

CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007

SNODGRASS, DUNLAP & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IOLA, KANSAS
Financial Statements
Year Ended December 31, 2007

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Accountants' Compilation Report	1
Special Financial Statements	
STATEMENT 1	
Summary of Cash Receipts, Expenditures, and Unencumbered Cash	2
STATEMENT 2	
Summary of Expenditures - Actual and Budget	3
STATEMENT 3	
Statement of Cash Receipts and Expenditures - Actual and Budget	
General Fund	4
Special Alcohol and Drug Fund	5
Industrial Fund	6
Tourism and Convention Fund	7
Library Fund	8
Special Trafficway Fund	9
Special Parks and Recreation Fund	10
Equipment Reserve Fund	11
Debt Service Fund	12
Major Non-Street Projects Fund	13
Comprehensive Program Fund	14
Special Street Project Fund	15
Electric Fund	16
Water Fund	17
Sewer Fund	18
Gas Fund	19
Refuse Fund	20
Emergency Rescue Fund	21
Stores Fund	22
Employee Insurance	23
Iola Free Public Library	24
STATEMENT 4	
Statement of Cash Receipts, Expenditures and Unencumbered Cash Private-Purpose Trust Funds	25
STATEMENT 5	
Statement of Cash Receipts and Disbursements – Agency Funds	26
STATEMENT 6	
Statement of Changes in Long-Term Debt	27
Notes to the Financial Statements	28-33
Independent Auditor's Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards"	34-35



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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Commission
City of Iola, Kansas

We have audited the accompanying financial statements of the City of Iola, Kansas (the City) as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the omission of the financial data of one, but not all, of the component units of the City of Iola, Kansas, and, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Iola, Kansas, as of December 31, 2007, or the respective changes in financial position for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Iola, Kansas and the Iola Free Public Library Component unit, as of December 31, 2007, and their cash receipts and expenditures and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2008, on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Snodgrass, Dunlap & Company, P.A.
October 27, 2008
Iola, Kansas

CITY OF IOLA, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2007

Funds	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 169,162	\$ -	\$ 4,377,648	\$ 4,282,498	\$ 264,312	\$ 143,026	\$ 407,338
Special Revenue Funds:							
Special Alcohol and Drug	12,173	-	11,970	12,401	11,742	556	12,298
Industrial	128,732	-	12,934	82,316	59,350	15	59,365
Tourism and Convention	32,971	-	62,491	69,828	25,634	-	25,634
Library	435	-	162,869	162,869	435	-	435
Special Trafficway	62,135	-	183,931	20,483	225,583	-	225,583
Special Park and Recreation	32,256	-	274,217	161,446	145,027	3,001	148,028
Equipment Reserve	269,390	-	26,025	29,555	265,860	-	265,860
Debt Service Fund	3,527	-	391,730	391,713	3,544	-	3,544
Capital Project Funds:							
Major Non-Street Projects	20,480	-	32,678	51,022	2,136	-	2,136
Comprehensive Program	834,169	-	226,620	39,176	1,021,613	-	1,021,613
Special Street Project	38,586	-	-	-	38,586	-	38,586
Enterprise Funds:							
Electric	1,794,734	-	9,434,738	8,276,631	2,952,841	596,020	3,548,861
Water	507,375	-	1,491,727	1,719,016	280,086	34,210	314,296
Sewer	599,001	-	1,732,401	1,696,930	634,472	25,521	659,993
Gas	300,323	-	3,911,083	4,046,453	164,953	224,183	389,136
Refuse	171,586	-	231,978	236,693	166,871	5,920	172,791
Emergency Rescue	181,805	-	360,960	369,933	172,832	908	173,740
Internal Service Funds:							
Stores	55,688	-	338,683	339,898	54,473	5,030	59,503
Employee Insurance	76,717	-	461,391	500,679	37,429	7,743	45,172
Private-Purpose Trust Funds	108,970	-	15,426	6,139	118,257	-	118,257
Total Primary Government (excluding Agency Funds)	5,400,215	-	23,741,500	22,495,679	6,646,036	1,046,133	7,692,169
Component Units:							
Iola Free Public Library	176,632	-	213,376	211,596	178,412	-	178,412
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	\$ 5,576,847	\$ -	\$ 23,954,876	\$ 22,707,275	\$ 6,824,448	\$ 1,046,133	\$ 7,870,581

COMPOSITION OF CASH:

Team Bank	
Demand Deposits	\$ 3,612,299
Money Market	76,603
Certificates of Deposit	4,000,000
Total Team Bank	<u>7,688,902</u>
Total Component Units	<u>178,412</u>
Total Cash	7,867,314
Add: Agency Funds per Statement 5	<u>3,267</u>
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	<u>\$ 7,870,581</u>

