

CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
Year ended December 31, 2010

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CITY OF IOLA, KANSAS
FINANCIAL STATEMENTS
Year ended December 31, 2010

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Mayor and City Council
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, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2009. In our report dated September 1, 2010, on these financial statements, we expressed an adverse opinion as to presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the "Kansas Municipal Audit Guide." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the financial data of one of the component units of the City of Iola, Kansas as of December 31, 2010.

As described in Note 1, the City of Iola, Kansas prepares its financial statements on a basis of accounting prescribed by the State of Kansas which demonstrates compliance with the cash basis and budget laws of the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of those differences is also described in Note 1.

In our opinion, because of the omission of the financial data of 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, 2010, or the respective changes in financial position for the year then ended.

Also, in our opinion, except for the exclusion of one of the two component unit financial statements from the City's financial statements, the financial statements of the City of lola referred to above present fairly, in all material respects, the fund cash and unencumbered cash balances of the City of lola, Kansas, as of December 31, 2010, and its cash receipts and expenditures by fund, and fund budget to actual comparisons, for the year then ended, taken as a whole, on the prescribed basis of accounting described in Note 1.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2009, from which such partial information was derived.

Lowenthal, Wett & Odummann, P.A.

September 7, 2011

STATEMENT 1

CITY OF IOLA, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered <u>Cash Balance</u>	Prior Period <u>Restatement</u>	Cash <u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
General Fund	\$ 20,759	\$ -	\$ 4,565,293	\$ 4,762,713	\$ [176,661]	\$ 59,274	\$ [117,387]
Special Revenue Funds:							
Special Alcohol and Drug	4,232	-	1,342	4,968	606	-	606
Industrial	12,650	-	46,272	19,751	39,171	-	39,171
Tourism and Convention	16,215	-	54,803	48,976	22,042	-	22,042
Library	435	-	208,395	208,413	417	-	417
Special Highway	238,647	-	156,085	202,988	191,744	-	191,744
Special Parks and Recreation	173,905	-	306,101	470,522	9,484	2,877	12,361
Equipment Reserve	494,684	-	138,930	684,436	[50,822]	-	[50,822]
Debt Service Fund	59,912	-	-	59,912	-	-	-
Capital Project Funds:							
Major Non - Street Projects	400,539	-	612,440	700,943	312,036	5,729	317,765
Comprehensive Street Program	210,571	-	151,178	238,874	122,875	-	122,875
Special Street Project	21,161	-	-	21,161	-	-	-
Enterprise Funds:							
Electric	2,063,687	-	10,029,710	9,297,299	2,796,098	222,343	3,018,441
Water	[567,883]	-	1,766,516	1,457,415	[258,782]	23,247	[235,535]
Sewer	472,331	-	1,049,126	1,318,516	202,941	9,686	212,627
Gas	705,722	-	3,697,581	3,377,767	1,025,536	5,386	1,030,922
Refuse	436	-	213,687	184,391	29,732	1,201	30,933
Emergency Rescue	179,939	-	250,557	314,281	116,215	2,800	119,015
Internal Service Funds							
Stores	4,982	-	294,255	312,833	[13,596]	1,378	[12,218]
Employee Insurance	[21,150]	-	706,759	693,085	[7,476]	-	[7,476]
Private-Purpose Trust Funds	129,999	-	6,039	52,193	83,845	-	83,845
 Total Primary Government (excluding Agency Funds)	 4,621,773	 -	 24,255,069	 24,431,437	 4,445,405	 333,921	 4,779,326
Component Units:							
Iola Free Public Library	196,484	-	730,458	813,862	113,080	-	113,080
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	<u>\$ 4,818,257</u>	<u>\$ -</u>	<u>\$ 24,985,527</u>	<u>\$ 25,245,299</u>	<u>\$ 4,558,485</u>	<u>\$ 333,921</u>	<u>\$ 4,892,406</u>

COMPOSITION OF CASH:

Great Southern	
Demand Accounts	\$ 4,804,322
Certificates of Deposit	61,198
Total Great Southern	<u>4,865,520</u>
Emprise Bank	
Demand Accounts	19,838
Total Emprise Bank	<u>19,838</u>
Total Cash	4,885,358
Add: Agency Funds per Statement 5	<u>7,048</u>
Total Reporting Entity (excluding Iola Housing Authority and Agency Funds)	<u>\$ 4,892,406</u>

