

**CITY OF CLAY CENTER, KANSAS**

**FINANCIAL STATEMENTS**

**Year ended December 31, 2009**

This page intentionally left blank.

**CITY OF CLAY CENTER, KANSAS**

Financial Statements  
Year ended December 31, 2009

**TABLE OF CONTENTS**

	<u>Page Number</u>
<b>INTRODUCTORY SECTION</b>	
Table of Contents	i - ii
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report on the Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	1 - 2
<b>STATEMENT 1</b>	
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
<b>STATEMENT 2</b>	
Summary of Expenditures - Actual and Budget	4
<b>STATEMENT 3</b>	
Statement of Cash Receipts and Expenditures - Actual and Budget or Actual	
General Fund	5
Airport Fund	6
Connecting Link Improvement Fund	7
Employee Benefit Fund	8
Industrial Fund	9
Library Fund	10
Public Recreation Fund	11
Special Highway Fund	12
Special Improvement Fund	13
Special Parks and Recreation Fund	14
Street, Building, Machinery & Equipment Fund	15
Cemetery Perpetual Care Fund	16
Debt Service Fund	17
Pool Project Fund	18
Roof Improvements Fund	19
Waste Water Fund	20
Water Utility Fund	21
Electric Utility Fund	22
Refuse Disposal Maintenance Fund	23
Animal Shelter Fund	24
Community Development Block Grant Fund	25
Campbell Field Lights Fund	26
Undercover Fund	27
Underage Drinking Reward Fund	28
<b>STATEMENT 4</b>	
Statement of Cash, Cash Receipts and Disbursements - Agency Funds	29
Notes to the Financial Statements	30 - 37

**CITY OF CLAY CENTER, KANSAS**

Financial Statements  
Year ended December 31, 2009

TABLE OF CONTENTS - Continued

	<u>Page Number</u>
GOVERNMENTAL AUDIT SECTION	
Schedule of Expenditures of Federal Awards	38
Notes to the Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs	40 - 42
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards"	43 - 44
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	45 - 46

---

---

# LOWENTHAL, WEBB & ODERMANN, P.A.

---

---

David A. Lowenthal, CPA  
Patricia L. Webb, CPA  
Audrey M. Odermann, CPA

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301  
Lawrence, Kansas 66044-2868  
Phone: (785) 749-5050  
Fax: (785) 749-5061  
Website: www.lswwcpa.com

Abram M. Chrislip, CPA  
Caroline H. Eddinger, CPA  
Grant A. Huddin, CPA  
Brian W. Nyp, CPA

Members of American Institute  
and Kansas Society of  
Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Mayor and City Council  
City of Clay Center, Kansas

We have audited the accompanying financial statements of the City of Clay Center, Kansas (the City), as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2008. The financial statements as of and for the year ended December 31, 2008, were audited by other auditors whose report dated July 28, 2009, expressed an adverse opinion as to presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

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

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the financial data of component units of the City of Clay Center, Kansas as of December 31, 2009.

As described in Note 1, the City of Clay Center, 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.

In our opinion, because of the omission of the financial data of all of the component units of the City of Clay Center, Kansas, and, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Clay Center, Kansas, as of December 31, 2009, or the respective changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Clay Center, Kansas, as of December 31, 2009, and its cash receipts and expenditures by fund, and fund budget to actual comparisons, for the year then ended, taken as a whole, on the prescribed basis of accounting described in Note 1.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2008, from which such partial information was derived.

In accordance with "Government Auditing Standards," we have also issued our report dated July 20, 2010, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole, on the basis of accounting described in Note 1.

*Lowenthal, Welt & Odummann, P.A.*

July 20, 2010

**City of Clay Center, Kansas**  
 Summary of Cash Receipts, Expenditures and Unencumbered Cash  
 For the Year Ended December 31, 2009

Funds	Beginning Unencumbered Cash Balance	Prior Period Adjustment	Beginning Unencumbered Cash Balance (Restated)	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add:		Ending Cash Balance
							Encumbrances and Accounts Payable		
General Fund	\$ 309,111	\$ 65,533	\$ 374,644	\$ 2,406,585	\$ 2,480,213	\$ 301,016	\$ 81,048		\$ 382,064
Special Revenue Funds:									
Airport	1,072	-	1,072	15,120	12,309	3,883	42,124		46,007
Connecting Link Improvement	40,418	-	40,418	35,178	4,400	71,196	-		71,196
Employee Benefit	16,969	-	16,969	818,243	773,863	61,349	4,527		65,876
Industrial	3,362	-	3,362	25,660	25,000	4,022	-		4,022
Library	118	-	118	112,505	112,000	623	-		623
Public Recreation	[364]	-	[364]	26,292	23,420	2,508	555		3,063
Special Highway	13,544	-	13,544	111,141	121,898	2,787	-		2,787
Special Improvement	[2,135]	-	[2,135]	41,926	-	39,791	-		39,791
Special Park and Recreation	28,033	-	28,033	8,807	7,189	29,651	-		29,651
Street, Building, Machinery & Equipment	306,287	-	306,287	158,292	49,087	415,492	-		415,492
Permanent Fund:									
Cemetery Perpetual Care	151,745	-	151,745	4,305	-	156,050	-		156,050
Debt Service Fund	10,483	-	10,483	99,796	99,702	10,577	-		10,577
Capital Project Funds:									
Pool Project	18,119	-	18,119	5,000	-	23,119	-		23,119
Roof Improvements	54,397	-	54,397	22,304	76,701	-	-		-
Enterprise Funds:									
Waste Water	122,271	5,224	127,495	315,721	380,106	63,110	8,050		71,160
Water Utility	1,604,634	23,124	1,627,758	7,356,137	7,613,084	1,370,811	39,896		1,410,707
Electric Utility	2,234,774	177,259	2,412,033	6,490,991	6,273,012	2,630,012	303,663		2,933,675
Fiduciary Type Funds:									
Private Purpose Trust Funds:									
Refuse Disposal Maintenance	66,761	-	66,761	15,562	73,106	9,217	-		9,217
Animal Shelter	487	-	487	804	-	1,291	-		1,291
Community Development Block Grant	53,929	-	53,929	434	-	54,363	-		54,363
Campbell Field Lights	2,913	-	2,913	1,100	2,931	1,082	-		1,082
Undercover	1,598	-	1,598	-	100	1,498	-		1,498
Underage Drinking Reward	1,743	-	1,743	-	-	1,743	-		1,743
<b>Total Primary Government</b>	<b>\$ 5,040,269</b>	<b>\$ 271,140</b>	<b>\$ 5,311,409</b>	<b>\$ 18,071,903</b>	<b>\$ 18,128,121</b>	<b>\$ 5,255,191</b>	<b>\$ 479,863</b>		<b>\$ 5,735,054</b>