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

CITY OF IOLA, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2007

Fund	Certified Budget	Adjustment for Qualifying Budget Credit	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General Fund	\$ 3,839,347	\$ 183,579	\$ 4,022,926	\$ 4,282,498	\$ 259,572
Special Revenue Funds:					
Special Alcohol and Drug	12,350	-	12,350	12,401	51
Industrial	108,000	-	108,000	82,316	(25,684)
Tourism and Convention	72,400	-	72,400	69,828	(2,572)
Library	165,849	-	165,849	162,869	(2,980)
Special Trafficway	140,000	-	140,000	20,483	(119,517)
Special Park and Recreation	238,773	-	238,773	161,446	(77,327)
Equipment Reserve	142,664	-	142,664	29,555	(113,109)
Debt Service Funds	391,730	-	391,730	391,713	(17)
Capital Project Fund:					
Comprehensive Program	100,000	-	100,000	39,176	(60,824)
Enterprise Funds:					
Electric	9,238,131	-	9,238,131	8,276,631	(961,500)
Water	1,705,089	-	1,705,089	1,719,016	13,927
Wastewater	2,335,795	-	2,335,795	1,696,930	(638,865)
Gas	4,400,874	-	4,400,874	4,046,453	(354,421)
Refuse	227,173	-	227,173	236,693	9,520
Emergency Rescue	385,650	-	385,650	369,933	(15,717)
Internal Service Funds:					
Stores	347,904	-	347,904	339,898	(8,006)
Employee Insurance	531,000	-	531,000	500,679	(30,321)

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

CITY OF IOLA, KANSAS

GENERAL FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Taxes	\$ 943,520	\$ 1,032,593	\$ 1,049,583	\$ (16,990)
Intergovernmental	1,108,341	1,363,446	1,112,938	250,508
Charges for Services	24,590	21,930	25,000	(3,070)
Fines, Forfeitures and Penalties	209,527	212,963	158,000	54,963
Use of Money and Property	136,716	164,781	56,000	108,781
Operating Transfers From Other Funds	1,432,027	1,571,000	1,565,000	6,000
Miscellaneous	33,745	10,935	10,000	935
TOTAL RECEIPTS	3,888,466	4,377,648	\$ 3,976,521	\$ 401,127
Expenditures and Transfers Subject to Budget				
General government	952,454	1,248,352	\$ 1,216,451	\$ 31,901
Public Safety	1,979,494	2,163,882	1,777,290	386,592
Highways and streets	633,079	535,035	474,487	60,548
Culture and recreation	219,611	309,229	325,119	(15,890)
Transfers out	85,083	26,000	46,000	(20,000)
Total Expenditures and Transfers Subject to Budget	3,869,721	4,282,498	3,839,347	443,151
Adjustment for Qualifying Budget Credit	-	-	183,579	(183,579)
Total Expenditures	3,869,721	4,282,498	\$ 4,022,926	\$ 259,572
Receipts Over (Under) Expenditures	18,745	95,150		
Unencumbered Cash, Beginning	150,417	169,162		
Unencumbered Cash, Ending	\$ 169,162	\$ 264,312		

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

CITY OF IOLA, KANSAS

SPECIAL ALCOHOL AND DRUG SPECIAL REVENUE FUNDStatement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Intergovernmental	\$ 9,602	\$ 8,370	\$ 6,594	\$ 1,776
Miscellaneous	389	3,600	3,000	600
TOTAL RECEIPTS	<u>9,991</u>	<u>11,970</u>	<u>\$ 9,594</u>	<u>\$ 2,376</u>
Expenditures and Transfers Subject to Budget				
Transfers out	6,000	6,000	\$ 6,000	\$ -
General government	<u>3,272</u>	<u>6,401</u>	<u>6,350</u>	<u>51</u>
Total Expenditures and Transfers Subject to Budget	<u>9,272</u>	<u>12,401</u>	<u>\$ 12,350</u>	<u>\$ 51</u>
Receipts Over (Under) Expenditures	719	(431)		
Unencumbered Cash, Beginning	<u>11,454</u>	<u>12,173</u>		
Unencumbered Cash, Ending	<u>\$ 12,173</u>	<u>\$ 11,742</u>		

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

CITY OF IOLA, KANSAS

INDUSTRIAL SPECIAL REVENUE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Taxes	\$ 3,191	\$ 3,364	\$ 3,388	\$ (24)
Use of Money and Property	12,180	9,570	9,000	570
TOTAL RECEIPTS	<u>15,371</u>	<u>12,934</u>	<u>\$ 12,388</u>	<u>\$ 546</u>
Expenditures and Transfers Subject to Budget				
General government				
Commodities	57,754	31,019	\$ 29,000	\$ 2,019
Contractual services	(4,794)	31,297	59,000	(27,703)
Transfer Out		20,000	20,000	-
Total Expenditures and Transfers Subject to Budget	<u>52,960</u>	<u>82,316</u>	<u>\$ 108,000</u>	<u>\$ (25,684)</u>
Receipts Over (Under) Expenditures	(37,589)	(69,382)		
Unencumbered Cash, Beginning	<u>166,321</u>	<u>128,732</u>		
Unencumbered Cash, Ending	<u>\$ 128,732</u>	<u>\$ 59,350</u>		

