

**CITY OF ARKANSAS CITY, KANSAS**

**FINANCIAL STATEMENTS**

AND SUPPLEMENTARY INFORMATION

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Prepared By

Edw. B. Stephenson & Co., CPAs Chartered  
Certified Public Accountants  
Winfield, Kansas

**CITY OF ARKANSAS CITY, KANSAS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**TABLE OF CONTENTS**

	<b>Page No.</b>
<b>Independent Auditors' Report</b>	1
<b>Statement -1-</b> Summary of Cash Receipts, Expenditures, and Unencumbered Cash	3
<b>Statement -2-</b> Summary of Expenditures - Actual and Budget	5
<b>Statement -3-</b> Statements of Cash Receipts and Expenditures - Actual and Budget	
General Fund	6
Special Recreation and Park Fund	8
Special Street and Highway Fund	9
Street Maintenance Fund	10
Tourism Fund	11
Cherokee Strip Museum Fund	12
Alcohol Program Fund	13
Public Library Fund	14
Economic Development Fund	15
Memorial Hospital Fund	16
Street Improvement Fund	17
Convention Center Fund	18
Community Contribution Fund	19
DARE Program Fund	20
Renaissance Faire Fund	21
Equipment Reserve Fund	22
Public Building Commission Fund	23
Bond and Interest Fund	24
Construction Fund	25
Storm Water Fund	26
Water Utility Fund	27
Sewer Fund	28
Sanitation Fund	29
<b>Statement -4-</b> Agency Fund - Statement of Cash Receipts and Expenditures - Actual	30
<b>Notes to the Financial Statement</b>	31
<b>Supplementary Information</b>	
Independent Auditors' 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	46

**CITY OF ARKANSAS CITY, KANSAS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**TABLE OF CONTENTS**

	<b>Page No.</b>
Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	48
Schedule of Findings and Questioned Costs	50
Summary Schedule of Prior Audit Findings	53
<b>Schedule -1-</b> Schedule of Expenditures of Federal Awards	54

**EDW. B  
STEPHENSON  
& CO., CPAs  
CHARTERED**

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(1905-1985)

JAMES R. DOBBS  
(1927-1997)

HARRY L. SHETLAR, JR.  
(1931-2000)

MORRIS W. JARVIS  
(1935-1999)

N. DEAN BRADBURY  
(1936-2005)

LOREN L. PONTIOUS  
(Retired)

**SHAREHOLDERS**

AARON R. IVERSON, CPA

MICHAEL B. NORTON, CPA

MAURICE P. ROBERTS, CPA

**ACCOUNTANTS**

SARAH M. KINDT

MELISSA J. SCHOOLEY

HEIDI M. HUENERGARDT

**INDEPENDENT AUDITORS' REPORT**

Board of City Commissioners  
City of Arkansas City  
Arkansas City, Kansas

We have audited the accompanying primary government financial statements of the City of Arkansas City, Kansas, as of and for the year ended December 31, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the City of Arkansas City, Kansas'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 and the *Kansas Municipal Audit Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I.C., the City of Arkansas City, Kansas, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United State of America, although not reasonably determinable, are presumed to be material.

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. As discussed in Note I.A., the City of Arkansas City, Kansas, omits component units from its financial statements, which is a departure from accounting principles generally accepted in the United States of America. In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial

statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Arkansas City, Kansas, as of December 31, 2011, the results of its operations, or the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended. In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Arkansas City, Kansas, as of December 31, 2011 and its cash receipts, cash disbursements, and expenditures compared to budget, for the year then ended on the basis of accounting described in Note I.C.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2013, on our consideration of the City of Arkansas City, Kansas's internal control over financial reporting and our tests of its 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements, referred to in the first paragraph, taken as a whole. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting procedures applied in the audit of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note I.C.

Sincerely Yours,

Edw. B. Stephenson & Co. (CPAs Chtd)  
Edw. B. Stephenson & Co., CPAs Chartered

**CITY OF ARKANSAS CITY, KANSAS**  
**Summary of Cash Receipts, Expenditures, and Unencumbered Cash**  
**For the Year Ended December 31, 2011**

Statement -1-  
Page 1 of 1

	<b>Beginning</b>			<b>Ending</b>	<b>Add</b>	
	<b>Unencumbered</b>		<b>Expenditures</b>	<b>Unencumbered</b>	<b>Outstanding</b>	<b>Ending</b>
	<b>Cash Balance</b>	<b>Receipts</b>		<b>Cash Balance</b>	<b>Encumbrances</b>	<b>Cash Balance</b>
					<b>and Accounts</b>	
					<b>Payable</b>	
						<b>Cash Balance</b>
<b>General</b>	\$ 10,608	\$ 8,225,449	\$ 8,081,750	\$ 154,307	\$ 308,065	\$ 462,372
<b>Special Revenue Funds</b>						
Special Recreation and Park	16,369	18,008	20,800	13,577	-	13,577
Special Street and Highway	174,385	361,159	297,311	238,233	33,792	272,025
Street Maintenance	177,669	141,139	117,129	201,679	389	202,068
Tourism	71,063	80,728	77,075	74,716	-	74,716
Cherokee Strip Museum	-	128,373	112,769	15,604	5,899	21,503
Alcohol Program	25,613	10,108	1,000	34,721	-	34,721
Public Library	-	308,677	308,677	-	-	-
Economic Development	196,819	21,823	57,253	161,389	-	161,389
Memorial Hospital	577,466	789,805	750,000	617,271	-	617,271
Street Improvement	748,537	791,424	699,442	840,519	-	840,519
Convention Center	53,314	8,072	9,300	52,086	-	52,086
Community Contribution	68,768	91,722	89,432	71,058	110	71,168
DARE Program	5,673	7,737	12,201	1,209	-	1,209
Renaissance Faire	-	14,324	10,982	3,342	101	3,443
Equipment Reserve	5,796	141,262	58,834	88,224	15,334	103,558
Public Building Commission	3,392,100	1,535,977	2,614,041	2,314,036	28,726	2,342,762
<b>Debt Service Fund</b>						
Bond and Interest	426,283	1,477,701	1,305,462	598,522	-	598,522
<b>Capital Project Fund</b>						
Construction	1,142,066	2,733,057	3,085,288	789,835	358,974	1,148,809

**CITY OF ARKANSAS CITY, KANSAS**  
**Summary of Cash Receipts, Expenditures, and Unencumbered Cash**  
**For the Year Ended December 31, 2011**

Statement -1-

Page 2 of 2

	<b>Beginning Unencumbered Cash Balance</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Ending Unencumbered Cash Balance</b>	<b>Add Outstanding Encumbrances and Accounts Payable</b>	<b>Ending Cash Balance</b>
<b>Enterprise Funds</b>						
Storm Water	\$ 420,040	\$ 193,513	\$ 199,294	\$ 414,259	\$ 65,310	\$ 479,569
Water Utility	2,010,564	3,590,667	2,970,614	2,630,617	147,682	2,778,299
Sewer	827,983	1,823,684	1,880,030	771,637	40,157	811,794
Sanitation	288,507	1,438,098	1,200,803	525,802	79,979	605,781
<b>Total Reporting Entity (Excluding Agency Funds)</b>	<u>\$ 10,639,623</u>	<u>\$ 23,932,507</u>	<u>\$ 23,959,487</u>	<u>\$ 10,612,643</u>	<u>\$ 1,084,518</u>	<u>\$ 11,697,161</u>

**Composition of Cash:**

Petty Cash	\$ 1,675
Now Accounts	
RCB Bank	13,262
Union State Bank	67,591
CornerBank	7,553,514
CD's	
RCB Bank	1,682,737
Union State Bank	500,000
CornerBank	1,900,000
	<u>\$ 11,718,779</u>
Agency Funds per Statement 4	(21,618)
<b>Total Reporting Entity (Excluding Agency Funds)</b>	<u><u>\$ 11,697,161</u></u>

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -2-

## Summary of Expenditures - Actual and Budget

(Budgeted Funds Only)