CITY OF IOLA, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2010

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year Budget</u>	<u>Variance Positive [Negative]</u>
General Fund	\$ 4,522,621	\$ 177,100	\$ 4,699,721	\$ 4,762,713	\$ [62,992]
Special Revenue Funds:					
Special Alcohol and Drug	6,500	-	6,500	4,968	1,532
Industrial	55,800	-	55,800	19,751	36,049
Tourism and Convention	76,000	-	76,000	48,976	27,024
Library	209,529	-	209,529	208,413	1,116
Special Highway	210,000	-	210,000	202,988	7,012
Special Parks and Recreation	461,725	4,782	466,507	470,522	[4,015]
Equipment Reserve	577,083	-	577,083	684,436	[107,353]
Debt Service Fund	59,912	-	59,912	59,912	-
Capital Project Fund:					
Comprehensive Street Program	485,882	-	485,882	238,874	247,008
Enterprise Funds:					
Electric	10,323,694	-	10,323,694	9,297,299	1,026,395
Water	1,651,525	-	1,651,525	1,457,415	194,110
Sewer	1,451,119	359,926	1,811,045	1,318,516	492,529
Gas	4,855,211	-	4,855,211	3,377,767	1,477,444
Refuse	212,312	-	212,312	184,391	27,921
Emergency Rescue	370,500	-	370,500	314,281	56,219
Internal Service Funds					
Stores	373,162	-	373,162	312,833	60,329
Employee Insurance	678,000	-	678,000	693,085	[15,085]

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

STATEMENT 3 - 1

CITY OF IOLA, KANSAS
GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Taxes	\$ 1,204,414	\$1,169,892	\$1,208,570	\$ [38,678]
Intergovernmental	1,215,766	1,019,333	876,202	143,131
Use of money and property	16,978	19,096	10,000	9,096
Fines and fees	200,233	278,061	368,000	[89,939]
Charges for services	21,223	82,702	150,000	[67,298]
Miscellaneous	200,857	196,209	25,000	171,209
Transfers in	1,848,000	1,800,000	1,804,388	[4,388]
Total Cash Receipts	<u>4,707,471</u>	<u>4,565,293</u>	<u>\$4,442,160</u>	<u>\$ 123,133</u>
Expenditures and Transfers Subject to Budget				
General government	1,047,429	1,157,841	\$1,089,486	\$ [68,355]
Public safety	2,242,294	2,141,557	2,230,457	88,900
Highways and streets	703,139	769,972	811,966	41,994
Culture and recreation	556,852	556,343	380,712	[175,631]
Transfers out	143,334	137,000	10,000	[127,000]
Adjustment for qualifying budget credits	-	-	177,100	177,100
Total Expenditures and Transfers Subject to Budget	<u>4,693,048</u>	<u>4,762,713</u>	<u>\$4,699,721</u>	<u>\$ [62,992]</u>
Receipts Over [Under] Expenditures	14,423	[197,420]		
Unencumbered Cash, Beginning	<u>6,336</u>	<u>20,759</u>		
Unencumbered Cash, Ending	<u>\$ 20,759</u>	<u>\$ [176,661]</u>		

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

CITY OF IOLA, KANSAS
SPECIAL ALCOHOL AND DRUG FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 5,155	\$ 1,142	\$ 5,300	\$ [4,158]
Miscellaneous	<u>4,089</u>	<u>200</u>	<u>500</u>	<u>[300]</u>
Total Cash Receipts	<u>9,244</u>	<u>1,342</u>	<u>\$ 5,800</u>	<u>\$ [4,458]</u>
Expenditures and Transfers Subject to Budget				
General government				
Contractual services	<u>10,582</u>	<u>4,968</u>	<u>\$ 6,500</u>	<u>\$ 1,532</u>
Total Expenditures and Transfers Subject to Budget	<u>10,582</u>	<u>4,968</u>	<u>\$ 6,500</u>	<u>\$ 1,532</u>
Receipts Over [Under] Expenditures	[1,338]	[3,626]		
Unencumbered Cash, Beginning	<u>5,570</u>	<u>4,232</u>		
Unencumbered Cash, Ending	<u>\$ 4,232</u>	<u>\$ 606</u>		

