Unreserved fund balance, January 1	386,562			
Prior period adjustment	<u>[17]</u>			
Unreserved fund balance, January 1, Restated	<u>386,545</u>			
Unreserved fund balance, December 31	<u>\$ 374,905</u>			

See independent auditor's report on the financial statements.