For the Year Ended December 31, 2011

	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
<b>General</b>	\$ 7,921,046	\$ 178,470	\$ 8,099,516	\$ 8,081,750	\$ (17,766)
<b>Special Revenue Funds</b>					
Special Recreation and Park	16,200	7,900	24,100	20,800	(3,300)
Special Street and Highway	409,350	-	409,350	297,311	(112,039)
Street Maintenance	140,000	-	140,000	117,129	(22,871)
Tourism	80,000	-	80,000	77,075	(2,925)
Cherokee Strip Museum	122,000	-	122,000	112,769	(9,231)
Alcohol Program	8,000	-	8,000	1,000	(7,000)
Public Library	314,768	-	314,768	308,677	(6,091)
Economic Development	100,000	-	100,000	57,253	(42,747)
Memorial Hospital	750,000	-	750,000	750,000	-
Street Improvement	700,000	-	700,000	699,442	(558)
<b>Debt Service Fund</b>					
Bond and Interest	1,592,897	-	1,592,897	1,305,462	(287,435)
<b>Enterprise Funds</b>					
Storm Water	199,325	-	199,325	199,294	(31)
Water Utility	3,344,186	-	3,344,186	2,970,614	(373,572)
Sewer	2,082,753	-	2,082,753	1,880,030	(202,723)
Sanitation	1,393,011	-	1,393,011	1,200,803	(192,208)
	<u>\$ 19,173,536</u>	<u>\$ 186,370</u>	<u>\$ 19,359,906</u>	<u>\$ 18,079,409</u>	<u>\$ (1,280,497)</u>

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



**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**GENERAL FUND**

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Taxes and shared revenue:				
16/20M vehicle tax	\$ 1,790	\$ 1,445	\$ 3,008	\$ (1,563)
Ad valorem property tax	2,057,951	2,089,021	2,168,714	(79,693)
Delinquent tax	63,833	76,662	55,000	21,662
Franchise fees	854,554	823,310	829,000	(5,690)
In lieu of tax	37,500	50,000	39,000	11,000
Liquor enforcement tax	11,133	10,108	14,323	(4,215)
Local sales tax	1,783,076	1,926,716	1,741,000	185,716
Motor vehicle tax	342,316	339,544	386,065	(46,521)
Recreational vehicle tax	3,531	3,654	4,499	(845)
Special assessments	40,115	55,686	10,000	45,686
Licenses, permits, and fees	110,821	84,891	36,625	48,266
Fines, forfeitures, and penalties	400,638	604,175	460,000	144,175
Charges for services	462,223	560,403	381,100	179,303
Insurance recovery	17,680	73,591	-	73,591
Reimbursed expenditures	119,214	178,470	160,000	18,470
Rural fire fees	254,417	276,222	258,252	17,970
County payments	158,460	196,934	174,000	22,934
Cherokee strip museum	42,894	-	47,000	(47,000)
Miscellaneous	15,378	8,425	76,200	(67,775)
Rent	40,559	41,275	34,500	6,775
Federal revenue	106,816	44,429	-	44,429
State revenue	13,602	24,730	-	24,730
Animal control	3,270	2,766	-	2,766
Contributions/donations	5,121	10,615	-	10,615
Interest income	16,464	7,377	35,000	(27,623)
Transfers from other funds	1,237,745	735,000	735,000	-
<b>Total Cash Receipts</b>	<b>\$ 8,201,101</b>	<b>\$ 8,225,449</b>	<b>\$ 7,648,286</b>	<b>\$ 577,163</b>
<b>Expenditures</b>				
General government:				
Administration	\$ 1,122,190	\$ 928,660	\$ 899,372	\$ 29,288
Non-departmental	97,279	4,350	243,024	(238,674)
Court	3,208	10,223	-	10,223
Transfer to other funds	7,719	69,335	-	69,335
Total general government	<b>\$ 1,230,396</b>	<b>\$ 1,012,568</b>	<b>\$ 1,142,396</b>	<b>\$ (129,828)</b>

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

**CITY OF ARKANSAS CITY, KANSAS** Statement -3-  
**Statements of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**GENERAL FUND**

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Public safety:				
Law enforcement	\$ 3,046,019	\$ 2,949,845	\$ 2,886,600	\$ 63,245
Fire fighting	2,267,201	2,304,040	2,097,800	206,240
Civil defense	40,031	86,960	-	86,960
Transfer to other funds	13,920	36,000	-	36,000
Total public safety	<u>\$ 5,367,171</u>	<u>\$ 5,376,845</u>	<u>\$ 4,984,400</u>	<u>\$ 392,445</u>
Public works:				
Public services	\$ 556,531	\$ 526,030	\$ 513,805	\$ 12,225
Cemetery	181,118	167,177	190,405	(23,228)
Public buildings	115,398	131,505	121,325	10,180
Transfer to other funds	-	15,000	-	15,000
Total public works	<u>\$ 853,047</u>	<u>\$ 839,712</u>	<u>\$ 825,535</u>	<u>\$ 14,177</u>
Culture and recreation:				
Ball parks/pool	\$ 495,957	\$ 524,899	\$ 535,750	\$ (10,851)
Swimming pool	71,188	76,571	102,300	(25,729)
NW community center	56,344	58,287	68,825	(10,538)
Senior citizen	161,771	176,503	174,900	1,603
Museum	113,898	433	57,790	(57,357)
Teen center	16,850	13,971	29,150	(15,179)
Other	935	1,961	-	1,961
Total culture and recreation	<u>\$ 916,943</u>	<u>\$ 852,625</u>	<u>\$ 968,715</u>	<u>\$ (116,090)</u>
Legal general fund budget	\$ 8,367,557	\$ 8,081,750	\$ 7,921,046	\$ 160,704
Adjustment for qualified budget credits	-	-	178,470	(178,470)
<b>Total Expenditures</b>	<u>\$ 8,367,557</u>	<u>\$ 8,081,750</u>	<u>\$ 8,099,516</u>	<u>\$ (17,766)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (166,456)	\$ 143,699		
Unencumbered Cash, Beginning	<u>177,064</u>	<u>10,608</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 10,608</u>	<u>\$ 154,307</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**  
**Statements of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2011**  
**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

Statement -3-

**SPECIAL RECREATION AND PARK FUND**

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
State revenue	\$ 11,134	\$ 10,108	\$ 14,323	\$ (4,215)
Refund of expenditure	9,900	7,900	-	7,900
<b>Total Cash Receipts</b>	<u>\$ 21,034</u>	<u>\$ 18,008</u>	<u>\$ 14,323</u>	<u>\$ 3,685</u>
<b>Expenditures</b>				
Contractual services	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Commodities	13,300	10,800	6,200	4,600
Legal special recreation and park fund budget	\$ 23,300	\$ 20,800	\$ 16,200	\$ 4,600
Adjustment for qualified budget credits	-	-	7,900	(7,900)
<b>Total Expenditures</b>	<u>\$ 23,300</u>	<u>\$ 20,800</u>	<u>\$ 24,100</u>	<u>\$ (3,300)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (2,266)	\$ (2,792)		
Unencumbered Cash, Beginning	<u>18,635</u>	<u>16,369</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 16,369</u>	<u>\$ 13,577</u>		

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### SPECIAL STREET AND HIGHWAY FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
County gas tax	\$ 50,447	\$ 54,064	\$ -	\$ 54,064
State gas tax	296,040	305,256	53,043	252,213
Refund of expenditures	60	1,839	276,957	(275,118)
<b>Total Cash Receipts</b>	\$ 346,547	\$ 361,159	\$ 330,000	\$ 31,159
<b>Expenditures</b>				
Personal services	\$ 60,641	\$ 52,607	\$ 64,100	\$ (11,493)
Contractual services	75,368	85,856	93,700	(7,844)
Commodities	119,101	87,150	166,550	(79,400)
Capital outlay	121,514	36,715	85,000	(48,285)
Transfer to other funds	40,000	34,983	-	34,983
<b>Total Expenditures</b>	\$ 416,624	\$ 297,311	\$ 409,350	\$ (112,039)
<b>Receipts Over (Under) Expenditures</b>	\$ (70,077)	\$ 63,848		
Unencumbered Cash, Beginning	244,462	174,385		
<b>Unencumbered Cash, Ending</b>	\$ 174,385	\$ 238,233		