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

CITY OF IOLA, KANSAS
TOURISM AND CONVENTION SPECIAL REVENUE FUND

Statement of Cash Receipts and Expenditures -
 Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Intergovernmental	\$ 46,682	\$ 61,594	\$ 45,000	\$ 16,594
Use of Money and Property	1,159	897	2,500	(1,603)
TOTAL RECEIPTS	<u>47,841</u>	<u>62,491</u>	<u>\$ 47,500</u>	<u>\$ 14,991</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Contractual services	<u>46,543</u>	<u>69,828</u>	<u>\$ 72,400</u>	<u>\$ (2,572)</u>
Total Expenditures and Transfers Subject to Budget	<u>46,543</u>	<u>69,828</u>	<u>\$ 72,400</u>	<u>\$ (2,572)</u>
Receipts Over (Under) Expenditures	1,298	(7,337)		
Unencumbered Cash, Beginning	<u>31,673</u>	<u>32,971</u>		
Unencumbered Cash, Ending	<u>\$ 32,971</u>	<u>\$ 25,634</u>		

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

CITY OF IOLA, KANSAS

LIBRARY SPECIAL REVENUE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Taxes	\$ 153,176	\$ 162,869	\$ 165,849	\$ (2,980)
TOTAL RECEIPTS	<u>153,176</u>	<u>162,869</u>	<u>\$ 165,849</u>	<u>\$ (2,980)</u>
Expenditures and Transfers Subject to Budget Appropriation	<u>156,703</u>	<u>162,869</u>	<u>\$ 165,849</u>	<u>\$ (2,980)</u>
Total Expenditures and Transfers Subject to Budget	<u>156,703</u>	<u>162,869</u>	<u>\$ 165,849</u>	<u>\$ (2,980)</u>
Receipts Over (Under) Expenditures	(3,527)	-		
Unencumbered Cash, Beginning	<u>3,963</u>	<u>435</u>		
Unencumbered Cash, Ending	<u>\$ 435</u>	<u>\$ 435</u>		

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

CITY OF IOLA, KANSAS

SPECIAL TRAFFICWAY SPECIAL REVENUE FUNDStatement of Cash Receipts and Expenditures-
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts				
Intergovernmental	\$ 174,396	\$ 176,016	\$ 181,460	\$ (5,444)
Uses of Money and Property	8,567	7,915	-	7,915
TOTAL RECEIPTS	<u>182,963</u>	<u>183,931</u>	<u>\$ 181,460</u>	<u>\$ 2,471</u>
Expenditures and Transfers Subject to Budget				
Highways and Streets				
Capital Outlay	495,134	20,483	\$ 140,000	\$ (119,517)
Total Expenditures and Transfers Subject to Budget	<u>495,134</u>	<u>20,483</u>	<u>\$ 140,000</u>	<u>\$ (119,517)</u>
Receipts Over (Under) Expenditures	(312,171)	163,448		
Unencumbered Cash, Beginning	<u>374,306</u>	<u>62,135</u>		
Unencumbered Cash, Ending	<u>\$ 62,135</u>	<u>\$ 225,583</u>		

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

CITY OF IOLA, KANSAS

SPECIAL PARKS AND RECREATION SPECIAL REVENUE FUNDStatement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Intergovernmental	\$ 9,302	\$ 8,370	\$ 6,594	\$ 1,776
Charges for Services	93,341	95,847	87,100	8,747
Transfers in	123,750	170,000	190,000	(20,000)
TOTAL RECEIPTS	<u>226,393</u>	<u>274,217</u>	<u>\$ 283,694</u>	<u>\$ (9,477)</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Personal service	111,929	94,994	\$ 134,073	\$ (39,079)
Contractual service	25,174	7,585	7,650	(65)
Commodities	92,028	102,325	97,050	5,275
Capital outlay	(1,817)	(43,458)	-	(43,458)
Transfer out	6,250	-	-	-
Total Expenditures and Transfers Subject to Budget	<u>233,564</u>	<u>161,446</u>	<u>\$ 238,773</u>	<u>\$ (77,327)</u>
Receipts Over (Under) Expenditures	(7,171)	112,771		
Unencumbered Cash, Beginning	39,427	32,256		
Unencumbered Cash, Ending	<u>\$ 32,256</u>	<u>\$ 145,027</u>		