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

STATEMENT 3 - 3

CITY OF IOLA, KANSAS
INDUSTRIAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 33,861	\$ 40,768	\$ 38,601	\$ 2,167
Use of money and property	<u>5,261</u>	<u>5,504</u>	<u>5,000</u>	<u>504</u>
Total Cash Receipts	<u>39,122</u>	<u>46,272</u>	<u>\$ 43,601</u>	<u>\$ 2,671</u>
Expenditures and Transfers Subject to Budget				
General government				
Commodities	17,488	16,028	\$ 43,000	\$ 26,972
Contractual services	15,774	3,723	10,800	7,077
Miscellaneous	-	-	2,000	2,000
Transfer out	<u>6,667</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>39,929</u>	<u>19,751</u>	<u>\$ 55,800</u>	<u>\$ 36,049</u>
Receipts Over [Under] Expenditures	[807]	26,521		
Unencumbered Cash, Beginning	<u>13,457</u>	<u>12,650</u>		
Unencumbered Cash, Ending	<u>\$ 12,650</u>	<u>\$ 39,171</u>		

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

CITY OF IOLA, KANSAS
 TOURISM AND CONVENTION FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 For the Year Ended December 31, 2010
 (With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 53,600	\$ 54,648	\$ 60,000	\$ [5,352]
Use of money and property	<u>81</u>	<u>155</u>	<u>2,500</u>	<u>[2,345]</u>
Total Cash Receipts	<u>53,681</u>	<u>54,803</u>	<u>\$ 62,500</u>	<u>\$ [7,697]</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Contractual services	<u>54,780</u>	<u>48,976</u>	<u>\$ 76,000</u>	<u>\$ 27,024</u>
Total Expenditures and Transfers Subject to Budget	<u>54,780</u>	<u>48,976</u>	<u>\$ 76,000</u>	<u>\$ 27,024</u>
Receipts Over [Under] Expenditures	[1,099]	5,827		
Unencumbered Cash, Beginning	<u>17,314</u>	<u>16,215</u>		
Unencumbered Cash, Ending	<u>\$ 16,215</u>	<u>\$ 22,042</u>		

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

STATEMENT 3 - 5

CITY OF IOLA, KANSAS
LIBRARY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 192,895	\$ 208,395	\$ 210,997	\$ [2,602]
Total Cash Receipts	<u>192,895</u>	<u>208,395</u>	<u>\$ 210,997</u>	<u>\$ [2,602]</u>
Expenditures and Transfers Subject to Budget				
Appropriation	<u>192,895</u>	<u>208,413</u>	<u>\$ 209,529</u>	<u>\$ 1,116</u>
Total Expenditures and Transfers Subject to Budget	<u>192,895</u>	<u>208,413</u>	<u>\$ 209,529</u>	<u>\$ 1,116</u>
Receipts Over [Under] Expenditures	-	[18]		
Unencumbered Cash, Beginning	<u>435</u>	<u>435</u>		
Unencumbered Cash, Ending	<u>\$ 435</u>	<u>\$ 417</u>		

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

CITY OF IOLA, KANSAS
SPECIAL HIGHWAY FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 147,728	\$ 156,085	\$ 169,410	\$ [13,325]
Total Cash Receipts	<u>147,728</u>	<u>156,085</u>	<u>\$ 169,410</u>	<u>\$ [13,325]</u>
Expenditures and Transfers Subject to Budget				
Highways and streets				
Capital outlay	<u>12,150</u>	<u>202,988</u>	<u>\$ 210,000</u>	<u>\$ 7,012</u>
Total Expenditures and Transfers Subject to Budget	<u>12,150</u>	<u>202,988</u>	<u>\$ 210,000</u>	<u>\$ 7,012</u>
Receipts Over [Under] Expenditures	135,578	[46,903]		
Unencumbered Cash, Beginning	<u>103,069</u>	<u>238,647</u>		
Unencumbered Cash, Ending	<u>\$ 238,647</u>	<u>\$ 191,744</u>		

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

STATEMENT 3 - 7

CITY OF IOLA, KANSAS
SPECIAL PARKS AND RECREATION FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 5,155	\$ 7,008	\$ 8,500	\$ [1,492]
Charges for services	116,591	144,311	138,164	6,147
Donations	4,850	-	-	-
Reimbursements	1,899,153	4,782	50	4,732
Transfers in	-	<u>150,000</u>	<u>150,000</u>	-
Total Cash Receipts	<u>2,025,749</u>	<u>306,101</u>	<u>\$ 296,714</u>	<u>\$ 9,387</u>
Expenditures and Transfers Subject to Budget				
Culture and recreation				
Personal service	197,443	240,529	\$ 206,925	\$ [33,604]
Contractual services	4,214	33,425	12,200	[21,225]
Commodities	141,877	117,548	112,500	[5,048]
Capital outlay	1,584,096	79,020	130,000	50,980
Miscellaneous	-	-	100	100
Adjustment for qualifying budget credits	-	-	<u>4,782</u>	<u>4,782</u>
Total Expenditures and Transfers Subject to Budget	<u>1,927,630</u>	<u>470,522</u>	<u>\$ 466,507</u>	<u>\$ [4,015]</u>
Receipts Over [Under] Expenditures	98,119	[164,421]		
Unencumbered Cash, Beginning	<u>75,786</u>	<u>173,905</u>		
Unencumbered Cash, Ending	<u>\$ 173,905</u>	<u>\$ 9,484</u>		