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### STREET MAINTENANCE FUND

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Franchise taxes	\$ 131,765	\$ 141,139	\$ 100,000	\$ 41,139
<b>Total Cash Receipts</b>	\$ 131,765	\$ 141,139	\$ 100,000	\$ 41,139
<b>Expenditures</b>				
Commodities	\$ 98,290	\$ 117,129	\$ 140,000	\$ (22,871)
<b>Total Expenditures</b>	\$ 98,290	\$ 117,129	\$ 140,000	\$ (22,871)
<b>Receipts Over (Under) Expenditures</b>	\$ 33,475	\$ 24,010		
Unencumbered Cash, Beginning	144,194	177,669		
<b>Unencumbered Cash, Ending</b>	\$ 177,669	\$ 201,679		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**TOURISM FUND**

	<b>Prior Year Actual</b>	<b>Current Year</b>		<b>Variance Over Over (Under)</b>
		<b>Actual</b>	<b>Budget</b>	
<b>Cash Receipts</b>				
Transient guest tax	\$ 75,737	\$ 80,728	\$ 80,728	\$ -
<b>Total Cash Receipts</b>	<u>\$ 75,737</u>	<u>\$ 80,728</u>	<u>\$ 80,728</u>	<u>\$ -</u>
<b>Expenditures</b>				
Contractual services	\$ 64,919	\$ 75,832	\$ 80,000	\$ (4,168)
Commodities	3,292	1,243	-	1,243
<b>Total Expenditures</b>	<u>\$ 68,211</u>	<u>\$ 77,075</u>	<u>\$ 80,000</u>	<u>\$ (2,925)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 7,526	\$ 3,653		
Unencumbered Cash, Beginning	<u>63,537</u>	<u>71,063</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 71,063</u>	<u>\$ 74,716</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**CHEROKEE STRIP MUSEUM FUND**

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
<b>Cash Receipts</b>				
County payments	\$ -	\$ 27,500	\$ -	\$ 27,500
Museum admittance	-	21,788	71,210	(49,422)
Contributions/donations	-	6,295	-	6,295
Miscellaneous	-	4,000	-	4,000
Transfer from other funds	-	68,790	68,790	-
<b>Total Cash Receipts</b>	<u>\$ -</u>	<u>\$ 128,373</u>	<u>\$ 140,000</u>	<u>\$ (11,627)</u>
<b>Expenditures</b>				
Personal services	\$ -	\$ 36,345	\$ -	\$ 36,345
Contractual services	-	60,587	122,000	(61,413)
Commodities	-	15,837	-	15,837
<b>Total Expenditures</b>	<u>\$ -</u>	<u>\$ 112,769</u>	<u>\$ 122,000</u>	<u>\$ (9,231)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ -	\$ 15,604		
Unencumbered Cash, Beginning	-	-		
<b>Unencumbered Cash, Ending</b>	<u>\$ -</u>	<u>\$ 15,604</u>		

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### ALCOHOL PROGRAM FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
State revenue	\$ 11,133	\$ 10,108	\$ 14,323	\$ (4,215)
<b>Total Cash Receipts</b>	\$ 11,133	\$ 10,108	\$ 14,323	\$ (4,215)
<b>Expenditures</b>				
Contractual services	\$ 8,000	\$ 1,000	\$ 8,000	\$ (7,000)
<b>Total Expenditures</b>	\$ 8,000	\$ 1,000	\$ 8,000	\$ (7,000)
<b>Receipts Over (Under) Expenditures</b>	\$ 3,133	\$ 9,108		
Unencumbered Cash, Beginning	22,480	25,613		
<b>Unencumbered Cash, Ending</b>	\$ 25,613	\$ 34,721		

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



# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### PUBLIC LIBRARY FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Taxes	\$ 307,534	\$ 308,677	\$ 314,768	\$ (6,091)
<b>Total Cash Receipts</b>	\$ 307,534	\$ 308,677	\$ 314,768	\$ (6,091)
<b>Expenditures</b>				
Outside organizations	\$ 307,534	\$ 308,677	\$ 314,768	\$ (6,091)
<b>Total Expenditures</b>	\$ 307,534	\$ 308,677	\$ 314,768	\$ (6,091)
<b>Receipts Over (Under) Expenditures</b>	\$ -	\$ -		
Unencumbered Cash, Beginning	-	-		
<b>Unencumbered Cash, Ending</b>	\$ -	\$ -		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**ECONOMIC DEVELOPMENT FUND**

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
<b>Cash Receipts</b>				
Franchise tax	\$ 131,765	\$ 21,823	\$ 100,000	\$ (78,177)
<b>Total Cash Receipts</b>	<u>\$ 131,765</u>	<u>\$ 21,823</u>	<u>\$ 100,000</u>	<u>\$ (78,177)</u>
<b>Expenditures</b>				
Contractual services	\$ 53,250	\$ -	\$ 100,000	\$ (100,000)
Contributions	-	55,864	-	55,864
Capital outlay	-	1,389	-	1,389
<b>Total Expenditures</b>	<u>\$ 53,250</u>	<u>\$ 57,253</u>	<u>\$ 100,000</u>	<u>\$ (42,747)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 78,515	\$ (35,430)		
Unencumbered Cash, Beginning	<u>118,304</u>	<u>196,819</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 196,819</u>	<u>\$ 161,389</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**MEMORIAL HOSPITAL FUND**

	<b>Prior Year Actual</b>	<b>Current Year</b>		<b>Variance Over Over (Under)</b>
		<b>Actual</b>	<b>Budget</b>	
<b>Cash Receipts</b>				
Sales tax revenue	\$ 743,653	\$ 788,630	\$ 784,000	\$ 4,630
Interest income	2,830	1,175	-	1,175
<b>Total Cash Receipts</b>	<u>\$ 746,483</u>	<u>\$ 789,805</u>	<u>\$ 784,000</u>	<u>\$ 5,805</u>
<b>Expenditures</b>				
Distribution	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
<b>Total Expenditures</b>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (3,517)	\$ 39,805		
Unencumbered Cash, Beginning	<u>580,983</u>	<u>577,466</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 577,466</u>	<u>\$ 617,271</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**STREET IMPROVEMENT FUND**

	<b>Prior Year Actual</b>	<b>Current Year</b>		<b>Variance Over Over (Under)</b>
		<b>Actual</b>	<b>Budget</b>	
<b>Cash Receipts</b>				
Sales tax revenue	\$ 743,653	\$ 788,630	\$ 700,000	\$ 88,630
Interest income	1,498	2,794	-	2,794
<b>Total Cash Receipts</b>	<u>\$ 745,151</u>	<u>\$ 791,424</u>	<u>\$ 700,000</u>	<u>\$ 91,424</u>
<b>Expenditures</b>				
Contractual services	\$ 437,045	\$ 109,442	\$ 700,000	\$ (590,558)
Transfer to other funds	-	590,000	-	590,000
<b>Total Expenditures</b>	<u>\$ 437,045</u>	<u>\$ 699,442</u>	<u>\$ 700,000</u>	<u>\$ (558)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 308,106	\$ 91,982		
Unencumbered Cash, Beginning	<u>440,431</u>	<u>748,537</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 748,537</u>	<u>\$ 840,519</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****CONVENTION CENTER FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Sales	\$ 7,925	\$ 7,925
Interest income	148	147
<b>Total Cash Receipts</b>	<u>\$ 8,073</u>	<u>\$ 8,072</u>
<b>Expenditures</b>		
Contractual services	\$ 7,300	\$ 9,300
<b>Total Expenditures</b>	<u>\$ 7,300</u>	<u>\$ 9,300</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 773.00	\$ (1,228)
Unencumbered Cash, Beginning	<u>52,541</u>	<u>53,314</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ 53,314</u></u>	<u><u>\$ 52,086</u></u>

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****COMMUNITY CONTRIBUTION FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Contributions/donations	\$ 110,474	\$ 91,722
<b>Total Cash Receipts</b>	<u>\$ 110,474</u>	<u>\$ 91,722</u>
<b>Expenditures</b>		
General government	\$ 27,699	\$ 27,300
Legal counsel	-	2,187
Special law enforcement	6,262	3,695
Law enforcement	3,218	31,116
Community policing	7,619	4,853
Cherokee strip museum	75,185	20,281
<b>Total Expenditures</b>	<u>\$ 119,983</u>	<u>\$ 89,432</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (9,509)	\$ 2,290
Unencumbered Cash, Beginning	<u>78,277</u>	<u>68,768</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ 68,768</u></u>	<u><u>\$ 71,058</u></u>