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

CITY OF IOLA, KANSAS

EQUIPMENT RESERVE SPECIAL REVENUE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Use of Money and Property	\$ 16,251	\$ 25	\$ 11,250	\$ (11,225)
Transfers in	91,333	26,000	89,000	(63,000)
TOTAL RECEIPTS	<u>107,584</u>	<u>26,025</u>	<u>\$ 100,250</u>	<u>\$ (74,225)</u>
Expenditures and Transfers Subject to Budget				
General government				
Capital outlay	\$ 163,087	\$ 29,555	\$ 142,664	\$ (113,109)
Adjustment for qualifying budget credits	-	-	-	-
Total Expenditures and Transfers Subject to Budget	<u>163,087</u>	<u>29,555</u>	<u>\$ 142,664</u>	<u>\$ (113,109)</u>
Receipts Over (Under) Expenditures	(55,503)	(3,530)		
Unencumbered Cash, Beginning	<u>324,893</u>	<u>269,390</u>		
Unencumbered Cash, Ending	<u>\$ 269,390</u>	<u>\$ 265,860</u>		

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

CITY OF IOLA, KANSAS

DEBT SERVICE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Taxes	\$ 389,150	\$ 391,730	\$ 391,730	\$ -
TOTAL RECEIPTS	<u>389,150</u>	<u>391,730</u>	<u>\$ 391,730</u>	<u>\$ -</u>
Expenditures and Transfers Subject to Budget				
Debt service	<u>390,903</u>	<u>391,713</u>	<u>\$ 391,730</u>	<u>\$ (17)</u>
Total Expenditures and Transfers Subject to Budget	<u>390,903</u>	<u>391,713</u>	<u>\$ 391,730</u>	<u>\$ (17)</u>
Receipts Over (Under) Expenditures	(1,753)	17		
Unencumbered Cash, Beginning	<u>5,280</u>	<u>3,527</u>		
Unencumbered Cash, Ending	<u>\$ 3,527</u>	<u>\$ 3,544</u>		

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

CITY OF IOLA, KANSAS

MAJOR NON-STREET PROJECTS CAPITAL PROJECT FUND*

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Actual
CASH RECEIPTS		
Intergovernmental	\$ 198,821	\$ 12,678
Transfers	-	20,000
	<u>198,821</u>	<u>32,678</u>
Expenditures and Transfers Subject to Budget		
Capital outlay	<u>175,438</u>	<u>51,022</u>
	<u>175,438</u>	<u>51,022</u>
Total Expenditures and Transfers Subject to Budget		
	23,383	(18,344)
Receipts Over (Under) Expenditures		
	<u>(2,903)</u>	<u>20,480</u>
Unencumbered Cash, Beginning		
	<u>\$ 20,480</u>	<u>\$ 2,136</u>
Unencumbered Cash, Ending		

* - This fund is not required to be budgeted.

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

CITY OF IOLA, KANSAS

COMPREHENSIVE PROGRAM CAPITAL PROJECT FUNDStatement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Use of Money and Property	\$ 34,155	\$ 40,338	\$ 4,000	\$ 36,338
Intergovernmental	145,623	186,282	40,000	146,282
TOTAL RECEIPTS	179,778	226,620	\$ 44,000	\$ 182,620
Expenditures and Transfers Subject to Budget				
Capital Outlay	64,012	39,176	\$ 100,000	\$ (60,824)
Total Expenditures and Transfers Subject to Budget	64,012	39,176	\$ 100,000	\$ (60,824)
Receipts Over (Under) Expenditures	115,766	187,444		
Unencumbered Cash, Beginning	718,403	834,169		
Unencumbered Cash, Ending	\$ 834,169	\$ 1,021,613		

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

CITY OF IOLA, KANSAS

SPECIAL STREET PROJECT CAPITAL PROJECT FUND*

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Actual
CASH RECEIPTS		
Uses of Money and Property	\$ -	\$ -
TOTAL RECEIPTS	-	-
Expenditures and Transfers Subject to Budget		
Transfers out	-	-
Total Expenditures and Transfers Subject to Budget	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	38,586	38,586
Unencumbered Cash, Ending	\$ 38,586	\$ 38,586

* - This fund is not required to be budgeted.

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

CITY OF IOLA, KANSAS

ELECTRIC ENTERPRISE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
CASH RECEIPTS				
Charges for services	\$ 9,964,001	\$ 9,157,495	\$ 10,508,000	\$ (1,350,505)
Miscellaneous	13,439	204,804	10,500	194,304
Transfers in	-	-	5,000	(5,000)
Use of money and property	31,161	72,439	45,000	27,439
TOTAL RECEIPTS	<u>10,008,601</u>	<u>9,434,738</u>	<u>\$ 10,568,500</u>	<u>\$ (1,133,762)</u>
Expenditures and Transfers Subject to Budget				
Production	6,958,246	6,632,329	\$ 7,457,547	\$ (825,218)
Distribution	500,920	566,633	795,750	(229,117)
Capital outlay	213,641	174,335	81,500	92,835
Transfers out	764,584	903,334	903,334	-
Total Expenditures and Transfers Subject to Budget	<u>8,437,391</u>	<u>8,276,631</u>	<u>\$ 9,238,131</u>	<u>\$ (961,500)</u>
Receipts Over (Under) Expenditures	1,571,210	1,158,107		
Unencumbered Cash, Beginning	<u>223,524</u>	<u>1,794,734</u>		
Unencumbered Cash, Ending	<u>\$ 1,794,734</u>	<u>\$ 2,952,841</u>		