## Composition of Cash:

Union State Bank	
Checking	\$ 690,298
Money Market	1,917,255
Certificates of Deposit	400,000
United Bank & Trust	
Checking	640,219
Money Market	1,430,375
Certificates of Deposit	624,000
State of Kansas - Fiscal Agent	<u>286,801</u>
<b>Total Cash</b>	<b><u>5,988,948</u></b>
Agency Funds per Statement 4	<u>[253,894]</u>
<b>Total</b>	<b><u>\$ 5,735,054</u></b>

## STATEMENT 2

**City of Clay Center, Kansas**  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Positive [Negative]</u>
General Fund	\$ 2,872,000	\$ -	\$ 2,872,000	\$ 2,480,213	\$ 391,787
Special Revenue Funds:					
Airport	17,065	-	17,065	12,309	4,756
Connecting Link Improvement	69,129	-	69,129	4,400	64,729
Employee Benefit	792,000	-	792,000	773,863	18,137
Industrial	29,000	-	29,000	25,000	4,000
Library	118,000	-	118,000	112,000	6,000
Public Recreation	27,000	-	27,000	23,420	3,580
Special Highway	137,652	-	137,652	121,898	15,754
Special Improvement	51,792	-	51,792	-	51,792
Special Park and Recreation	39,389	-	39,389	7,189	32,200
Debt Service Fund	111,712	-	111,712	99,702	12,010
Enterprise Funds:					
Waste Water	473,411	-	473,411	380,106	93,305
Water Utility	10,022,800	-	10,022,800	7,613,084	2,409,716
Electric Utility	8,056,000	-	8,056,000	6,273,012	1,782,988

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

**City of Clay Center, Kansas**  
**General Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
<b>Cash Receipts</b>				
Taxes and shared revenue				
Ad valorem property tax	\$ 810,456	\$ 874,647	\$ 937,958	\$ [63,311]
Alcohol tax	7,859	8,807	7,760	1,047
Delinquent and foreclosures	10,787	13,608	6,000	7,608
Franchise tax	137,373	125,901	135,000	[9,099]
Motor vehicle tax	144,135	131,086	128,649	2,437
Recreational vehicle tax	1,944	2,006	3,391	[1,385]
Sales tax	955,963	887,816	1,063,925	[176,109]
Licenses and permits	28,614	28,626	32,000	[3,374]
Fines and fees	59,396	60,415	70,000	[9,585]
Charges for services	190,026	192,080	180,000	12,080
Payment in lieu of taxes	56,650	58,350	59,000	[650]
FEMA income	200,997	-	-	-
Miscellaneous	2,421	7,386	5,678	1,708
Use of money and property	31,117	15,857	35,000	[19,143]
<b>Total Cash Receipts</b>	<u>2,637,738</u>	<u>2,406,585</u>	<u>\$ 2,664,361</u>	<u>\$ [257,776]</u>
<b>Expenditures and Transfers Subject to Budget</b>				
General government	916,698	829,863	\$ 1,050,000	\$ 220,137
FEMA expenses	133,712	-	-	-
Police department	374,638	389,477	460,000	70,523
Fire department	351,863	341,787	345,000	3,213
Highway department	353,073	314,125	405,000	90,875
Refuse disposal	146,708	137,824	175,000	37,176
Parks department	128,157	120,316	160,000	39,684
Pool department	65,905	71,182	82,000	10,818
Cemetery department	108,226	104,065	125,000	20,935
Appropriations	-	-	10,000	10,000
Miscellaneous	-	-	55,000	55,000
Transfers out	-	171,574	5,000	[166,574]
<b>Total Expenditures and Transfers Subject to Budget</b>	<u>2,578,980</u>	<u>2,480,213</u>	<u>\$ 2,872,000</u>	<u>\$ 391,787</u>
Receipts Over [Under] Expenditures	<u>58,758</u>	<u>[73,628]</u>		
Unencumbered Cash, Beginning	250,353	309,111		
Prior period adjustment	-	65,533		
Unencumbered Cash, Beginning (restated)	<u>250,353</u>	<u>374,644</u>		
Unencumbered Cash, Ending	<u>\$ 309,111</u>	<u>\$ 301,016</u>		

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

**City of Clay Center, Kansas**  
 Airport Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Use of money and property	\$ 10,120	\$ 10,120	\$ 10,120	\$ -
Transfers in	<u>4,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total Cash Receipts	<u>14,120</u>	<u>15,120</u>	<u>\$ 15,120</u>	<u>\$ -</u>
Expenditures and Transfers Subject to Budget				
Contractual services	8,696	7,765	\$ 7,065	\$ [700]
Commodities	<u>7,819</u>	<u>4,544</u>	<u>10,000</u>	<u>5,456</u>
Total Expenditures and Transfers Subject to Budget	<u>16,515</u>	<u>12,309</u>	<u>\$ 17,065</u>	<u>\$ 4,756</u>
Receipts Over [Under] Expenditures	[2,395]	2,811		
Unencumbered Cash, Beginning	<u>3,467</u>	<u>1,072</u>		
Unencumbered Cash, Ending	<u>\$ 1,072</u>	<u>\$ 3,883</u>		

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

**City of Clay Center, Kansas**  
 Connecting Link Improvement Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Connecting link distribution	\$ 29,289	\$ 29,248	\$ 29,000	\$ 248
Miscellaneous	-	<u>5,930</u>	-	<u>5,930</u>
Total Cash Receipts	<u>29,289</u>	<u>35,178</u>	<u>\$ 29,000</u>	<u>\$ 6,178</u>
Expenditures and Transfers Subject to Budget				
Capital outlay	-	<u>4,400</u>	<u>\$ 69,129</u>	<u>\$ 64,729</u>
Total Expenditures and Transfers Subject to Budget	-	<u>4,400</u>	<u>\$ 69,129</u>	<u>\$ 64,729</u>
Receipts Over [Under] Expenditures	29,289	30,778		
Unencumbered Cash, Beginning	<u>11,129</u>	<u>40,418</u>		
Unencumbered Cash, Ending	<u>\$ 40,418</u>	<u>\$ 71,196</u>		