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****DARE PROGRAM FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Contributions/donations	\$ 1,989	\$ 7,012
Other	-	725
<b>Total Cash Receipts</b>	<u>\$ 1,989</u>	<u>\$ 7,737</u>
<b>Expenditures</b>		
Contractual services	\$ 2,086	\$ 3,711
Commodities	3,769	7,950
Contributions	-	540
<b>Total Expenditures</b>	<u>\$ 5,855</u>	<u>\$ 12,201</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (3,866)	\$ (4,464)
Unencumbered Cash, Beginning	<u>9,539</u>	<u>5,673</u>
<b>Unencumbered Cash, Ending</b>	<u>\$ 5,673</u>	<u>\$ 1,209</u>

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****RENAISSANCE FAIRE FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Contributions/donations	\$ -	\$ 14,324
<b>Total Cash Receipts</b>	<u>\$ -</u>	<u>\$ 14,324</u>
<b>Expenditures</b>		
Contractual Services	\$ -	\$ 10,392
Commodities	-	590
<b>Total Expenditures</b>	<u>\$ -</u>	<u>\$ 10,982</u>
<b>Receipts Over (Under) Expenditures</b>	\$ -	\$ 3,342
Unencumbered Cash, Beginning	<u>-</u>	<u>-</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ 3,342</u></u>

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



**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****EQUIPMENT RESERVE FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Interest income	\$ 318	\$ 331
Transfer from other funds	162,115	140,931
<b>Total Cash Receipts</b>	<u>\$ 162,433</u>	<u>\$ 141,262</u>
<b>Expenditures</b>		
Capital outlay	\$ 252,305	\$ 58,834
<b>Total Expenditures</b>	<u>\$ 252,305</u>	<u>\$ 58,834</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (89,872)	\$ 82,428
Unencumbered Cash, Beginning	<u>95,668</u>	<u>5,796</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ 5,796</u></u>	<u><u>\$ 88,224</u></u>

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual****For the Year Ended December 31, 2011****(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)****PUBLIC BUILDING COMMISSION FUND**

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Bond premium	\$ 1,514,548	\$ 1,514,548
Lease purchase of funds	86,583	21,429
<b>Total Cash Receipts</b>	<u>\$ 1,601,131</u>	<u>\$ 1,535,977</u>
<b>Expenditures</b>		
Payments to contractors	\$ 819,021	\$ -
Interest	1,514,548	1,514,548
Other construction costs and repair	2,034,455	1,099,493
<b>Total Expenditures</b>	<u>\$ 4,368,024</u>	<u>\$ 2,614,041</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (2,766,893)	\$ (1,078,064)
Unencumbered Cash, Beginning	<u>6,158,993</u>	<u>3,392,100</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ 3,392,100</u></u>	<u><u>\$ 2,314,036</u></u>

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### BOND AND INTEREST FUND

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
<b>Cash Receipts</b>				
Ad valorem property tax	\$ 692,152	\$ 636,435	\$ 670,421	\$ (33,986)
Special assessments	41,447	15,926	71,992	(56,066)
Motor vehicle tax	133,956	117,117	132,372	(15,255)
Franchise fees	-	119,316	-	119,316
Reimbursements	255,169	302,253	268,008	34,245
Delinquent tax	25,150	26,641	20,000	6,641
In lieu of tax	240,000	260,013	280,000	(19,987)
<b>Total Cash Receipts</b>	<u>\$ 1,387,874</u>	<u>\$ 1,477,701</u>	<u>\$ 1,442,793</u>	<u>\$ 34,908</u>
<b>Expenditures</b>				
Principal	\$ 1,029,167	\$ 1,116,546	\$ 1,299,551	\$ (183,005)
Interest	240,787	188,911	293,246	(104,335)
Commission and postage	4	5	100	(95)
<b>Total Expenditures</b>	<u>\$ 1,269,958</u>	<u>\$ 1,305,462</u>	<u>\$ 1,592,897</u>	<u>\$ (287,435)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 117,916	\$ 172,239		
Unencumbered Cash, Beginning	<u>308,367</u>	<u>426,283</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 426,283</u>	<u>\$ 598,522</u>		

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### CONSTRUCTION FUND

	<u>2010</u>	<u>2011</u>
<b>Cash Receipts</b>		
Interest income	\$ 10,840	\$ 4,473
State revenue	252,555	190,569
Federal revenue	868,324	1,607,147
Sale of temporary notes	6,297,951	-
Other	15,433	340,868
Transfer from other fund	-	590,000
<b>Total Cash Receipts</b>	<u>\$ 7,445,103</u>	<u>\$ 2,733,057</u>
<b>Expenditures</b>		
Payments to contractors	\$ 3,573,915	\$ 1,343,838
Engineering	20,336	156,058
Interest	66,650	133,300
Other construction costs and repair	2,900,432	1,293,549
Equipment and land	113,021	158,543
<b>Total Expenditures</b>	<u>\$ 6,674,354</u>	<u>\$ 3,085,288</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 770,749	\$ (352,231)
Unencumbered Cash, Beginning	<u>371,317</u>	<u>1,142,066</u>
<b>Unencumbered Cash, Ending</b>	<u>\$ 1,142,066</u>	<u>\$ 789,835</u>

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**STORM WATER FUND**

	<b>Prior Year Actual</b>	<b>Current Year</b>		<b>Variance Over Under</b>
		<b>Actual</b>	<b>Budget</b>	
<b>Cash Receipts</b>				
Service charges	\$ 191,562	\$ 190,704	\$ 200,000	\$ (9,296)
Interest	1,143	1,254	4,000	(2,746)
Reimbursements	-	1,555	200	1,355
<b>Total Cash Receipts</b>	<u>\$ 192,705</u>	<u>\$ 193,513</u>	<u>\$ 204,200</u>	<u>\$ (10,687)</u>
<b>Expenditures</b>				
Personnel services	\$ 78,796	\$ 73,878	\$ 99,325	\$ (25,447)
Contractual services	44,009	125,416	100,000	25,416
<b>Total Expenditures</b>	<u>\$ 122,805</u>	<u>\$ 199,294</u>	<u>\$ 199,325</u>	<u>\$ (31)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 69,900	\$ (5,781)		
Unencumbered Cash, Beginning	<u>350,140</u>	<u>420,040</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 420,040</u>	<u>\$ 414,259</u>		

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

# CITY OF ARKANSAS CITY, KANSAS

Statement -3-

## Statements of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

### WATER UTILITY FUND

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
<b>Cash Receipts</b>				
Water sales	\$ 3,151,503	\$ 3,323,120	\$ 2,850,000	\$ 473,120
Service fees and penalties	154,249	137,533	115,900	21,633
Sales tax	47,344	43,846	25,000	18,846
Interest income	6,851	7,348	20,000	(12,652)
Bad debt collections	67,617	65,389	50,000	15,389
Miscellaneous	634	550	1,000	(450)
KDHE loan proceeds	1,130,872	-	-	-
Reimbursements	1,013	12,881	-	12,881
<b>Total Cash Receipts</b>	<u>\$ 4,560,083</u>	<u>\$ 3,590,667</u>	<u>\$ 3,061,900</u>	<u>\$ 528,767</u>
<b>Expenditures</b>				
Personnel services	\$ 1,215,938	\$ 1,163,506	\$ 1,303,640	\$ (140,134)
Contractual services	449,446	420,427	674,715	(254,288)
Commodities	534,088	551,297	501,631	49,666
Capital outlay	1,322,977	151,840	242,573	(90,733)
Debt service	211,594	305,270	246,627	58,643
Transfer to other funds	700,000	378,274	375,000	3,274
<b>Total Expenditures</b>	<u>\$ 4,434,043</u>	<u>\$ 2,970,614</u>	<u>\$ 3,344,186</u>	<u>\$ (373,572)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ 126,040	\$ 620,053		
Unencumbered Cash, Beginning	<u>1,884,524</u>	<u>2,010,564</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 2,010,564</u>	<u>\$ 2,630,617</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**SEWER FUND**