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

CITY OF IOLA, KANSAS

WATER ENTERPRISE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
CASH RECEIPTS				
Charge for services	\$ 1,645,216	\$ 1,490,343	\$ 1,500,000	\$ (9,657)
Intergovernmental	-	-	38,500	(38,500)
Miscellaneous	35,585	1,384	-	1,384
Transfers in	-	-	-	-
Use of money and property	-	-	6,500	(6,500)
TOTAL RECEIPTS	<u>1,680,801</u>	<u>1,491,727</u>	<u>\$ 1,545,000</u>	<u>\$ (53,273)</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	66,959	73,416	\$ 27,500	\$ 45,916
Production	1,178,605	1,230,572	755,000	475,572
Distribution	247,621	281,695	789,256	(507,561)
Transfers out	133,333	133,333	133,333	-
KDHE Loan Payment	-	-	-	-
Total Expenditures and Transfers Subject to Budget	<u>1,626,518</u>	<u>1,719,016</u>	<u>\$ 1,705,089</u>	<u>\$ 13,927</u>
Receipts Over (Under) Expenditures	54,283	(227,289)		
Unencumbered Cash, Beginning	<u>453,092</u>	<u>507,375</u>		
Unencumbered Cash, Ending	<u>\$ 507,375</u>	<u>\$ 280,086</u>		

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

CITY OF IOLA, KANSAS

SEWER ENTERPRISE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charge for services	\$ 373,589	\$ 1,717,658	\$ 800,000	\$ 917,658
Miscellaneous	4,524	248	4,000	(3,752)
Transfers in	-	-	1,000	(1,000)
Use of money and property	14,447	14,495	3,000	11,495
TOTAL RECEIPTS	<u>392,560</u>	<u>1,732,401</u>	<u>\$ 808,000</u>	<u>\$ 924,401</u>
Expenditures and Transfers Subject to Budget				
Treatment	18,526	59,744	\$ 23,400	\$ 36,344
Collection	76,284	101,101	272,395	(171,294)
Capital outlay	135,585	1,496,085	2,000,000	(503,915)
Transfers out	40,000	40,000	40,000	-
Total Expenditures and Transfers Subject to Budget	<u>270,395</u>	<u>1,696,930</u>	<u>\$ 2,335,795</u>	<u>\$ (638,865)</u>
Receipts Over (Under) Expenditures	122,165	35,471		
Unencumbered Cash, Beginning	<u>476,836</u>	<u>599,001</u>		
Unencumbered Cash, Ending	<u>\$ 599,001</u>	<u>\$ 634,472</u>		

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

CITY OF IOLA, KANSAS

GAS ENTERPRISE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charge for services	\$ 4,001,814	\$ 3,884,961	\$ 4,506,200	\$ (621,239)
Miscellaneous	6,280	888	10,000	(9,112)
Use of money and property	31,301	25,234	25,000	234
TOTAL RECEIPTS	<u>4,039,395</u>	<u>3,911,083</u>	<u>\$ 4,541,200</u>	<u>\$ (630,117)</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	7,100	8,750	\$ 10,000	\$ (1,250)
Distribution	3,343,259	3,579,370	3,932,541	(353,171)
Transfers out	458,333	458,333	458,333	-
Total Expenditures and Transfers Subject to Budget	<u>3,808,692</u>	<u>4,046,453</u>	<u>\$ 4,400,874</u>	<u>\$ (354,421)</u>
Receipts Over (Under) Expenditures	230,703	(135,370)		
Unencumbered Cash, Beginning	69,620	300,323		
Unencumbered Cash, Ending	<u>\$ 300,323</u>	<u>\$ 164,953</u>		

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

CITY OF IOLA, KANSAS
REFUSE ENTERPRISE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charges for services	\$ 222,222	\$ 227,146	\$ 252,000	\$ (24,854)
Uses of money and property	4,816	4,832	2,000	2,832
Transfers in	-	-	-	-
Total Cash Receipts	<u>227,038</u>	<u>231,978</u>	<u>\$ 254,000</u>	<u>\$ (22,022)</u>
Expenditures and Transfers Subject to Budget				
Collection	134,803	136,693	\$ 127,173	\$ 9,520
Transfers out	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>234,803</u>	<u>236,693</u>	<u>\$ 227,173</u>	<u>\$ 9,520</u>
Receipts Over (Under) Expenditures	(7,765)	(4,715)		
Unencumbered Cash, Beginning	<u>179,351</u>	<u>171,586</u>		
Unencumbered Cash, Ending	<u>\$ 171,586</u>	<u>\$ 166,871</u>		