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

CITY OF IOLA, KANSAS
EQUIPMENT RESERVE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Use of money and property	\$ 3,256	\$ 1,930	\$ -	\$ 1,930
Transfers in	<u>143,334</u>	<u>137,000</u>	<u>147,000</u>	<u>[10,000]</u>
Total Cash Receipts	<u>146,590</u>	<u>138,930</u>	<u>\$ 147,000</u>	<u>\$ [8,070]</u>
Expenditures and Transfers Subject to Budget				
General government				
Capital outlay	<u>-</u>	<u>684,436</u>	<u>\$ 577,083</u>	<u>\$ [107,353]</u>
Total Expenditures and Transfers Subject to Budget	<u>-</u>	<u>684,436</u>	<u>\$ 577,083</u>	<u>\$ [107,353]</u>
Receipts Over [Under] Expenditures	146,590	[545,506]		
Unencumbered Cash, Beginning	<u>348,094</u>	<u>494,684</u>		
Unencumbered Cash, Ending	<u>\$ 494,684</u>	<u>\$ [50,822]</u>		

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

STATEMENT 3 - 9

CITY OF IOLA, KANSAS
DEBT SERVICE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 457,736	\$ -	\$ -	\$ -
Total Cash Receipts	<u>457,736</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures and Transfers Subject to Budget				
Transfers out	-	59,912	\$ 59,912	\$ -
Debt service	<u>401,365</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>401,365</u>	<u>59,912</u>	<u>\$ 59,912</u>	<u>\$ -</u>
Receipts Over [Under] Expenditures	56,371	[59,912]		
Unencumbered Cash, Beginning	<u>3,541</u>	<u>59,912</u>		
Unencumbered Cash, Ending	<u>\$ 59,912</u>	<u>\$ -</u>		

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

CITY OF IOLA, KANSAS
 MAJOR NON-STREET PROJECTS FUND*
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 For the Year Ended December 31, 2010 and 2009

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Intergovernmental	\$ 1,113,605	\$ 126,931
Sales tax	-	485,509
Transfer in	<u>906,667</u>	<u>-</u>
Total Cash Receipts	<u>2,020,272</u>	<u>612,440</u>
Expenditures and Transfers Subject to Budget		
Capital outlay	<u>1,872,089</u>	<u>700,943</u>
Total Expenditures and Transfers Subject to Budget	<u>1,872,089</u>	<u>700,943</u>
Receipts Over [Under] Expenditures	148,183	[88,503]
Unencumbered Cash, Beginning	<u>252,356</u>	<u>400,539</u>
Unencumbered Cash, Ending	<u>\$ 400,539</u>	<u>\$ 312,036</u>

* - This fund is not required to be budgeted.

CITY OF IOLA, KANSAS
 COMPREHENSIVE STREET PROJECT FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 For the Year Ended December 31, 2010
 (With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Use of money and property	\$ 8,464	\$ 2,113	\$ 4,500	\$ [2,387]
Transfer in	-	59,912	-	59,912
Intergovernmental	<u>116,927</u>	<u>89,153</u>	<u>60,000</u>	<u>29,153</u>
 Total Cash Receipts	 <u>125,391</u>	 <u>151,178</u>	 <u>\$ 64,500</u>	 <u>\$ 86,678</u>
 Expenditures and Transfers Subject to Budget				
Street projects	<u>704,824</u>	<u>238,874</u>	<u>\$ 485,882</u>	<u>\$ 247,008</u>
 Total Expenditures and Transfers Subject to Budget	 <u>704,824</u>	 <u>238,874</u>	 <u>\$ 485,882</u>	 <u>\$ 247,008</u>
 Receipts Over [Under] Expenditures	 [579,433]	 [87,696]		
 Unencumbered Cash, Beginning	 <u>790,004</u>	 <u>210,571</u>		
 Unencumbered Cash, Ending	 <u>\$ 210,571</u>	 <u>\$ 122,875</u>		

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

CITY OF IOLA, KANSAS
SPECIAL STREET PROJECT FUND*
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2010 and 2009

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Use of money and property	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures and Transfers Subject to Budget		
Capital outlay	100	21,161
Total Expenditures and Transfers Subject to Budget	100	21,161
Receipts Over [Under] Expenditures	[100]	[21,161]
Unencumbered Cash, Beginning	21,261	21,161
Unencumbered Cash, Ending	<u>\$ 21,161</u>	<u>\$ -</u>

* - This fund is not required to be budgeted.