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

**City of Clay Center, Kansas**  
**Employee Benefit Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 237,653	\$ 271,216	\$ 288,414	\$ [17,198]
Employee contributions	<u>485,346</u>	<u>547,027</u>	<u>502,463</u>	<u>44,564</u>
Total Cash Receipts	<u>722,999</u>	<u>818,243</u>	<u>\$ 790,877</u>	<u>\$ 27,366</u>
Expenditures and Transfers Subject to Budget				
Personal services	689,835	768,863	\$ 780,000	\$ 11,137
Neighborhood revitalization program allowance	12,464	-	7,000	7,000
Appropriations	<u>4,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>706,299</u>	<u>773,863</u>	<u>\$ 792,000</u>	<u>\$ 18,137</u>
Receipts Over [Under] Expenditures	16,700	44,380		
Unencumbered Cash, Beginning	<u>269</u>	<u>16,969</u>		
Unencumbered Cash, Ending	<u>\$ 16,969</u>	<u>\$ 61,349</u>		

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

**City of Clay Center, Kansas**  
 Industrial Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 15,072	\$ 25,660	\$ 27,269	\$ [1,609]
Total Cash Receipts	<u>15,072</u>	<u>25,660</u>	<u>\$ 27,269</u>	<u>\$ [1,609]</u>
Expenditures and Transfers Subject to Budget				
Appropriations	16,250	25,000	\$ 25,000	\$ -
Commodities	-	-	1,500	1,500
Contractual services	-	-	1,500	1,500
Neighborhood revitalization program allowance	<u>751</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Total Expenditures and Transfers Subject to Budget	<u>17,001</u>	<u>25,000</u>	<u>\$ 29,000</u>	<u>\$ 4,000</u>
Receipts Over [Under] Expenditures	[1,929]	660		
Unencumbered Cash, Beginning	<u>5,291</u>	<u>3,362</u>		
Unencumbered Cash, Ending	<u>\$ 3,362</u>	<u>\$ 4,022</u>		

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

**City of Clay Center, Kansas**  
 Library Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 110,846	\$ 112,505	\$ 119,636	\$ [7,131]
Total Cash Receipts	<u>110,846</u>	<u>112,505</u>	<u>\$ 119,636</u>	<u>\$ [7,131]</u>
Expenditures and Transfers Subject to Budget				
Appropriations	105,000	112,000	\$ 114,000	\$ 2,000
Neighborhood revitalization program allowance	<u>5,764</u>	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Total Expenditures and Transfers Subject to Budget	<u>110,764</u>	<u>112,000</u>	<u>\$ 118,000</u>	<u>\$ 6,000</u>
Receipts Over [Under] Expenditures	82	505		
Unencumbered Cash, Beginning	<u>36</u>	<u>118</u>		
Unencumbered Cash, Ending	<u>\$ 118</u>	<u>\$ 623</u>		

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

**City of Clay Center, Kansas**  
 Public Recreation Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 23,148	\$ 26,292	\$ 27,933	\$ [1,641]
Total Cash Receipts	<u>23,148</u>	<u>26,292</u>	<u>\$ 27,933</u>	<u>\$ [1,641]</u>
Expenditures and Transfers Subject to Budget				
Appropriations	1,800	1,800	\$ 26,000	\$ 24,200
Commodities	11,690	12,075	-	[12,075]
Personal services	9,345	9,545	-	[9,545]
Neighborhood revitalization program allowance	<u>1,155</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Total Expenditures and Transfers Subject to Budget	<u>23,990</u>	<u>23,420</u>	<u>\$ 27,000</u>	<u>\$ 3,580</u>
Receipts Over [Under] Expenditures	[842]	2,872		
Unencumbered Cash, Beginning	<u>478</u>	<u>[364]</u>		
Unencumbered Cash, Ending	<u>\$ [364]</u>	<u>\$ 2,508</u>		

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

**City of Clay Center, Kansas**  
Special Highway Fund  
Statement of Cash Receipts and Expenditures - Actual  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 125,179	\$ 111,141	\$ 125,000	\$ [13,859]
Total Cash Receipts	<u>125,179</u>	<u>111,141</u>	<u>\$ 125,000</u>	<u>\$ [13,859]</u>
Expenditures and Transfers Subject to Budget				
Commodities	127,123	71,898	\$ 87,652	\$ 15,754
Debt service	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>127,123</u>	<u>121,898</u>	<u>\$ 137,652</u>	<u>\$ 15,754</u>
Receipts Over [Under] Expenditures	[1,944]	[10,757]		
Unencumbered Cash, Beginning	<u>15,488</u>	<u>13,544</u>		
Unencumbered Cash, Ending	<u>\$ 13,544</u>	<u>\$ 2,787</u>		

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

**City of Clay Center, Kansas**  
Special Improvement Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Reimbursements	\$ -	\$ 36,352	\$ 15,000	\$ 21,352
Transfers	<u>50,000</u>	<u>5,574</u>	<u>-</u>	<u>5,574</u>
Total Cash Receipts	<u>50,000</u>	<u>41,926</u>	<u>\$ 15,000</u>	<u>\$ 26,926</u>
Expenditures and Transfers Subject to Budget				
Contractual services	<u>88,927</u>	<u>-</u>	<u>\$ 51,792</u>	<u>\$ 51,792</u>
Total Expenditures and Transfers Subject to Budget	<u>88,927</u>	<u>-</u>	<u>\$ 51,792</u>	<u>\$ 51,792</u>
Receipts Over [Under] Expenditures	[38,927]	41,926		
Unencumbered Cash, Beginning	<u>36,792</u>	<u>[2,135]</u>		
Unencumbered Cash, Ending	<u>\$ [2,135]</u>	<u>\$ 39,791</u>		