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

CITY OF IOLA, KANSAS

EMERGENCY RESCUE ENTERPRISE FUNDStatement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charges for service	\$ 246,980	\$ 280,960	\$ 225,000	\$ 55,960
Intergovernmental	80,000	80,000	100,000	(20,000)
Total Cash Receipts	<u>326,980</u>	<u>360,960</u>	<u>\$ 325,000</u>	<u>\$ 35,960</u>
Expenditures and Transfers Subject to Budget				
Operations	77,087	169,933	\$ 185,650	\$ (15,717)
Transfers out	150,000	200,000	200,000	-
Total Expenditures and Transfers Subject to Budget	<u>227,087</u>	<u>369,933</u>	<u>\$ 385,650</u>	<u>\$ (15,717)</u>
Receipts Over (Under) Expenditures	99,893	(8,973)		
Unencumbered Cash, Beginning	81,912	181,805		
Unencumbered Cash, Ending	<u>\$ 181,805</u>	<u>\$ 172,832</u>		

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

CITY OF IOLA, KANSAS

STORES INTERNAL SERVICE FUND

Statement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charges for service	\$ 222,633	\$ 238,683	\$ 200,500	\$ 38,183
Transfers in	100,000	100,000	100,000	-
Total Cash Receipts	<u>322,633</u>	<u>338,683</u>	<u>\$ 300,500</u>	<u>\$ 38,183</u>
Expenditures and Transfers Subject to Budget				
Administration	91,221	91,507	\$ 97,589	\$ (6,082)
Commodities	226,495	248,391	250,315	(1,924)
Capital outlay	3,500	-	-	-
Transfers out	-	-	-	-
Total Expenditures and Transfers Subject to Budget	<u>321,216</u>	<u>339,898</u>	<u>\$ 347,904</u>	<u>\$ (8,006)</u>
Receipts Over (Under) Expenditures	1,417	(1,215)		
Unencumbered Cash, Beginning	54,271	55,688		
Unencumbered Cash, Ending	<u>\$ 55,688</u>	<u>\$ 54,473</u>		

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

CITY OF IOLA, KANSAS

EMPLOYEE INSURANCE INTERNAL SERVICE FUNDStatement of Cash Receipts and Expenditures -
Actual and Budget

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
CASH RECEIPTS				
Charges for service	\$ 465,731	\$ 458,384	\$ 522,000	\$ (63,616)
Uses of money and property	4,219	3,007	2,500	507
Total Cash Receipts	<u>469,950</u>	<u>461,391</u>	<u>\$ 524,500</u>	<u>\$ (63,109)</u>
Expenditures and Transfers Subject to Budget				
Administration	<u>501,563</u>	<u>500,679</u>	<u>\$ 531,000</u>	<u>\$ (30,321)</u>
Total Expenditures and Transfers Subject to Budget	<u>501,563</u>	<u>500,679</u>	<u>\$ 531,000</u>	<u>\$ (30,321)</u>
Receipts Over (Under) Expenditures	(31,613)	(39,288)		
Unencumbered Cash, Beginning	<u>108,330</u>	<u>76,717</u>		
Unencumbered Cash, Ending	<u>\$ 76,717</u>	<u>\$ 37,429</u>		

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

CITY OF IOLA, KANSAS

**COMPONENT UNIT
IOLA FREE PUBLIC LIBRARY**

Statement of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2007

(With Comparative Actual Totals for Prior Year Ended December 31, 2006)

	Prior Year Actual	Actual
CASH RECEIPTS		
Intergovernmental	\$ 153,176	\$ 162,869
Uses of money and property	18,501	15,524
Fines and fees	10,135	9,798
Miscellaneous	14,615	25,185
TOTAL RECEIPTS	<u>196,427</u>	<u>213,376</u>
Expenditures and Transfers Subject to Budget		
Culture and recreation	<u>200,280</u>	<u>211,596</u>
Total Expenditures and Transfers Subject to Budget	<u>200,280</u>	<u>211,596</u>
Receipts Over (Under) Expenditures	(3,853)	1,780
Unencumbered Cash, Beginning	<u>180,485</u>	<u>176,632</u>
Unencumbered Cash, Ending	<u>\$ 176,632</u>	<u>\$ 178,412</u>

* - This fund is not required to be budgeted.