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
<b>Cash Receipts</b>				
Sewer service	\$ 1,798,868	\$ 1,796,963	\$ 1,750,000	\$ 46,963
Interest income	3,848	4,108	18,000	(13,892)
Refund of expenditures	9,938	20,515	-	20,515
Miscellaneous	240	2,098	1,000	1,098
<b>Total Cash Receipts</b>	<u>\$ 1,812,894</u>	<u>\$ 1,823,684</u>	<u>\$ 1,769,000</u>	<u>\$ 54,684</u>
<b>Expenditures</b>				
Personnel services	\$ 706,870	\$ 657,495	\$ 717,509	\$ (60,014)
Contractual services	254,782	251,683	420,638	(168,955)
Commodities	153,877	91,376	153,326	(61,950)
Capital outlay	116,109	330,761	121,609	209,152
Debt service	426,840	279,214	400,170	(120,956)
Transfer to other funds	375,000	269,501	269,501	-
<b>Total Expenditures</b>	<u>\$ 2,033,478</u>	<u>\$ 1,880,030</u>	<u>\$ 2,082,753</u>	<u>\$ (202,723)</u>
<b>Receipts Over (Under) Expenditures</b>	\$ (220,584)	\$ (56,346)		
Unencumbered Cash, Beginning	<u>1,048,567</u>	<u>827,983</u>		
<b>Unencumbered Cash, Ending</b>	<u>\$ 827,983</u>	<u>\$ 771,637</u>		

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

**CITY OF ARKANSAS CITY, KANSAS**

Statement -3-

**Statements of Cash Receipts and Expenditures - Actual and Budget**

**For the Year Ended December 31, 2011**

**(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)**

**SANITATION FUND**

	<b>Prior Year Actual</b>	<b>Current Year</b>		<b>Variance Over Under</b>
		<b>Actual</b>	<b>Budget</b>	
<b>Cash Receipts</b>				
Garbage collections	\$ 1,377,866	\$ 1,419,116	\$ 1,350,000	\$ 69,116
Other service fees	3,305	12,089	3,000	9,089
Miscellaneous	788	880	-	880
Interest income	1,004	1,305	2,300	(995)
Refund of expenditures	47	4,708	1,000	3,708
<b>Total Cash Receipts</b>	<b>\$ 1,383,010</b>	<b>\$ 1,438,098</b>	<b>\$ 1,356,300</b>	<b>\$ 81,798</b>
<b>Expenditures</b>				
Personnel services	\$ 580,208	\$ 540,506	\$ 600,531	\$ (60,025)
Contractual services	412,912	378,612	473,900	(95,288)
Commodities	97,190	100,782	126,580	(25,798)
Capital outlay	44,698	39,275	50,372	(11,097)
Transfer to other funds	160,000	141,628	141,628	-
<b>Total Expenditures</b>	<b>\$ 1,295,008</b>	<b>\$ 1,200,803</b>	<b>\$ 1,393,011</b>	<b>\$ (192,208)</b>
<b>Receipts Over (Under) Expenditures</b>	<b>\$ 88,002</b>	<b>\$ 237,295</b>		
Unencumbered Cash, Beginning	200,505	288,507		
<b>Unencumbered Cash, Ending</b>	<b>\$ 288,507</b>	<b>\$ 525,802</b>		

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



**CITY OF ARKANSAS CITY, KANSAS**

Statement -4-

**Statement of Cash Receipts and Expenditures - Actual  
For the Year Ended December 31, 2011**

**AGENCY FUND**

	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Municipal Court	\$ 17,981	\$ 628,323	\$ 624,686	\$ 21,618
<b>TOTAL</b>	<u>\$ 17,981</u>	<u>\$ 628,323</u>	<u>\$ 624,686</u>	<u>\$ 21,618</u>

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

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Arkansas City, Kansas (the City) is a municipal corporation operating under an elected five-member Commissioner-Manager form of government and provides the following services: public safety, development services, public health and welfare, culture, recreational, and utilities.

The City receives funding from various local and state sources and must comply with the concomitant requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined in Section 2100 of GAFRS, since Commissioners are elected by the general public, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Arkansas City, Kansas, with the exception of the South Central Kansas Regional Medical Center, and The Arkansas City Public Library. These component units have each had an audit of their financial statements completed separately. Copies can be obtained by contacting the management at the following addresses:

South Central Kansas Regional Medical Center  
6401 Patterson Pkwy Arkansas City, KS 67005

Arkansas City Public Library  
120 E 5th Ave Arkansas City, KS 67005

**1. Blended Component Units**

*The Arkansas City Public Building Commission* – issued revenue bonds for the benefit of the South Central Kansas Regional Medical Center. All transactions are recorded in the Public Building Commission fund.

*The Cherokee Strip Museum* – is a blended component unit of which the transactions are recorded in the Cherokee Strip Museum Fund.

**2. Joint Ventures**

*Strother Field Airport and Industrial Park* – The City has adopted Ordinance No. 98-11-3793 providing for an interlocal cooperation agreement between the City of Arkansas City, the City of Winfield and Strother Field to provide financing of water systems improvements at Strother Field. The agreement provides for \$500,000 in G.O. bonds to be issued by the City of Winfield to finance the improvements. If Strother Field defaults on the bond issue, the Cities of Arkansas City and Winfield would each be responsible for 50% of the remaining liability. The agreement acknowledges that the obligations of Arkansas City are subject to K.S.A. 10-1101 et

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

seq., and as such, Arkansas City is obligated only to the extent that it has funds actually on hand in its treasury at the time for such purpose. The Strother Field Airport and Industrial Park joint venture has had an audit of their financial statements completed separately. Copies can be obtained by contacting the management at 22193 Tupper St, Winfield, KS 67156.

*Arkansas City/Winfield Recycling Center* – The Cities of Arkansas City and Winfield, Kansas entered into an interlocal agreement to jointly purchase and operate a recycling center. Records are maintained by the City of Winfield; both cities share equally in the costs and recycling revenues. No financial statements are prepared for this joint venture. Further financial information can be obtained through the City of Winfield, 200 E. 9<sup>th</sup> Ave. Winfield, KS 67156.

## **B. Basis of Presentation**

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

The following types of funds comprise the financial activities of the City for the 2011 year:

### **1. Governmental funds**

- a. General fund - to account for all unrestricted resources except those required to be accounted for in another fund.
- b. Special revenue funds - to account for the proceeds of specific revenue (other than special assessments or major capital projects) that are restricted by law or administrative action to be expensed for specified purposes.
- c. Debt service funds - are used to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.
- d. Capital project fund - to account for the acquisition or construction of major capital facilities.

### **2. Proprietary funds**

Enterprise funds - are used to account for activities of the City similar to those found in the private sector, where cost recovery and the determination of net income is

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

useful for sound fiscal management. The City's enterprise funds consist of operations that provide services to the public.

**3. Fiduciary funds**

Fiduciary funds include expendable trust, nonexpendable trust, and agency funds and are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

**C. Financial Presentation**

*Statutory 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 interfund transactions, 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.

The City of Arkansas City has obtained a waiver for the year ended December 31, 2011 of the requirement of K.S.A. 75-1120a(c) for the presentation of GAAP financial statements from the State of Kansas, which thereby requires this type of special reporting.

*Departure from Generally Accepted Accounting Principles.* 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 generally accepted accounting principles, 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. General Fixed Assets Accounts that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds,

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

temporary notes, and compensated absences are not presented in the financial statements.

**D. Assets, Liabilities and Fund Accounting**

**1. Cash and investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Compensated absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

- a. Vacation – All employees shall accrue vacation leave each pay period according to their position and years of service with the City.
  - Full time employees earn a minimum of 80 hours per year for their continuous employment years 1-7 with a maximum accrual of 160 hours
  - Full time employees earn a minimum of 120 hours per year for their continuous employment years 8-15 with a maximum accrual of 240 hours
  - Full time employees earn a minimum of 160 hours per year for their continuous employment years 16-20 with a maximum accrual of 320 hours
  - Full time employees earn a minimum of 200 hours per year for their continuous employment years 20+ with a maximum accrual of 400 hours
  - Part time employees hired prior to June 5, 2007 accrue paid vacation leave at one-half the above rates.
  
- b. Sick leave – All full time employees shall accrued paid sick leave at a rate of at least one eight hour day per month.
  