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

**City of Clay Center, Kansas**  
Special Parks and Recreation Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Intergovernmental	\$ 7,858	\$ 8,807	\$ 7,760	\$ 1,047
Total Cash Receipts	<u>7,858</u>	<u>8,807</u>	<u>\$ 7,760</u>	<u>\$ 1,047</u>
Expenditures and Transfers Subject to Budget				
Appropriations	1,950	1,500	\$ 2,000	\$ 500
Capital outlay	<u>7,080</u>	<u>5,689</u>	<u>37,389</u>	<u>31,700</u>
Total Expenditures and Transfers Subject to Budget	<u>9,030</u>	<u>7,189</u>	<u>\$ 39,389</u>	<u>\$ 32,200</u>
Receipts Over [Under] Expenditures	[1,172]	1,618		
Unencumbered Cash, Beginning	<u>29,205</u>	<u>28,033</u>		
Unencumbered Cash, Ending	<u>\$ 28,033</u>	<u>\$ 29,651</u>		

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

**City of Clay Center, Kansas**  
 Street, Building, Machinery and Equipment Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Fines and fees	\$ 3,292	\$ -
Transfers in	<u>155,000</u>	<u>130,116</u>
Total Cash Receipts	<u>158,292</u>	<u>130,116</u>
Expenditures and Transfers		
Equipment	42,600	178,114
Equipment maintenance & repair	3,532	6,035
Commodities	2,955	-
Transfer out	<u>-</u>	<u>50,000</u>
Total Expenditures and Transfers	<u>49,087</u>	<u>234,149</u>
Receipts Over [Under] Expenditures	109,205	[104,033]
Unencumbered Cash, Beginning	<u>306,287</u>	<u>410,320</u>
Unencumbered Cash, Ending	<u>\$ 415,492</u>	<u>\$ 306,287</u>

\* - This fund is not required to be budgeted.

STATEMENT 3 - 12

**City of Clay Center, Kansas**  
**Cemetery Perpetual Care Fund\***  
**Statement of Cash Receipts and Expenditures - Actual**  
**For the Year Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Perpetual care payments	\$ 4,305	\$ 2,100
Total Cash Receipts	<u>4,305</u>	<u>2,100</u>
Expenditures and Transfers		
Contractual	<u>-</u>	<u>-</u>
Total Expenditures and Transfers	<u>-</u>	<u>-</u>
Receipts Over [Under] Expenditures	4,305	2,100
Unencumbered Cash, Beginning	<u>151,745</u>	<u>149,645</u>
Unencumbered Cash, Ending	<u>\$ 156,050</u>	<u>\$ 151,745</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
**Debt Service Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 116,195	\$ 99,796	\$ 94,386	\$ 5,410
Special assessments	-	-	11,491	[11,491]
Total Cash Receipts	<u>116,195</u>	<u>99,796</u>	<u>\$ 105,877</u>	<u>\$ [6,081]</u>
Expenditures and Transfers Subject to Budget				
Bond principal	72,000	72,000	\$ 72,000	\$ -
Interest	31,208	27,691	27,692	1
Commissions	11	11	20	9
Miscellaneous	-	-	8,000	8,000
Neighborhood revitalization program allowance	<u>5,933</u>	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Total Expenditures and Transfers Subject to Budget	<u>109,152</u>	<u>99,702</u>	<u>\$ 111,712</u>	<u>\$ 12,010</u>
Receipts Over [Under] Expenditures	7,043	94		
Unencumbered Cash, Beginning	<u>3,440</u>	<u>10,483</u>		
Unencumbered Cash, Ending	<u>\$ 10,483</u>	<u>\$ 10,577</u>		

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

**City of Clay Center, Kansas**  
**Pool Project Fund\***  
**Statement of Cash Receipts and Expenditures - Actual**  
**For the Year Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Contributions	\$ -	\$ 656
Transfers in	<u>5,000</u>	<u>5,000</u>
 Total Cash Receipts	 <u>5,000</u>	 <u>5,656</u>
 Expenditures and Transfers		
Capital outlay	<u>-</u>	<u>17,537</u>
 Total Expenditures and Transfers	 <u>-</u>	 <u>17,537</u>
 Receipts Over [Under] Expenditures	 5,000	 [11,881]
 Unencumbered Cash, Beginning	 <u>18,119</u>	 <u>30,000</u>
 Unencumbered Cash, Ending	 <u>\$ 23,119</u>	 <u>\$ 18,119</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
**Roof Improvements Fund\***  
**Statement of Cash Receipts and Expenditures - Actual**  
**For the Year Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Insurance proceeds	\$ -	\$ 54,397
Bond proceeds	21,304	-
Transfers in	<u>1,000</u>	<u>-</u>
Total Cash Receipts	<u>22,304</u>	<u>54,397</u>
Expenditures and Transfers		
Capital outlay	<u>76,701</u>	<u>-</u>
Total Expenditures and Transfers	<u>76,701</u>	<u>-</u>
Receipts Over [Under] Expenditures	[54,397]	54,397
Unencumbered Cash, Beginning	<u>54,397</u>	<u>-</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 54,397</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
Waste Water Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 326,084	\$ 315,236	\$ 270,000	\$ 45,236
Loan proceeds	-	-	62,400	[62,400]
Use of money and property	2,362	485	-	485
Transfers in	-	-	37,000	[37,000]
Total Cash Receipts	<u>328,446</u>	<u>315,721</u>	<u>\$ 369,400</u>	<u>\$ [53,679]</u>
Expenditures and Transfers Subject to Budget				
Personal services	140,819	139,529	\$ 170,000	\$ 30,471
Commodities	58,116	58,298	70,000	11,702
Contractual services	62,439	54,224	75,000	20,776
Capital outlay	22,413	62,574	88,837	26,263
Debt service	65,573	65,481	65,574	93
Transfer out	-	-	4,000	4,000
Total Expenditures and Transfers Subject to Budget	<u>349,360</u>	<u>380,106</u>	<u>\$ 473,411</u>	<u>\$ 93,305</u>
Receipts Over [Under] Expenditures	<u>[20,914]</u>	<u>[64,385]</u>		
Unencumbered Cash, Beginning	143,185	122,271		
Prior period adjustment	-	5,224		
Unencumbered Cash, Beginning (restated)	<u>143,185</u>	<u>127,495</u>		
Unencumbered Cash, Ending	<u>\$ 122,271</u>	<u>\$ 63,110</u>		