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

CITY OF IOLA, KANSAS
PRIVATE-PURPOSE TRUST FUNDS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2007

Funds	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Wm. Green Trust	\$ 5,509	\$ -	\$ -	\$ -	\$ 5,509	\$ -	\$ 5,509
Joseph and Mary Wolf Memorial	11,080	-	2,376	3,968	9,488	-	9,488
Clean-up	4,068	-	163	72	4,159	-	4,159
Fire Insurance Proceeds	5,300	-	7,860	-	13,160	-	13,160
Cemetery Perpetual Maintenance	75,659	-	3,043	2,099	76,603	-	76,603
Special Law Enforcement	7,354	-	1,984	-	9,338	-	9,338
Total Private-Purpose Trust Funds	\$ 108,970	\$ -	\$ 15,426	\$ 6,139	\$ 118,257	\$ -	\$ 118,257

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

CITY OF IOLA, KANSAS

AGENCY FUNDS

Statement of Cash Receipts and Disbursements

For the Year Ended December 31, 2007

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Kansas Sales Tax Fund	\$ (4,788)	\$ 323,873	\$ 322,352	\$ (3,267)
Total Assets	<u>\$ (4,788)</u>	<u>\$ 323,873</u>	<u>\$ 322,352</u>	<u>\$ (3,267)</u>

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

CITY OF IOLA, KANSAS
STATEMENT OF CHANGES IN LONG-TERM DEBT

For the Year Ended December 31, 2007

Changes in long-term liabilities for the year ended December 31, 2007 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds Series 1998	3.9% to 4.45%	8/12/1998	\$ 3,100,000	12/01/2009	\$ 1,095,000	\$ -	\$ (345,000)	\$ (345,000)	\$ 750,000	\$ 14,835
Kansas Water Pollution Control Revolving Loan Fund	2.26%	1/02/2007	\$ 2,751,000	3/01/2028	-	788,768	-	788,768	788,768	-
Kansas Water Supply Loan	4.01%	9/10/2002	\$ 10,000,000	8/01/2025	9,484,530	-	(354,223)	(354,223)	9,130,307	376,814
Total contractual indebtedness					10,579,530	788,768	(699,223)	89,545	10,669,075	391,649
Compensated absences					189,335	-	-	1,870	191,205	-
Total long-term debt					<u>\$ 10,768,865</u>	<u>\$ 788,768</u>	<u>\$ (699,223)</u>	<u>\$ 91,415</u>	<u>\$ 10,860,280</u>	<u>\$ 391,649</u>

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

	Year									Total
	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028	
Principal:										
General obligation bonds	\$ 365,000	\$ 385,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750,000
2002 KDHE loan	368,571	383,499	399,031	415,193	432,009	2,437,113	2,972,284	1,722,608	-	9,130,307
2007 KDHE loan	53,373	108,763	111,510	114,326	117,214	632,003	715,952	811,052	86,808	2,751,000
	<u>786,943</u>	<u>877,262</u>	<u>510,541</u>	<u>529,519</u>	<u>549,223</u>	<u>3,069,115</u>	<u>3,688,235</u>	<u>2,533,660</u>	<u>86,808</u>	<u>12,631,307</u>
Interest:										
General obligation bonds	15,513	16,363	-	-	-	-	-	-	-	31,876
2002 KDHE loan	362,467	347,539	332,007	315,845	299,029	1,218,076	682,905	104,986	-	3,662,854
2007 KDHE loan	34,525	67,032	64,285	61,469	58,581	246,973	163,024	67,924	1,089	764,903
	<u>412,505</u>	<u>430,934</u>	<u>396,292</u>	<u>377,314</u>	<u>357,610</u>	<u>1,465,049</u>	<u>845,929</u>	<u>172,910</u>	<u>1,089</u>	<u>4,459,633</u>
	<u>\$ 1,199,448</u>	<u>\$ 1,308,196</u>	<u>\$ 906,833</u>	<u>\$ 906,833</u>	<u>\$ 906,833</u>	<u>\$ 4,534,165</u>	<u>\$ 4,534,165</u>	<u>\$ 2,706,570</u>	<u>\$ 87,898</u>	<u>\$ 17,090,940</u>

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

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Iola (the City) is a municipal corporation governed by a three member commission. Under governmental accounting and financial reporting standards, the City is considered to be a financial reporting entity consisting of a primary government and any other organizations for which the City is (1) financially accountable or (2) not financially accountable but for which the nature and significance of the other organization's relationship to the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Such organizations are referred to as component units. One of the City's component units, the Iola Housing Authority, is not included in these financial statements. The Iola Housing Authority has contracted for a separate audit of its books and records. A copy of the audit report may be obtained from the Iola Housing Authority or the City of Iola. The other component unit, the Iola Free Public Library, is reported separately to emphasize that it is legally separate from the City.

Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure would be charged in the fund from which the transfer is made.