- c. Accumulated leave payout – All employees separating from City employment that have given and satisfactorily completed an appropriate 14-day notice period will receive payment for all accumulated accrued and unused vacation and depending upon the employees length of service with the City a percentage of their accrued unused sick leave as follows:
  - Full time employees with 0-4 full years of continuous service will receive 0% sick leave payout.
  - Full time employees with 5-9 full years of continuous service will receive 25% sick leave payout up to 480 hours.

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

- Full time employees with 10-14 full years of continuous service will receive 50% sick leave payout up to 480 hours
- Full time employees with 15-19 full years of continuous service will receive 75% sick leave payout up to 480 hours
- Full time employees with 20+ full years of continuous service will receive 100% sick leave payout up to 480 hours

At December 31, 2011 the accumulated leave payout totals \$722,758.89 which consists of unused vacation of \$348,667.47 and sick leave of \$374,091.42.

### **3. Pension costs and employee benefits**

#### **a. Defined benefit pension plan**

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

*Funding policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered wages for employees hired on or before July 1, 2009 and 6% of covered wages for those hired after that date. K.S.A. 74-4975 establishes KP&F member-employee contribution rate at 7% 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 rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute for calendar year 2011 is 7.44%. The City of Arkansas City contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$236,370, \$238,826 and \$181,971 respectively, equal to the statutory required contributions for each year. The KP&F employer rate established for fiscal years beginning 2011 is 14.57%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City of Arkansas City contributions to KP&F for the years ending December 31, 2011, 2010 and 2009 were \$367,820,

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

\$319,135 and \$327,746, respectively, equal to the statutory required contributions for each year.

b. Other employee benefits

*Plan description.* As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. Each retiree pays the full amount of the applicable premium so there is no obligation to the City.

The City requires retirees to pay the same premiums charged to COBRA participants with a 2% additional charge for administrative expenses. The rates being paid by retirees for benefits are typically lower than those for individual health insurance policies.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. 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 operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There was one amendment to the original 2011 budget.

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

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

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting; revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

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

- Convention Center Fund
- Community Contribution Fund
- DARE Program Fund
- Renaissance Faire Fund
- Equipment Reserve Fund
- Public Building Commission Fund

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

**B. Compliance with Kansas Statutes**

1. The City did not have any funds with deficit fund balance as of December 31, 2011 that would be a violation of K.S.A. 10-1113.
2. The City did have three projects in the Construction Fund that had expenditures in excess of the authorization amounts that would be a violation of K.S.A. 79-2935. The projects included the Patterson Park Streets – Internal, Water Plant – Critical Repair, and the Bike Trail – Part 2.
3. The City’s deposits were adequately secured throughout the year thus there is no violation of K.S.A. 9-1402.
4. The City is not aware of any other statutes with which it has not maintained compliance.

**C. Compliance with Finance-Related Legal and Contractual Provisions**

The City had no contraventions of debt covenants, or other violations of finance-related legal or contractual provisions for the year ended December 31, 2011.



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

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the Government. The statute requires bank eligible to hold the Government's funds have a main or branch bank in the county in which the Government is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A 9-1402 requires 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 Government'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 that would further limit its investment choices.

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

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$11,718,779.21 and the bank balance was \$11,760,135.12. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$817,591.21 was covered by federal depository insurance; \$10,942,543.91 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 the possession of an outside party. State statutes require investments to be adequately secured.

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

**B. Property Taxes**

All budgets must be filed with the County Clerk by August 25. The County Clerk must calculate the final tax levy rates necessary to finance the budget, subject to any legal limitations. After all budgets have been received and tax levy rates calculated, the County Clerk certifies the tax roll to the County Treasurer, who prepares the tax statements and receives the payments of ad valorem taxes. The taxes become a lien against all property on November 1. Taxpayers have the option of paying in full or in two equal installments. The delinquency dates are December 20 and May 10.

Taxes levied to finance the budget are made available to the City of Arkansas City after January 1, and are distributed by the County Treasurer. At least 50 percent of the taxes levied are available in January. Delinquent tax collections are distributed throughout the year.

**C. Utility Customers**

Utility accounts receivable on December 31, 2011, were \$666,117.28. As explained previously in Note I.C., the City is on the modified cash basis of accounting and does not recognize revenue until the cash payment is actually received.

**D. Special Assessments**

Projects financed in part by special assessments are funded through general obligation bonds issued by the City and listed with its other general obligation debt. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project but special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund, from which the bonds will be paid.

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

**E. Encumbrances**

As explained previously in Note I.C., the City is on the modified cash basis of accounting for expenditures, which calls for the recognition of encumbrances and accounts payable, without distinction. Both are charged to expenditures as incurred, and are shown as liabilities of each fund. The amounts of those debts on December 31, 2011 are as follows:

Fund	Amount
General	\$ 308,065
Special Street and Highway	33,792
Street Maintenance	389
Cherokee Strip Museum	5,899
Community Contribution	110
Renaissance Faire	101
Equipment Reserve	15,334
Public Building Commission	28,726
Construction	358,974
Storm Water	65,310
Water Utility	147,682
Sewer	40,157
Sanitation	79,979

**F. Payroll**

Accrued payroll expenses for the years ended December 31, 2010 and 2011 are reflected in unencumbered cash, Statement 1 of the financial statements. Accrued payroll at December 31, 2010 is computed to be \$339,892.40, and accrued payroll at December 31, 2011 is computed to be \$230,046.05.

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

**G. Capital Projects**

At year end, capital project authorizations compared with expenditures from inception are as follows:

<b>Current Projects</b>	<b>Authorized Amount</b>	<b>Expenditures To Date</b>
Accel/Decel Lanes 242nd Street	\$ 720,000	\$ 56,756
15th Street Improvement	1,334,411	625,799
Waterline Replacement - 7th Street	356,012	23,258
Accounting Software	353,270	268,187
Recreation Center Improvement	41,167	39,916
Kansas Avenue Railroad Crossing	5,664,400	4,560,020
Patterson Park Street Imp. Part 2	305,903	293,581
Patterson Park Street - Internal	1,050,320	1,129,794
Patterson Park Water - Internal	491,560	323,908
Patterson Park Water - External	1,622,612	854,977
SCKRMC Sewer Line - Part 2	1,316,909	983,988
Water Plant - Critical Repair	450,000	468,374
Sports Complex North	2,000,000	1,947,002
Bike Trail - Part 1	1,434,681	246,780
Bike Trail - Part 2	1,857,919	1,901,824
15th Street Bridge / C Street Canal	414,027	22,767
Madison Ave KLINK	442,764	297,141
4th & Walnut Intersection	172,163	5,472
Fran Willard Sewer Relocation	51,039	48,634
Senior Center	39,970	1,363
Corp/Levee Project	322,101	10,211
Recreation Center Skateboard Facility	69,683	67,827

**H. Long-Term Debt**

**1. General obligation bonds**

The City issues general obligation and revenue bonds to finance the purchase of major capital items and the construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities and are being repaid from the applicable resources. Each bond has a separate maturity date and a fixed interest rate.

**2. Revenue bonds**

In 2009 the Arkansas City Public Building Commission issued Revenue bonds for the benefit of South Central Kansas Regional Medical Center.

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

**3. Temporary notes**

Upon authorization for the issuance of general obligation bonds for certain improvements, Kansas law permits the temporary financing of such improvements by the issuance of temporary notes. Temporary notes issued may not exceed the aggregate amount of bonds authorized, are interest-bearing, and have a maturity date not later than four years from the date of issuance of such temporary notes. Temporary notes outstanding are retired from the proceeds of the sale of general obligation bonds. The City has obtained short-term financing for several capital projects through the issuance of Temporary Notes. The Temporary Note Series 2010-1 totaling \$6,200,000 was used for the following items:

- Flood Control Improvements
- Patterson Park – Road Improvements
- Patterson Park – Street Improvements
- Main Traffic Improvements – Fifth Street over “C” Street Canal
- Main Traffic Improvements – Madison Avenue (U.S. Highway 166) from the Arkansas City River Bridge to Summit Street
- Patterson Park – Sanitary Sewer Improvements
- Interceptor Sewer Reconstruction – Fourth Street
- Sanitary Sewer Reconstruction – Frances Willard Elementary School
- Public Building Improvements – Wastewater Treatment Facility Roof
- Patterson Park – Water System Improvements
- Public Building Improvements – Paris Park Pool Recreational Complex
- Public Building Improvements – Arkansas City High School (leasehold interest)

**4. KDHE loan**

The Water supply loan with KDHE was used for additional work needed to expand the water system to the new hospital. The project was identified as the Bryant Standpipe Hospital Extensions. The original debt was issued for \$1,650,000 and \$330,000 was forgiven under the ARRA Project Principal Forgiveness, leaving an actual balance of \$1,320,000 to be repaid.