CITY OF IOLA, KANSAS
ELECTRIC FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 9,000,360	\$ 9,761,570	\$ 10,158,000	\$ [396,430]
Miscellaneous	183,625	250,782	50,000	200,782
Use of money and property	<u>20,945</u>	<u>17,358</u>	<u>35,500</u>	<u>[18,142]</u>
Total Cash Receipts	<u>9,204,930</u>	<u>10,029,710</u>	<u>\$ 10,243,500</u>	<u>\$ [213,790]</u>
Expenditures and Transfers Subject to Budget				
Production	6,706,626	6,940,244	\$ 8,218,350	\$ 1,278,106
Distribution	659,232	779,638	761,685	[17,953]
Capital outlay	157,832	536,083	307,000	[229,083]
Miscellaneous	-	-	28,325	28,325
Transfers out	<u>1,558,334</u>	<u>1,041,334</u>	<u>1,008,334</u>	<u>[33,000]</u>
Total Expenditures and Transfers Subject to Budget	<u>9,082,024</u>	<u>9,297,299</u>	<u>\$ 10,323,694</u>	<u>\$ 1,026,395</u>
Receipts Over [Under] Expenditures	122,906	732,411		
Unencumbered Cash, Beginning	<u>1,940,781</u>	<u>2,063,687</u>		
Unencumbered Cash, Ending	<u>\$ 2,063,687</u>	<u>\$ 2,796,098</u>		

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

CITY OF IOLA, KANSAS
WATER FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charge for services	\$ 1,343,120	\$ 1,440,671	\$ 1,797,900	\$ [357,229]
Transfers in	-	300,000	300,000	-
Miscellaneous	<u>3,210</u>	<u>25,845</u>	<u>3,500</u>	<u>22,345</u>
Total Cash Receipts	<u>1,346,330</u>	<u>1,766,516</u>	<u>\$ 2,101,400</u>	<u>\$ [334,884]</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	5,442	90,009	\$ 79,000	\$ [11,009]
Production	1,649,707	1,068,509	1,249,692	181,183
Distribution	283,668	298,897	274,500	[24,397]
Transfers out	-	-	33,333	33,333
Miscellaneous	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total Expenditures and Transfers Subject to Budget	<u>1,938,817</u>	<u>1,457,415</u>	<u>\$ 1,651,525</u>	<u>\$ 194,110</u>
Receipts Over [Under] Expenditures	[592,487]	309,101		
Unencumbered Cash, Beginning	<u>24,604</u>	<u>[567,883]</u>		
Unencumbered Cash, Ending	<u>\$ [567,883]</u>	<u>\$ [258,782]</u>		

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

CITY OF IOLA, KANSAS
SEWER FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 698,736	\$ 683,938	\$ 740,000	\$ [56,062]
Miscellaneous	2,050	1,683	1,000	683
Intergovernmental	-	359,926	477,000	[117,074]
Use of money and property	9,835	3,579	3,000	579
	<u>710,621</u>	<u>1,049,126</u>	<u>\$ 1,221,000</u>	<u>\$ [171,874]</u>
Total Cash Receipts				
Expenditures and Transfers Subject to Budget				
Treatment	66,968	54,265	\$ 32,300	\$ [21,965]
Collection	248,624	122,719	169,109	46,390
Capital outlay	82,687	437,301	665,960	228,659
Debt service	175,795	87,898	-	[87,898]
Miscellaneous	-	-	750	750
Transfers out	500,000	616,333	583,000	[33,333]
Adjustment for qualifying budget credits	-	-	359,926	359,926
	<u>1,074,074</u>	<u>1,318,516</u>	<u>\$ 1,811,045</u>	<u>\$ 492,529</u>
Total Expenditures and Transfers Subject to Budget				
Receipts Over [Under] Expenditures	[363,453]	[269,390]		
Unencumbered Cash, Beginning	<u>835,784</u>	<u>472,331</u>		
Unencumbered Cash, Ending	<u>\$ 472,331</u>	<u>\$ 202,941</u>		