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

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

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

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds – to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

The fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

Private-Purpose Trust Funds – to account for assets where both the principal and interest may be spent. Private-Purpose trust funds are accounted for in essentially the same manner as the governmental fund types.

Agency Funds – to account for assets that the City holds for others in an agency capacity. The agency funds are custodial in nature and do not present results of operations or have a measurement focus.

Note 2 – 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 funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

See accompanying Independent Auditor's Report

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 – Stewardship, Compliance, and Accountability (Continued)

The statutes allow for the City Commission to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The 2007 budget was amended for the Tourism and Convention Fund, Emergency Rescue Fund, Water Fund, Purchasing Fund, Wastewater Fund, and the Major Projects Fund.

The statutes permit transferring budgeted amounts between accounts within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. 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. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for certain special revenue funds.

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

NOTE 3 – Deposits and Investments

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

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

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Government's deposits may not be returned to it. State statutes require the City's deposits in financial institutions

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

NOTE 3 – Deposits and Investments (Continued)

to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2007.

At December 31, 2007, the Government's carrying amount of deposits was \$7,688,328 and the bank balance was \$8,238,487. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$100,000 was covered by federal depository insurance, \$8,138,487 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

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

NOTE 4 – Retirement Plan

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

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate of 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded by an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 5.31% from January 1, to December 31, 2007. The employer contributions to KPERS for years ending December 31, 2007, 2006 and 2005 were \$193,797, \$156,477 and \$131,536 respectively, equal to the required contributions for each year.

NOTE 4– 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 insurance coverage for each of the last three years. Beginning in 1989, the City stopped carrying commercial health insurance because of its prohibitive cost and began covering all such claims settlements and judgements out of its Employee Insurance Fund. The Employee Insurance Fund is an internal service fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be estimated.

At December 31, 2007 the amount of liability was \$4,787. This liability is the City's best estimate based on available information. Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2006</u>	<u>2007</u>
Unpaid claims, January 1	\$ 669	\$ 198
Current year claims	279,572	353,991
Claim payments	(280,043)	(349,402)
Unpaid claims, December 31	<u>\$ 198</u>	<u>\$ 4,787</u>

See accompanying Independent Auditor's Report

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 4– Risk Management (Continued)

At December 31, 2007 the fund held cash of \$37,429 for funding future claim liabilities.

The City purchases commercial reinsurance to limit the maximum exposure of liability to \$50,000 per subscriber for 2007. The City has contracted with a professional employee benefits service company for the administration of the plan.

NOTE 5– Interfund Transfers

A reconciliation of operating transfers by fund type for 2007 follows:

<u>Fund</u>	<u>To</u>	<u>From</u>
General	\$1,571,000	\$ 26,000
Special Alcohol and Drug	-	6,000
Industrial Special Revenue	-	20,000
Special Parks and Recreation	170,000	-
Equipment Reserve	26,000	-
Electric	-	903,334
Water	-	133,333
Sewer	-	40,000
Gas	-	458,333
Refuse	-	100,000
Library	-	-
Emergency Rescue	-	200,000
Stores	100,000	-
Major Non-Street Projects	20,000	-
Total	<u>\$1,887,000</u>	<u>\$1,887,000</u>

NOTE 6– Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Payment for vested vacation is payable upon resignation or retirement. An employee can carryover no more than one year's worth of vacation. Compensated absences payable was \$191,205 as of December 31, 2007.

NOTE 7– Other Post Employment Benefits

Other Post Employment Benefits. As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

See accompanying Independent Auditor's Report

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 – Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year.

State Agency Loans. The City obtained a loan through the Kansas Department of Health and Environment (KDHE) in 2002 for the construction of a new water treatment facility. The KDHE loan represents a general obligation of the City and the full faith, credit and resources of the City may be used to retire the principal and interest due on the loan. The loan is being retired from water charges received by the Water Fund. The City obtained a loan through the Kansas Department of Health and Environment (KDHE) in 2007 for improvements to the City's lagoon system. The KDHE loan represents a general obligation of the City and the full faith, credit and resources of the City may be used to retire the principal and interest due on the loan. The loan is being retired from revenues received in the Sewer Fund.

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.

Conduit Debt Obligations. From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2007 there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$1,500,000.

NOTE 9 - COMPLIANCE WITH KANSAS STATUTES

Budget Law

The following funds had expenditures in excess of budget amounts for the year ended December 31, 2007, in violation of K.S.A. 79-2935.

<u>Fund</u>	<u>Amount</u>
General	\$ 259,572
Special Alcohol and Drug	51
Water	13,927
Refuse	9,520



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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and City Commission
City of Iola, Kansas

We have audited the financial statements of the City of Iola, Kansas as of and for the year ended December 31, 2007, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the mayor, city commission and management and is not intended to be and should not be used by anyone other than these specified parties.

Snodgrass, Dunlap + Company, P.A.

Iola, Kansas
October 27, 2008