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

**City of Clay Center, Kansas**  
Water Utility Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2009  
(With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 1,697,598	\$ 1,664,602	\$ 2,300,500	\$ [635,898]
Loan proceeds	753,245	5,664,782	7,800,000	[2,135,218]
Use of money and property	20,113	6,685	21,000	[14,315]
Miscellaneous	15,669	20,068	30,000	[9,932]
Total Cash Receipts	<u>2,486,625</u>	<u>7,356,137</u>	<u>\$ 10,151,500</u>	<u>\$ [2,795,363]</u>
Expenditures and Transfers Subject to Budget				
Personal services	332,681	372,105	\$ 462,099	\$ 89,994
Contractual	21,131	21,480	24,032	2,552
Capital outlay	458,000	6,145,322	8,000,000	1,854,678
Commodities	216,204	289,529	383,669	94,140
Debt service	4,692	276,228	600,000	323,772
Transfer out	518,371	508,420	553,000	44,580
Total Expenditures and Transfers Subject to Budget	<u>1,551,079</u>	<u>7,613,084</u>	<u>\$ 10,022,800</u>	<u>\$ 2,409,716</u>
Receipts Over [Under] Expenditures	<u>935,546</u>	<u>[256,947]</u>		
Unencumbered Cash, Beginning	669,088	1,604,634		
Restatement	-	23,124		
Unencumbered Cash, Beginning (restated)	<u>669,088</u>	<u>1,627,758</u>		
Unencumbered Cash, Ending	<u>\$ 1,604,634</u>	<u>\$ 1,370,811</u>		

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

**City of Clay Center, Kansas**  
 Electric Utility Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2009  
 (With Comparative Actual Amounts For the Year Ended December 31, 2008)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 5,549,936	\$ 4,941,758	\$ 7,676,000	\$ [2,734,242]
Taxes	154,169	138,316	195,000	[56,684]
Reimbursements	222,483	1,165,850	-	1,165,850
Use of money and property	61,857	13,041	86,000	[72,959]
Miscellaneous	<u>76,562</u>	<u>232,026</u>	<u>150,000</u>	<u>82,026</u>
Total Cash Receipts	<u>6,065,007</u>	<u>6,490,991</u>	<u>\$ 8,107,000</u>	<u>\$ [1,616,009]</u>
Expenditures and Transfers Subject to Budget				
Personal services	1,127,711	1,512,771	\$ 1,739,722	\$ 226,951
Contractual	85,851	70,505	73,931	3,426
Capital outlay	614,463	280,394	900,000	619,606
Commodities	3,909,522	3,166,347	4,748,347	1,582,000
Debt service	341,595	368,178	350,000	[18,178]
Sales tax	153,810	125,171	190,000	64,829
Investments in Kansas Power Pool	44,712	[10,168]	-	10,168
Investments in SWAPA	-	6,408	-	[6,408]
Mainstreet / EDG payments	5,907	6,054	12,000	5,946
FEMA reconstruction	28,050	702,172	-	[702,172]
Transfer out	<u>39,655</u>	<u>45,180</u>	<u>42,000</u>	<u>[3,180]</u>
Total Expenditures and Transfers Subject to Budget	<u>6,351,276</u>	<u>6,273,012</u>	<u>\$ 8,056,000</u>	<u>\$ 1,782,988</u>
Receipts Over [Under] Expenditures	<u>[286,269]</u>	<u>217,979</u>		
Unencumbered Cash, Beginning	2,521,043	2,234,774		
Restatement	-	<u>177,259</u>		
Unencumbered Cash, Beginning (Restated)	<u>2,521,043</u>	<u>2,412,033</u>		
Unencumbered Cash, Ending	<u>\$ 2,234,774</u>	<u>\$ 2,630,012</u>		

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

**City of Clay Center, Kansas**  
 Refuse Disposal Maintenance Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Charges for services	\$ 15,562	\$ 15,639
Total Cash Receipts	<u>15,562</u>	<u>15,639</u>
Expenditures and Transfers		
Commodities	5,713	3,171
Capital outlay	<u>67,393</u>	<u>18,885</u>
Total Expenditures and Transfers	<u>73,106</u>	<u>22,056</u>
Receipts Over [Under] Expenditures	[57,544]	[6,417]
Unencumbered Cash, Beginning	<u>66,761</u>	<u>73,178</u>
Unencumbered Cash, Ending	<u>\$ 9,217</u>	<u>\$ 66,761</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
 Animal Shelter Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Donations	\$ 804	\$ 265
Total Cash Receipts	<u>804</u>	<u>265</u>
Expenditures and Transfers		
Animal feed and care	<u>-</u>	<u>143</u>
Total Expenditures and Transfers	<u>-</u>	<u>143</u>
Receipts Over [Under] Expenditures	804	122
Unencumbered Cash, Beginning	<u>487</u>	<u>365</u>
Unencumbered Cash, Ending	<u>\$ 1,291</u>	<u>\$ 487</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
 Community Development Block Grant Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Use of money	\$ 434	\$ 1,453
Total Cash Receipts	<u>434</u>	<u>1,453</u>
Expenditures and Transfers		
Miscellaneous	<u>-</u>	<u>-</u>
Total Expenditures and Transfers	<u>-</u>	<u>-</u>
Receipts Over [Under] Expenditures	434	1,453
Unencumbered Cash, Beginning	<u>53,929</u>	<u>52,476</u>
Unencumbered Cash, Ending	<u>\$ 54,363</u>	<u>\$ 53,929</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
 Campbell Field Lights Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Donations	\$ 1,100	\$ 100
Total Cash Receipts	<u>1,100</u>	<u>100</u>
Expenditures and Transfers		
Capital outlay	<u>2,931</u>	<u>-</u>
Total Expenditures and Transfers	<u>2,931</u>	<u>-</u>
Receipts Over [Under] Expenditures	[1,831]	100
Unencumbered Cash, Beginning	<u>2,913</u>	<u>2,813</u>
Unencumbered Cash, Ending	<u>\$ 1,082</u>	<u>\$ 2,913</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
**Undercover Fund\***  
**Statement of Cash Receipts and Expenditures - Actual**  
**For the Year Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Donations	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures and Transfers		
Operational equipment	100	-
Total Expenditures and Transfers	100	-
Receipts Over [Under] Expenditures	[100]	-
Unencumbered Cash, Beginning	1,598	1,598
Unencumbered Cash, Ending	<u>\$ 1,498</u>	<u>\$ 1,598</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
 Underage Drinking Reward Fund\*  
 Statement of Cash Receipts and Expenditures - Actual  
 For the Year Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Receipts		
Donations	\$ -	\$ 918
Total Cash Receipts	<u>-</u>	<u>918</u>
Expenditures and Transfers		
Miscellaneous	<u>-</u>	<u>-</u>
Total Expenditures and Transfers	<u>-</u>	<u>-</u>
Receipts Over [Under] Expenditures	-	918
Unencumbered Cash, Beginning	<u>1,743</u>	<u>825</u>
Unencumbered Cash, Ending	<u>\$ 1,743</u>	<u>\$ 1,743</u>

\* - This fund is not required to be budgeted.