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

CITY OF IOLA, KANSAS
GAS FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 3,193,543	\$ 3,697,326	\$ 5,006,000	\$ [1,308,674]
Miscellaneous	87	255	1,000	[745]
Use of money and property	-	-	10,000	[10,000]
Total Cash Receipts	<u>3,193,630</u>	<u>3,697,581</u>	<u>\$ 5,017,000</u>	<u>\$ [1,319,419]</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	44,759	66,623	\$ 50,000	\$ [16,623]
Distribution	1,972,609	2,818,811	4,335,878	1,517,067
Miscellaneous	-	-	11,000	11,000
Transfers out	<u>458,333</u>	<u>492,333</u>	<u>458,333</u>	<u>[34,000]</u>
Total Expenditures and Transfers Subject to Budget	<u>2,475,701</u>	<u>3,377,767</u>	<u>\$ 4,855,211</u>	<u>\$ 1,477,444</u>
Receipts Over [Under] Expenditures	717,929	319,814		
Unencumbered Cash, Beginning	<u>[12,207]</u>	<u>705,722</u>		
Unencumbered Cash, Ending	<u>\$ 705,722</u>	<u>\$ 1,025,536</u>		

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

CITY OF IOLA, KANSAS
REFUSE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 215,736	\$ 213,591	\$ 220,000	\$ [6,409]
Use of money and property	499	96	2,000	[1,904]
Total Cash Receipts	<u>216,235</u>	<u>213,687</u>	<u>\$ 222,000</u>	<u>\$ [8,313]</u>
Expenditures and Transfers Subject to Budget				
Collection	160,667	134,391	\$ 161,812	\$ 27,421
Miscellaneous	-	-	500	500
Transfers out	<u>98,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>258,667</u>	<u>184,391</u>	<u>\$ 212,312</u>	<u>\$ 27,921</u>
Receipts Over [Under] Expenditures	[42,432]	29,296		
Unencumbered Cash, Beginning	<u>42,868</u>	<u>436</u>		
Unencumbered Cash, Ending	<u>\$ 436</u>	<u>\$ 29,732</u>		

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

CITY OF IOLA, KANSAS
EMERGENCY RESCUE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 187,684	\$ 170,557	\$ 300,000	\$ [129,443]
Intergovernmental	80,000	80,000	80,000	-
Miscellaneous	12,261	-	-	-
Total Cash Receipts	<u>279,945</u>	<u>250,557</u>	<u>\$ 380,000</u>	<u>\$ [129,443]</u>
Expenditures and Transfers Subject to Budget				
Operations	33,082	64,281	\$ 120,500	\$ 56,219
Transfers out	<u>200,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>233,082</u>	<u>314,281</u>	<u>\$ 370,500</u>	<u>\$ 56,219</u>
Receipts Over [Under] Expenditures	46,863	[63,724]		
Unencumbered Cash, Beginning	<u>133,076</u>	<u>179,939</u>		
Unencumbered Cash, Ending	<u>\$ 179,939</u>	<u>\$ 116,215</u>		

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

CITY OF IOLA, KANSAS
STORES FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 178,863	\$ 194,255	\$ 265,500	\$ [71,245]
Transfers in	66,667	100,000	100,000	-
Total Cash Receipts	<u>245,530</u>	<u>294,255</u>	<u>\$ 365,500</u>	<u>\$ [71,245]</u>
Expenditures and Transfers Subject to Budget				
Administration	114,330	112,709	\$ 110,062	\$ [2,647]
Commodities	<u>176,107</u>	<u>200,124</u>	<u>263,100</u>	<u>62,976</u>
Total Expenditures and Transfers Subject to Budget	<u>290,437</u>	<u>312,833</u>	<u>\$ 373,162</u>	<u>\$ 60,329</u>
Receipts Over [Under] Expenditures	[44,907]	[18,578]		
Unencumbered Cash, Beginning	<u>49,889</u>	<u>4,982</u>		
Unencumbered Cash, Ending	<u>\$ 4,982</u>	<u>\$ [13,596]</u>		

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

CITY OF IOLA, KANSAS
EMPLOYEE INSURANCE FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2010
(With Comparative Actual Amounts For the Year Ended December 31, 2009)

	Prior Year Actual	Current Year		Variance Positive [Negative]
		Actual	Budget	
Cash Receipts				
Charges for services	\$ 573,613	\$ 606,759	\$ 680,000	\$ [73,241]
Transfers in	-	100,000	100,000	-
Use of money and property	-	-	500	[500]
Total Cash Receipts	<u>573,613</u>	<u>706,759</u>	<u>\$ 780,500</u>	<u>\$ [73,741]</u>
Expenditures and Transfers Subject to Budget				
Administration	<u>619,530</u>	<u>693,085</u>	<u>\$ 678,000</u>	<u>\$ [15,085]</u>
Total Expenditures and Transfers Subject to Budget	<u>619,530</u>	<u>693,085</u>	<u>\$ 678,000</u>	<u>\$ [15,085]</u>
Receipts Over [Under] Expenditures	[45,917]	13,674		
Unencumbered Cash, Beginning	<u>24,767</u>	<u>[21,150]</u>		
Unencumbered Cash, Ending	<u>\$ [21,150]</u>	<u>\$ [7,476]</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, 2010 and 2009