**5. Lease purchase agreements**

In 2006, the City acquired a new fire truck that is financed with a lease agreement providing for payments over ten years. At the end of the ten year lease agreement, title will transfer to the City.

**6. Certificate of participation**

The City issued \$350,000 in certificates of participation on December 1, 2002.

In 2011 the City did not enter into any additional leases.

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

Changes in long-term liabilities for the City of Arkansas City for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/Payments	Balance End of Year	Interest Paid
General Obligation Bonds									
Series 2001 GO	3.15%-4.25%	10/01/01	1,175,000	04/01/11	\$ 145,000	\$ -	\$ 145,000	\$ -	\$ 5,945
Series 2002 GO	3.50%-5.30%	10/01/02	2,200,000	04/01/12	520,000	-	255,000	265,000	16,814
Series 2003 GO	2.50%-3.75%	08/01/03	3,685,000	12/01/13	1,265,000	-	405,000	860,000	45,390
Series 2005 GO	3.60%-5.50%	12/01/05	2,095,000	12/01/15	1,155,000	-	215,000	940,000	41,020
Series 2008 GO	2.10%-4.00%	09/01/08	2,545,000	12/01/18	2,140,000	-	230,000	1,910,000	76,715
Series 2009 GO	2.50%-3.70%	07/01/09	1,950,000	12/01/19	1,820,000	-	170,000	1,650,000	54,283
Revenue Bonds									
Public Building Commission		09/01/09	23,205,000	09/01/38	23,205,000	-	-	23,205,000	1,514,548
Temporary Notes									
Series 2010	2.15%		6,200,000	05/01/13	6,200,000	-	-	6,200,000	133,300
43 KDHE loans:									
Sanitation Loan		01/10/00	2,990,300	03/01/11	135,336	-	135,336	-	2,362
Water Supply Loan		11/18/09	1,320,000	08/01/30	1,320,000	-	46,676	1,273,324	45,403
Lease purchase agreements:									
Fire Truck	4.89%	08/18/06	668,665	02/01/16	427,071	-	62,996	364,074	21,220
Certificate of Participation:									
Humane Society		12/01/02	350,000	12/01/12	123,226	-	59,636	63,590	5,679
Total Bonded Debt					\$ 38,455,633	\$ -	\$ 1,724,644	\$ 36,730,989	\$ 1,962,677
Compensated Absences	N/A	N/A	N/A	N/A	751,979	-	29,220	722,759	-
Total long-term debt					\$ 39,207,611	\$ -	\$ 1,753,863	\$ 37,453,748	\$ 1,962,677

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

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

	Year										
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2042	Total
<b>PRINCIPAL</b>											
General Obligation Bonds	\$ 1,320,000	\$ 1,105,000	\$ 695,000	\$ 720,000	\$ 495,000	\$ 1,290,000	\$ -	\$ -	\$ -	\$ -	\$ 5,625,000
Revenue Bonds	370,000	385,000	405,000	425,000	445,000	1,475,000	3,090,000	4,250,000	-	12,360,000	23,205,000
Temporary Notes	-	6,200,000	-	-	-	-	-	-	-	-	6,200,000
KDHE Loans	48,310	50,001	51,751	53,562	55,437	307,684	365,434	341,145	-	-	1,273,324
Lease Purchase Agreement	66,120	69,357	72,836	76,448	79,314	-	-	-	-	-	364,074
Certificate of Participation	63,590	-	-	-	-	-	-	-	-	-	63,590
<b>TOTAL PRINCIPAL</b>	<b>\$ 1,868,020</b>	<b>\$ 7,809,358</b>	<b>\$ 1,224,587</b>	<b>\$ 1,275,010</b>	<b>\$ 1,074,751</b>	<b>\$ 3,072,684</b>	<b>\$ 3,455,434</b>	<b>\$ 4,591,145</b>	<b>\$ -</b>	<b>\$12,360,000</b>	<b>\$ 36,730,989</b>
<b>INTEREST</b>											
General Obligation Bonds	\$ 191,350	\$ 151,148	\$ 112,608	\$ 89,690	\$ 65,200	\$ 86,283	\$ -	\$ -	\$ -	\$ -	\$ 696,278
Revenue Bonds	1,514,548	1,499,748	1,482,423	1,463,185	1,441,935	6,830,023	5,932,825	4,564,588	2,635,888	355,963	27,721,125
Temporary Notes	133,300	66,500	-	-	-	-	-	-	-	-	199,800
KDHE Loan	43,769	42,078	40,328	38,517	36,642	152,709	94,959.57	27,169.31	-	-	476,171
Lease Purchase Agreement	18,096	14,859	11,380	7,768	4,902	-	-	-	-	-	57,005
Certificate of Participation	1,725	-	-	-	-	-	-	-	-	-	1,725
<b>TOTAL INTEREST</b>	<b>\$ 1,902,788</b>	<b>\$ 1,774,332</b>	<b>\$ 1,646,737</b>	<b>\$ 1,599,160</b>	<b>\$ 1,548,679</b>	<b>\$ 7,069,014</b>	<b>\$ 6,027,785</b>	<b>\$ 4,591,757</b>	<b>\$ 2,635,888</b>	<b>\$ 355,963</b>	<b>\$ 29,152,103</b>
<b>TOTAL PRINCIPAL &amp; INTEREST</b>	<b>\$ 3,770,808</b>	<b>\$ 9,583,690</b>	<b>\$ 2,871,324</b>	<b>\$ 2,874,170</b>	<b>\$ 2,623,430</b>	<b>\$ 10,141,698</b>	<b>\$ 9,483,219</b>	<b>\$ 9,182,902</b>	<b>\$ 2,635,888</b>	<b>\$12,715,963</b>	<b>\$ 65,883,092</b>

44

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

**7. 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 service by the bond issuance. Neither the City, nor the State, 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 June 30, 2012, there were five series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$4,330,404.

**I. Inter-fund Transfers**

From	To	Statutory Authority	Amount
General	Cherokee Strip Museum	K.S.A 13-466	\$ 68,790
General	Equipment Reserve	K.S.A 12-1,117	51,545
Water	General	K.S.A 12-825d	375,000
Water	Equipment Reserve	K.S.A 12-1,117	3,274
Sewer	General	K.S.A 12-825d	250,000
Sewer	Equipment Reserve	K.S.A 12-1,117	19,501
Sanitation	General	K.S.A 12-825d	110,000
Sanitation	Equipment Reserve	K.S.A 12-1,117	31,628
Street Improvement	Construction	K.S.A 12-6a16	590,000
Special Street and Highway	Equipment Reserve	K.S.A 12-1,117	34,983
			\$ 1,534,721

**J. Unencumbered Cash Balances**

Unencumbered cash balances, at December 31, 2011, represent the Treasurer's cash balances for each fund, less any outstanding accounts payable or encumbrances.

**IV. CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2011, the City of Arkansas City has obtained a waiver of the requirement of K.S.A. 75-1120a(c) for the presentation of GAAP financial statements from the State of Kansas, which thereby requires this type of special reporting. At this time this change will assist in the monitoring of the current financial status of the City in relation to the Kansas Statutes as they relate to the Cash Basis Law.

Statutory basis financial statements consist of: 1) a fund summary statement containing all funds and showing compliance with the cash basis law, 2) a fund summary statement containing all funds and showing compliance with the budget law for those funds required



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

to be budgeted, 3) individual fund statements for all funds except agency funds, with budget comparisons for those funds required to be budgeted, 4) a fund summary statement, for agency funds only, showing cash balances, and 5) special statements unique to the municipality. The statements require new information and restructure much of the information that the City has presented in the past. Comparability with reports issued in prior years is affected.