**City of Clay Center, Kansas**  
Statement of Cash, Cash Receipts and Disbursements  
Agency Funds  
For the Year Ended December 31, 2009

<u>FUNDS</u>	Beginning Cash <u>Balance</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Ending Cash <u>Balance</u>
Employee Health Insurance	\$ 309,835	\$ 694,803	\$ 766,341	\$ 238,297
Payroll Withholding Accounts	-	1,734,025	1,733,452	573
Police Court	<u>9,440</u>	<u>77,282</u>	<u>71,698</u>	<u>15,024</u>
Total Agency Funds	<u>\$ 319,275</u>	<u>\$ 2,506,110</u>	<u>\$ 2,571,491</u>	<u>\$ 253,894</u>

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

## CITY OF CLAY CENTER, KANSAS

Notes to the Financial Statements  
December 31, 2009

### NOTE 1 - Summary of Significant Accounting Policies

#### Financial Reporting Entity

The City of Clay Center (City) is a municipal corporation governed by a mayor and eight-member council. These financial statements present the City (the primary government) and exclude its component unit entities, of which the City is considered financially accountable. The excluded component units of the City are as follows:

Clay Center Recreation Commission  
Clay Center Public Library  
Clay Center Public Housing Authority

Separate component unit financial statements may be obtained directly from the above.

#### Basis of Accounting

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

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

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

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

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the City to use the prescribed basis of accounting.

#### Fund Descriptions

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

## CITY OF CLAY CENTER, KANSAS

Notes to the Financial Statements  
December 31, 2009

### NOTE 1 - Summary of Significant Accounting Policies (Continued)

#### Governmental Fund Types

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

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

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

The Permanent Fund – to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

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

The Capital Project Funds are used to account for the construction of major capital projects.

#### Proprietary Fund Types

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

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

#### Fiduciary Funds

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

#### Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

The statutes allow for the city council to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The 2009 budget was amended for the General and Employee Benefit Funds.

The statutes permit transferring budgeted amounts between accounts within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual

## CITY OF CLAY CENTER, KANSAS

Notes to the Financial Statements  
December 31, 2009

### NOTE 1 - Summary of Significant Accounting Policies (Continued)

#### Budgetary Information (Continued)

funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

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

A legal operating budget is not required for capital projects funds, agency funds, and certain special revenue funds.

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

#### NOTE 2 - Deposits

The City's cash is considered to be active funds by management and is deposited according to KSA 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located or in a county adjacent to the City and the banks provide an acceptable rate for active funds.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402.

#### NOTE 3 - Retirement Plan

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

*Funding Policy* - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate of 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded by an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 6.54% from January 1 to December 31, 2009. The employer contributions to KPERS for years ending December 31, 2009, 2008 and 2007 were \$152,809, \$141,590, and \$111,623 respectively, equal to the required contributions for each year.

**CITY OF CLAY CENTER, KANSAS**

Notes to the Financial Statements  
December 31, 2009

**NOTE 4 - Long-Term Debt**

During the year ended December 31, 2009, the following changes occurred in long term liabilities:

<u>Issue</u>	Balance January 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2009</u>	Interest <u>Paid</u>
Revolving Loan					
Waste Water	\$ 192,739	\$ -	\$ 29,727	\$ 163,012	\$ 5,227
Sewer Improvement	444,049	-	18,285	425,764	10,679
Water Treatment	753,245	5,664,782	252,997	6,165,030	23,231
General Obligation Bonds					
Series 1996 Waste Water	30,000	-	7,000	23,000	1,614
Series 1999 Street Improvement	65,000	-	65,000	-	3,250
Series 2001 Electric System	300,000	-	145,000	155,000	9,560
Series 2007 Street Improvement	625,000	-	50,000	575,000	22,828
Revenue Bonds					
Series 2003 Electric System	3,055,000	-	75,000	2,980,000	119,027
Capital Lease Obligation					
New Holand Payloader	50,459	-	16,004	34,455	2,529
Fire Equipment	68,555	-	15,960	52,595	3,104
Totals	<u>\$ 5,584,047</u>	<u>\$ 5,664,782</u>	<u>\$ 674,973</u>	<u>\$ 10,573,856</u>	<u>\$ 201,049</u>

*General Obligation Bonds.* The City issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

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

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of issue</u>	<u>Final Maturity</u>	<u>Amount of issue</u>	<u>Current Amount</u>
Series 1996 Waste Water	4.80%-5.45%	10/15/1996	10/1/2012	\$ 83,940	\$ 23,000
Series 1999 Street Improvement	4.45%-6.00%	7/1/1999	10/1/2009	615,000	-
Series 2001 Electric System	2.50%-4.25%	12/15/2001	1/1/2010	1,060,000	155,000
Series 2007 Street Improvement	3.50%-3.75%	10/1/2008	10/1/2018	625,000	575,000
				<u>\$ 2,383,940</u>	<u>\$ 753,000</u>

**CITY OF CLAY CENTER, KANSAS**

Notes to the Financial Statements  
December 31, 2009

NOTE 4 - Long-Term Debt (Continued)

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

Year Ending December 31,	Governmental Funds		Enterprise Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 50,000	\$ 21,078	\$ 162,000	\$ 7,830	\$ 212,000	\$ 28,908
2011	60,000	19,303	8,000	868	68,000	20,171
2012	60,000	17,172	8,000	436	68,000	17,608
2013	60,000	15,012	-	-	60,000	15,012
2014	-	-	-	-	-	-
2015-2019	<u>345,000</u>	<u>18,275</u>	<u>-</u>	<u>-</u>	<u>345,000</u>	<u>18,275</u>
	<u>\$ 575,000</u>	<u>\$ 90,840</u>	<u>\$ 178,000</u>	<u>\$ 9,134</u>	<u>\$ 753,000</u>	<u>\$ 99,974</u>