	Prior Year <u>Actual</u>	Current Year <u>Actual</u>
Cash Receipts		
Intergovernmental	\$ 192,895	\$ 395,413
Use of money and property	13,831	6,641
Grants and donations	72,747	253,309
Fines and fees	8,641	7,882
Miscellaneous	<u>5,490</u>	<u>67,213</u>
Total Cash Receipts	<u>293,604</u>	<u>730,458</u>
Expenditures and Transfers Subject to Budget		
Capital outlay	-	518,686
Culture and recreation	<u>278,243</u>	<u>295,176</u>
Total Expenditures and Transfers Subject to Budget	<u>278,243</u>	<u>813,862</u>
Receipts Over [Under] Expenditures	<u>15,361</u>	<u>[83,404]</u>
Unencumbered Cash, Beginning	142,735	196,484
Restatement	<u>38,388</u>	<u>-</u>
Unencumbered Cash, Beginning (restated)	<u>181,123</u>	<u>196,484</u>
Unencumbered Cash, Ending	<u>\$ 196,484</u>	<u>\$ 113,080</u>

* - This fund is not required to be budgeted.

CITY OF IOLA, KANSAS
PRIVATE-PURPOSE TRUST FUNDS
STATEMENT OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2010

<u>FUNDS</u>	Beginning Unencumbered <u>Cash Balance</u>	Prior Year Cancelled <u>Encumbrances</u>	Cash <u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Outstanding Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
Wm. Green Trust	\$ 76,712	\$ -	\$ -	\$ 26,502	\$ 50,210	\$ -	\$ 50,210
Joseph and Mary Wolf Memorial	10,842	-	5,920	4,991	11,771	-	11,771
Clean-up	4,010	-	28	-	4,038	-	4,038
Fire Insurance Proceeds	23,352	-	91	12,305	11,138	-	11,138
Special Law Enforcement	<u>15,083</u>	<u>-</u>	<u>-</u>	<u>8,395</u>	<u>6,688</u>	<u>-</u>	<u>6,688</u>
Total Private-Purpose Trust Fund	<u>\$ 129,999</u>	<u>\$ -</u>	<u>\$ 6,039</u>	<u>\$ 52,193</u>	<u>\$ 83,845</u>	<u>\$ -</u>	<u>\$ 83,845</u>

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

STATEMENT 5

CITY OF IOLA, KANSAS
 AGENCY FUNDS
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 For the Year Ended December 31, 2010

<u>Fund</u>	Beginning Cash <u>Balance</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Ending Cash <u>Balance</u>
Kansas Sales Tax Fund	\$ [6,661]	\$ 352,479	\$ 352,866	\$ [7,048]
Total Assets	<u>\$ [6,661]</u>	<u>\$ 352,479</u>	<u>\$ 352,866</u>	<u>\$ [7,048]</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, 2010

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

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

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

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements. Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

The City has obtained a waiver from accounting principles generally accepted in the United States of America, which allows 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 and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - Summary of Significant Accounting Policies (Continued)

The following types of funds comprise the financial activities of the City for the year ended December 31, 2008:

Governmental Funds

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

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payments of, interest and principal and related costs on general long-term debt.

Capital Project Funds - to account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

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.

Trust and Agency Funds - to account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units, private organizations, and/or other funds.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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 September 1th.

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 2010 budget was amended for the Special Alcohol and Drug, Special Highway, Debt Service, Employee Insurance, Water, Electric, Sewer, Special Parks and Recreation, Stores, and the Equipment Reserve Funds.

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 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 capital projects funds, internal service funds, trust funds and 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 governing body.

Ad Valorem Tax Revenues

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 and become 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 four (4) subsequent dates throughout the calendar year.

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 2 – Deposits

The City's cash is considered to be active funds by management and is invested according to KSA 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.

The City's cash in investments is considered to be idle funds by management and are invested according to KSA 12-1675. The statute requires that at 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. treasuries or notes, the Municipal Investment Pool (KMIP) and certain other investments if the municipality has extended investment authority. Maturities of the above investments may not exceed two years by statute.