Restatement of fund balance: The transition from the Net Assets as reported under GASB 34 at December 31, 2010 to the Ending Unencumbered Cash Balance reported under the statutory basis is presented below:

Total Net Assets	\$ 37,876,593
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	(42,271,056)
Encumbrances	(126,916)
Agency	68,768.00
Long-term liabilities, including bonds payable and encumbrance absences are not due and payable in the current period and therefore are not reported in the funds. (Net of related receivables.)	42,080,425
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds.	(28,168,784)
Interest payable on current debt does not require current financial resources; therefore, interest payable is not reported as a liability in governmental fund balance sheets	<u>1,180,593</u>
Ending Unencumbered Cash Balance	<u><u>\$ 10,639,623</u></u>

**V. RESERVATION OF FUND BALANCES**

The City has reservations of unencumbered cash balances resulting from a requirement from the Kansas Department of Labor. Reserved fund balance is reported to denote portions of fund balance that are either legally restricted to a specific future use or not available for appropriation or expenditures. The following reservations of fund balance are used by the City: [1] reserved for unemployment. The City has reserved \$182,737 in the General Fund. The City has since received correspondence from the Kansas Department of Labor on February 13<sup>th</sup>, 2012 releasing these funds from restriction.

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

**VI. SUBSEQUENT EVENTS**

The City was the defendant in a lawsuit claiming racial discrimination which was filed on or about December 22, 2010 in Kansas federal court. This case has been closed and the City was ordered to pay \$283,090.43 on December 13, 2012. This amount has subsequently been paid but it was not recognized as a liability due to the award including sums for past and future losses of the plaintiff.

**VII. COMMITMENT AND CONTINGENCIES**

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when it is probable that a liability has been incurred and the amount can be reasonably estimated. The City is defending its interest in various legal actions and claims against the City presently pending involving various miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. In the opinion of the management and its legal counsel, the probability of material aggregate liabilities resulting from these claims will not have an adverse material effect on the City's financial statements other than the case listed in subsequent events.

**VIII. COMPARATIVE DATA**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

**EDW. B  
STEPHENSON  
& CO., CPAs  
CHARTERED**

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JAMES R. DOBBS  
(1927-1997)

HARRY L. SHETLAR, JR.  
(1931-2000)

MORRIS W. JARVIS  
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N. DEAN BRADBURY  
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LOREN L. PONTIUS  
(Retired)

**SHAREHOLDERS**

AARON R. IVERSON, CPA

MICHAEL B. NORTON, CPA

MAURICE P. ROBERTS, CPA

**ACCOUNTANTS**

SARAH M. KINDT

MELISSA J. SCHOOLEY

HEIDI M. HUENERGARDT

**INDEPENDENT AUDITORS' 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***

To the Board of City Commissioners  
City of Arkansas City  
Arkansas City, Kansas

We have audited the statutory basis financial statements of the City of Arkansas City, Kansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit Guide*, 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**

Management of the City of Arkansas City, Kansas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the internal control of the City of Arkansas City, Kansas, 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 of Arkansas City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* 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 and correct misstatements on a

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timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses - (2011-2).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and question costs to be significant deficiencies - (2011-1).

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Arkansas City, Kansas, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Arkansas City's response, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, the management of the City of Arkansas City, Kansas, and federal awarding agencies and pass-through entities and is not intended to be and should not be used for any other purpose.

*Edw. B. Stephens & Co., CPA, LLC,*

Winfield, Kansas

January 7, 2013

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of City Commissioners  
City of Arkansas City  
Arkansas City, Kansas

**Compliance**

We have audited City of Arkansas City, Kansas's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

The management of the City of Arkansas City, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal

programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Arkansas City, Kansas, internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Commissioners, the management of the City of Arkansas City, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, the Kansas Department of Health and Environment, the U. S. Environmental Protection Agency and is not intended to be and should not be used for anyone other than these specified parties.

*Edw. B. Stephenson & Co., CPAs CHFD,*

Winfield, Kansas

January 7, 2013

**CITY OF ARKANSAS CITY, KANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a unqualified opinion on the financial statements of City of Arkansas City, Kansas.
2. One significant deficiency and one material weakness relating to the audit of the financial statements are reported in the "Independent Auditors' 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*."
3. No instance of noncompliance material to the financial statements of City of Arkansas City, Kansas, was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award programs for City of Arkansas City, Kansas, expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for City of Arkansas City, Kansas, are to be reported in Part C of this schedule.
7. The programs tested as major programs include:

FEDERAL FUNDS PAID THROUGH STATE

Department of Transportation

ARRA-Highway Planning and Construction Funds      20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Arkansas City, Kansas was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

FINDING 2011-1 Significant Deficiency in Internal Control

*Condition:* During our consideration of internal control over the elements comprising the information for the preparation of financial statements for the purpose of planning our audit, management was unable to provide a complete documentation of the components of internal control. Thus, we believe that the City has not adequately documented the internal control components, and this inadequacy is a deficiency.

**CITY OF ARKANSAS CITY, KANSAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

*Criteria:* An adequately designed and effectively implemented internal control system being necessary to provide assurance of the prevention and detection of potential material misstatements of financial statements, therefore, adequate documentation of the components of internal control is essential for management to effect identification and operation of the internal control system.

*Effect:* The City was not able to adequately identify the design and implementation of all the components of the City's internal control system over financial statement reporting in order to effectively prevent or detect material misstatements.

*Recommendation:* The City should perform a comprehensive formal written risk assessment for financial statement reporting in order to effectively undertake a program to produce a complete written document identifying the design and components of the City's present internal control process.

*Response:* The City has begun to address this issue and is continuing to work on documentation of the internal controls necessary to adequately safeguard the City. Upon completion of the document a plan will be implemented to verify the controls are being followed.

**FINDING 2011-2 Material Weakness in Internal Control**

*Condition:* During the performance of our audit engagement procedures, we noted management had not adjusted account balances to reflect appropriate year-end balances. This is a necessary step to ensure the financial statements are fairly stated. The misclassified amounts were, in our judgment, material to the financial statements. Management subsequently reclassified the amounts. Since the City's control policies and procedures did not prevent or detect a material misstatement of the financial statements, we concluded that there is a material weakness in the City's control policies and procedures.

*Criteria:* In an entity that prepares financial statements in accordance with the accounting principles generally accepted in the United States and the budgetary basis of accounting, the internal control systems should prevent or detect material misstatements and any necessary adjusting journal entries should be identified by the entity prior to the preparation of its financial statements and related note disclosures.

*Effect:* The financial statements, prior to auditor's adjustment, were not materially correct.

*Recommendation:* The City should implement a program to review the financial statement elements and significant items for the proper recording, classification, and treatment prior to the financial statement audit as an element of their internal control over the preparation of the financial statements.



**CITY OF ARKANSAS CITY, KANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

*Response:* The City has begun to conduct a self-review of financial statement elements for proper recording.

C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT

None

**CITY OF ARKANSAS CITY, KANSAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2011**

There are no prior audit findings relative to federal awards.

**CITY OF ARKANSAS CITY, KANSAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements/ Expenditures</u>
<b>Federal Funds Paid Through State:</b>		
<b>U.S. Department of Housing and Urban Development</b>		
<b>Passed Through State of Kansas Department of Commerce</b>		
Neighborhood Stabilization Program Grant	14.228	\$ 28,575
<b>Total Department of Housing and Urban Development</b>		<u>\$ 28,575</u>
<b>U.S. Department of Transportation</b>		
<b>Passed Through State of Kansas Department of Transportation</b>		
Department of Transportation Direct Programs State and Community Highway Safety	20.600	\$ 26,370
Highway Planning and Construction	20.205	1,790,020
<b>Total Department of Transportation</b>		<u>\$ 1,816,390</u>
<b>Total Federal Funds Paid Through State</b>		<u>\$ 1,844,965</u>
<b>Federal Funds Paid Direct to the City</b>		
<b>United States Department of Justice</b>		
Edward Byrne Memorial Justice Assistance Grant	16.738	\$ 17,005
Bulletproof Vest Partnership Program	16.607	1,055
<b>Total of United States Department of Justice</b>		<u>\$ 18,060</u>
<b>Total Funds Paid Direct to City</b>		<u>\$ 18,060</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 1,863,024</u>

## Notes

- 1 The above Schedule is prepared on the same basis of accounting as used for the City's financial statements.
- 2 Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount provided to Subrecipients</u>
16.580	Cowley County Sheriff's Department	\$10,796