*Revenue Bonds.* The City also issues bonds where the income derived from the assets acquired is pledged to pay debt services. Revenue bonds outstanding at December 31, 2009 are as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of issue</u>	<u>Final Maturity</u>	<u>Amount of issue</u>	<u>Current Amount</u>
Series 2003 electric System	2.00%-4.40%	10/15/2003	1/1/2020	<u>\$ 3,200,000</u>	<u>\$ 2,980,000</u>

Revenue bond requirements to maturity are:

<u>Year Ending December 31,</u>	
2010	\$ 185,946
2011	346,001
2012	352,686
2013	353,504
2014	358,603
2015-2019	1,783,198
2020	<u>357,700</u>
Total principal and interest	3,737,638
Less: interest	<u>[757,638]</u>
Total principal	<u>\$ 2,980,000</u>

Bond Ordinances 2120 and 2150 provide for the form and details of the issuance of General Obligation Refunding Bond, Series 2001 and Electric System Revenue Bonds, Series 2003.

The ordinances provide for transfers each month equal to 1/6 of the interest and 1/12 of the bond principal to meet the bond maturity and interest payments one month prior to the payment date. The City was in compliance with this requirement at December 31, 2009.

**CITY OF CLAY CENTER, KANSAS**

Notes to the Financial Statements  
December 31, 2009

NOTE 4 - Long-Term Debt (Continued)

Ordinance No. 2120 requires that the Electric Utility Fund produce net revenues in an amount not less than 100% of annual debt service requirements on all outstanding bonds. For the year ended December 31, 2009, the City was in compliance with this requirement.

Ordinance No. 2120 also requires that the Electric Fund maintain a debt service coverage ratio of not less than 1.25. For the year ended December 31, 2009, the City of Clay Center was in compliance with this requirement.

Ordinance No. 2150 requires a debt reserve account in the amount of \$320,000 to be established upon receipt of the bond proceeds. The ordinance also requires the Electric Utility Fund establish a depreciation and replacement account in the amount of \$300,000. For the year ended December 31, 2009, the City was in compliance with these requirements.

*State Agency Loans.* The City has entered into three loan agreements with the Kansas Department of Health and Environment for improving the wastewater system and water treatment system in Clay Center. At December 31, 2009, the outstanding principal balance for the loans are as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of issue</u>	<u>Final Maturity</u>	<u>Amount of issue</u>	<u>Current Amount</u>
Waste Water	3.07%	10/20/1998	9/1/2014	\$ 425,053	\$ 163,012
Sewer Improvement	2.68%	5/24/2006	9/1/2027	464,521	425,764
Water Treatment*	3.36%	4/18/2007	2/1/2029	<u>7,800,000</u>	<u>6,165,030</u>
				<u>\$ 8,689,574</u>	<u>\$ 6,753,806</u>

\*Amortization schedule is not yet available for this loan as draws had not been completed as of 12/31/2009.

The following displays annual debt service requirements to maturity for loans payable to be paid from service revenues, for the full proceeds amount:

<u>Year Ending December 31,</u>	
2010	\$ 64,134
2011	64,134
2012	64,134
2013	64,134
2014	65,038
2015-2019	146,260
2020-2024	146,260
2025-2029	<u>88,125</u>
Total principal and interest	702,219
Less: interest	<u>[113,443]</u>
Total principal	<u>\$ 588,776</u>

**CITY OF CLAY CENTER, KANSAS**

Notes to the Financial Statements  
December 31, 2009

NOTE 5 – Leases

The City has entered into the following lease agreement as lessee for financing the acquisition of equipment:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of issue</u>	<u>Final Maturity</u>	<u>Amount of issue</u>	<u>Current Amount</u>
New Holand Payloader	4.90%	5/8/2007	5/8/2011	\$ 65,700	\$ 34,455
Fire Equipment	4.80%	9/27/2002	9/27/2012	150,000	52,595
				<u>\$215,700</u>	<u>\$ 87,050</u>

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2009, were as follows:

<u>Year Ending</u> <u>December 31,</u>	
2010	\$ 37,568
2011	37,598
2012	<u>19,006</u>
Total minimum lease payments	94,171
Less: amount representing interest	<u>[7,121]</u>
Present value of minimum lease payments	<u>\$ 87,050</u>

NOTE 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - Compensated Absences

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2009, the liability for accrued vacation pay was \$78,877.

**CITY OF CLAY CENTER, KANSAS**

Notes to the Financial Statements  
December 31, 2009

NOTE 8 - Interfund Transfers

A reconciliation of transfers by fund type for 2009 follows:

	<u>To</u>	<u>From</u>
General Fund	\$ 222,801	\$ 171,574
Pool Project Fund	5,000	-
Roof Improvements Fund	1,000	-
Street, Building, Machinery & Equipment Fund	155,000	-
Airport Fund	5,000	-
Special Improvement Fund	5,574	-
Electric Utility Fund	-	45,180
Water Utility Fund	-	508,419
Waste Water Utility Fund	315,236	-
Refuse Disposal Maintenance Reserve Fund	15,562	-
	<u>\$ 725,173</u>	<u>\$ 725,173</u>

NOTE 9 - Restatement

The beginning unencumbered cash balances have been adjusted for various amounts previously recorded as encumbrances in the prior year financial statements. The effects of which are as follows:

	<u>General</u>	<u>Waste</u>	<u>Water</u>	<u>Electric</u>
	<u>Fund</u>	<u>Water</u>	<u>Utility</u>	<u>Utility</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
Unencumbered Cash, Beginning	\$ 309,111	\$ 122,271	\$ 1,604,634	\$ 2,234,774
Prior period adjustment	<u>65,533</u>	<u>5,224</u>	<u>23,124</u>	<u>177,259</u>
Unencumbered Cash, Beginning (restated)	<u>\$ 374,644</u>	<u>\$ 127,495</u>	<u>\$ 1,627,758</u>	<u>\$ 2,412,033</u>

**City of Clay Center, Kansas**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Homeland Security</u>		
<u>Passed through the Kansas Division of Emergency Management</u>		
Public Assistance Grants	97.036	\$ <u>975,790</u>
Total U.S. Department of Homeland Security		<u>975,790</u>
<u>U.S. Department of Transportation</u>		
<u>Passed through the Kansas Department of Transportation</u>		
State and Community Highway Safety (STEP)	20.600	<u>1,762</u>
Total U.S. Department of Transportation		<u>1,762</u>
Total Federal Awards		<u>\$ 977,552</u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

## **CITY OF CLAY CENTER, KANSAS**

### Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2009

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of the City of Clay Center, Kansas. All expenditures of federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the Kansas prescribed basis of accounting which includes cash disbursements, accounts payable and encumbrances.