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 KSA 9-1402.

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

NOTE 3 - 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 up to 6% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded by an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 7.14% from January 1 to December 31, 2010. The employer contributions to KPERS for years ending December 31, 2010, 2009 and 2008 were \$269,027, \$241,169, and \$222,839 respectively, equal to the required contributions for each year.

NOTE 4 - Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds 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. General obligation bonds currently outstanding are as follows:

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - Long-Term Debt (Continued)

Changes in Long-term Debt. During the year ended December 31, 2010, the following changes occurred in long term debt:

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2010</u>
State agency loan	<u>\$ 10,736,188</u>	<u>\$ -</u>	<u>\$ 313,850</u>	<u>\$ 10,422,338</u>

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.

State Agency Loan. The City has obtained a loan through the Kansas Department of Health and Environment (KDHE) for the construction of a new water treatment facility. The loan agreement provides for a maximum principal of \$10,000,000. The loan carries a gross interest rate of 4.01% and is payable in semi-annual installments beginning August 1, 2005 and ending August 1, 2025. The final maturity date on the loan is August 1, 2025. The following is a schedule of future loan payments for the full loan proceeds amount.

Year Ending <u>December 31,</u>	
2011	\$ 731,038
2012	731,038
2013	731,038
2014	731,038
2015	731,038
2016-2020	3,655,189
2021-2025	<u>3,289,670</u>
Total Principal and Interest	10,600,048
Less: Interest	<u>[2,620,841]</u>
Total	<u>\$ 7,979,206</u>

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 4 - Long-Term Debt (Continued)

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. It is anticipated that the loan will be retired from water charges received by the Water Fund.

State Agency Loan. On January 2, 2007, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to \$2,751,000 to fund improvements to the City's wastewater treatment lagoon. As of December 31, 2010, the City had borrowed \$2,727,942 on this loan. The City's outstanding balance on the loan, at December 31, 2010, was \$2,443,132. Principal repayment on the loan began in 2008. The interest rate on the loan is 2.51% with an additional .25% service fee rate. The final maturity date on the loan is September 1, 2028. The following is a schedule of future loan payments for the full loan proceeds amount.

Year Ending <u>December 31,</u>		
2011	\$	175,795
2012		175,795
2013		175,795
2014		175,795
2015		175,795
2016-2020		878,976
2021-2025		878,976
2026-2028		<u>405,265</u>
Total Principal and Interest		3,042,193
Less: Interest		<u>[599,061]</u>
Total	\$	<u><u>2,443,132</u></u>

NOTE 5 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 judgments 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 reasonably estimated.

At December 31, 2010 the amount of liabilities was \$68,173. 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>2009</u>	<u>2010</u>
Unpaid claims, January 1	\$ 72,288	\$ 52,893
Current year claims	421,382	606,880
Claim payments	<u>[440,777]</u>	<u>[591,600]</u>
Unpaid claims, December 31	<u>\$ 52,893</u>	<u>\$ 68,173</u>

At December 31, 2010 the fund held negative cash of [\$7,476].

CITY OF IOLA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE 5 - Risk Management (Continued)

The City purchases commercial reinsurance to limit the maximum exposure of liability to \$50,000 per subscriber for 2010. The City has contracted with a professional employee benefits service company for the administration of the plan.

NOTE 6 - Interfund Transfers

A reconciliation of all transfers by fund type for 2010 follows:

<u>Fund</u>	<u>To</u>	<u>From</u>
General Fund	\$ 1,800,000	\$ 137,000
Debt Service Fund	-	59,912
Employee Insurance Fund	100,000	-
Emergency Rescue Fund	-	250,000
Water Fund	300,000	-
Gas Fund	-	492,333
Electric Fund	-	1,041,334
Stores Fund	100,000	-
Refuse Fund	-	50,000
Sewer Fund	-	616,333
Special Parks and Recreation Fund	150,000	-
Equipment Reserve Fund	137,000	-
Comprehensive Street Project Fund	59,912	-
	<u>\$ 2,646,912</u>	<u>\$ 2,646,912</u>

NOTE 7 - 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 \$198,171 as of December 31, 2010.

NOTE 8 - Other Post Employment Benefits

As provided by KSA 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.

NOTE 9 - Statutory Violation

Actual exceeded budgeted expenditures in the General, Special Parks and Recreation, Equipment Reserve, and Employee Insurance Funds, which is a violation of KSA 79-2935. The General, Equipment Reserve, Water, Stores and Employee Insurance Funds had negative unencumbered cash at December 31, 2010, which is a violation of KSA 10-1113.