**City of Clay Center, Kansas**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended December 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

	Unqualified (Prescribed Basis) <u>Adverse (GAAP)</u>
Type of auditor's report issued:	
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes <u> X </u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes ___ No
Noncompliance material to financial statements noted?	___ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes <u> X </u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	___ Yes <u> X </u> None reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ Yes <u> X </u> No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.036	Public Assistance Grants

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
--	------------------

Auditee qualified as low-risk auditee?	___ Yes <u> X </u> No
--	-----------------------

**City of Clay Center, Kansas**  
 Schedule of Findings and Questioned Costs - Continued  
 For the Year Ended December 31, 2009

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>
N/A	2009-1	The City Clerk possesses a great deal of control over all record keeping function, including receipts, disbursements, and external reporting. Some segregation of duties is practiced and the City Council approves all disbursements which mitigates exposure from this condition	Internal controls should be put in place to provide reasonable assurance that accounting and reporting functions are performed by individuals with proper supervision and with appropriate segregation of duties.	N/A	We recommend that the City Council continue to develop internal controls whenever possible to segregate incompatible accounting and reporting functions.	In a situation where there is limited staff for accounting purposes, it is financially impractical to design and function with ideal internal controls. Significant responsibility and trust is placed on the City Clerk by the City Council. The Council is aware of the weakness in internal controls, and will continue to support the effort made to strengthen the controls when ever possible.
N/A	2009-2	The municipal court lacks a separation of physical control over cash accounting control over cash in dealing with bank reconciliations, cash receipts and cash disbursements.	Internal controls should be put in place to provide reasonable assurance that accounting and reporting functions are performed by individuals with proper supervision and with appropriate segregation of duties.	N/A	We recommend that the City Council continue to develop internal controls whenever possible to segregate incompatible accounting and reporting functions.	In a situation where there is limited staff for accounting purposes, it is financially impractical to design and function with ideal internal controls. The Council is aware of the weakness in internal controls, and will continue to support the effort made to strengthen the controls when ever possible.

**City of Clay Center, Kansas**  
 Schedule of Findings and Questioned Costs - Continued  
 For the Year Ended December 31, 2009

Section II - Financial Statement Findings - Continued

Prior Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	<u>Status</u>
N/A	2008-1	The City Clerk possesses a great deal of control over all record keeping function, including receipts, disbursements, and external reporting. Some segregation of duties is practiced and the City Council approves all disbursements which mitigates exposure from this condition	Internal controls should be put in place to provide reasonable assurance that accounting and reporting functions are performed by individuals with proper supervision and with appropriate segregation of duties.	N/A	We recommend that the City Council continue to develop internal controls whenever possible to segregate incompatible accounting and reporting functions.	In a situation where there is limited staff for accounting purposes, it is financially impractical to design and function with ideal internal controls. Significant responsibility and trust is placed on the City Clerk by the City Council. The Council is aware of the weakness in internal controls, and will continue to support the effort made to strengthen the controls when ever possible.	Repeat at 2009-1
N/A	2008-2	The Clay Center Public Utilities accounting department does not currently have staff with suitable skills and knowledge to process and record non-routine accounting transactions.	Accounting personnel should have adequate training and skills to be able to record all accounting transactions in a timely manner.	N/A	We recommend that the Public Utilities Commission consider hiring a staff person or consultant with adequate skills and training to strengthen internal control over financial reporting.	Although not uncommon in relatively small accounting departments, the Public Utilities Commission acknowledges this weakness and will consider all options to improve the accounting and internal control functions.	Resolved

Section III - Federal Award Findings and Questioned Costs

Current Year Findings

None noted

Prior Year Findings

None noted

---

---

# LOWENTHAL, WEBB & ODERMANN, P.A.

---

---

David A. Lowenthal, CPA  
Patricia L. Webb, CPA  
Audrey M. Odermann, CPA

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301  
Lawrence, Kansas 66044-2868  
Phone: (785) 749-5050  
Fax: (785) 749-5061  
Website: www.lswwcpa.com

Abram M. Chrislip, CPA  
Caroline H. Eddinger, CPA  
Grant A. Huddin, CPA  
Brian W. Nyp, CPA

Members of American Institute  
and Kansas Society of  
Certified Public Accountants

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

Mayor and City Council  
City of Clay Center, Kansas

We have audited the financial statements of the City of Clay Center, Kansas (the City) as of and for the year ended December 31, 2009, and have issued our report thereon dated July 20, 2010, which is a special report on the financial statements prepared in accordance with a basis of accounting prescribed by the State of Kansas. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

A 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 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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, listed as Finding 2009-1 and 2009-2. 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.

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's response and, accordingly, we express no opinion on the response.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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."

However we noted certain other matters that we reported to management of the City, in a separate letter dated July 20, 2010.

This communication is intended solely for the information and use of the mayor, city council and other members of management of the City of Clay Center, Kansas, the state of Kansas and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Lowenthal, Wett & Odemann, P.A.*

July 20, 2010

---

---

# LOWENTHAL, WEBB & ODERMANN, P.A.

---

---

CERTIFIED PUBLIC ACCOUNTANTS

900 Massachusetts, Suite 301  
Lawrence, Kansas 66044-2868  
Phone: (785) 749-5050  
Fax: (785) 749-5061  
Website: www.lswwcpa.com

David A. Lowenthal, CPA  
Patricia L. Webb, CPA  
Audrey M. Odermann, CPA

Abram M. Chrislip, CPA  
Caroline H. Eddinger, CPA  
Grant A. Huddin, CPA  
Brian W. Nyp, CPA

Members of American Institute  
and Kansas Society of  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council  
City of Clay Center, Kansas

We have audited the compliance of the City of Clay Center, Kansas (the City) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended December 31, 2009. Major federal financial programs are identified in the 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 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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of law, 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 our 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's 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 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 the 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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the mayor, city council and other members of management of the City of Clay Center, Kansas, the state of Kansas and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Lowenthal, Wett & Odermann, P.A.*

July 20, 2010