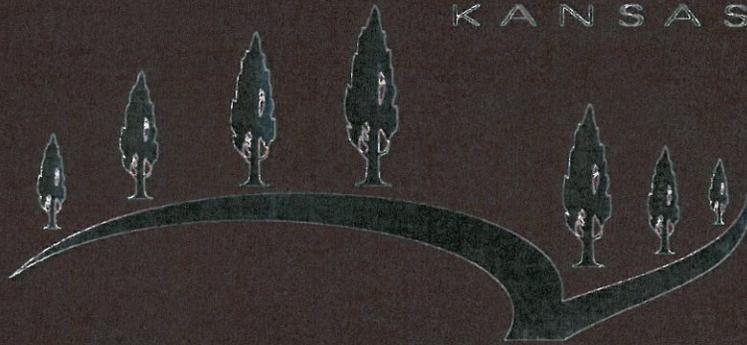


CITY OF  
**GARDNER**  
KANSAS



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended  
December 31, 2010

CITY OF GARDNER, KANSAS

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COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Prepared by:

Finance Department  
City of Gardner, Kansas

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2010

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CITY OF GARDNER, KANSAS

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120 E. Main, Gardner, Kansas 66030 (913) 856-7535

FINANÇE  
June 27, 2011

The Honorable Mayor, City Council, Citizens,  
Taxpayers, and Other Interested Parties of the  
City of Gardner, Kansas:

The Comprehensive Annual Financial Report (CAFR) of the City of Gardner (the City) for the fiscal year ended December 31, 2010 is hereby submitted. This is the seventh year that the City has prepared a CAFR, and staff has submitted this CAFR for a Certificate of Achievement for Excellence in Financial Reporting with the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe this report conforms to the Certificate of Achievement program requirements.

The report was prepared by the City's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the government. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City is responsible for establishing and maintaining internal control designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal requirements of Kansas Statutes. Activities of the General Fund, special revenue funds (unless exempted by a specific statute), enterprise funds, and the Debt Service Fund are included in the annual appropriated budget, as required by Kansas Statutes. Spending in funds which are not subject to said Statutes are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Kansas Statutes Annotated 75-1122 requires an annual audit of the accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants. The accounting firm of Berberich Trahan & Co., P.A. was selected by the City Council. The auditor's report on the financial statements is included in the Financial Section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

### **Profile of the Government**

The City of Gardner was established on March 16, 1858 and came under the jurisdiction of the State of Kansas in 1861. The City was incorporated as a Municipal Corporation of the third class in January 1887 and as a Municipal Corporation of the second class in December 2002. The City is located in Johnson County, Kansas, along Interstate 35, about 30 miles southwest of downtown Kansas City, Missouri. Johnson County, Kansas is considered to be one of the top growth areas in the state, and one of the top growth areas in the country. The result of the 2010 census shows that Johnson County overtook Sedgwick County as the largest county in Kansas. Because of Gardner's location on the edge of the Kansas City metropolitan area, it serves as a suburban rural living area for individuals employed in the metropolitan area and also continues to serve the surrounding rural agricultural community.

The City has a Mayor-Council-Administrator form of government. There are five members of the City Council; the Mayor and Council Members are elected on an at-large ballot to serve a four-year term on a staggered basis.

The City provides a full range of services including police protection through its Police Department, fire services through Johnson County Fire District No.1, and ambulance services through Johnson County Med-Act. The City also provides municipal electric, water, and wastewater services, street maintenance, and engineering through its Public Works department. Other City of Gardner services include: planning, zoning, and codes enforcement, comprehensive parks and recreational activities and facilities, and general administrative services.

The Governmental Accounting Standards Board has established the criteria to determine the financial reporting entity for a municipal government's financial report. This criterion is used to examine the relationship of the City to other associated but legally separate entities to determine if their inclusion in this report would be necessary to fairly present the financial position of the City. This criterion generally has to do with the financial benefit or burden and levels of influence over the activities of these associated, but legally separate, entities.

Using said criterion, it was determined that the City has both a blended component unit and a discretely presented component unit. The blended component unit - the Public Building Commission (PBC) - although a legally separate entity, is, in substance, part of the City's operations. The discretely presented component unit is the Airport Association, which operates the municipal airport.

### *Economic Condition and Outlook*

In the past decade, Gardner has been recognized as having the highest percentage of growth among Kansas communities with a population greater than 10,000. With its location on Interstate 35, and on a major rail transit route, and adjacent to New Century AirCenter, a premier multi-modal business park, the City benefits from a unique combination of interstate, air and rail infrastructure.

Currently, Gardner is approximately 10.18 square miles in size. In 2010 the City installed 5.8 miles of new streets, .5 miles of new storm sewer, .49 miles of water lines, and .25 miles of new overhead electric distribution and transmission lines.

Although Gardner continues to struggle with the national downturn in new home construction, the City did experience its best numbers in building permits since 2006. There were twelve subdivisions with housing construction activity. The number of building permits for single-family home construction increased from 56 in 2009 to 76 in 2010, and multi-family unit construction increased from 28 in 2009 to 168 in 2010.

The City welcomed an estimated 523 new residents to the community or about 1.4 new neighbors a day on average. According to the 2010 Census, there are 19,120 people who now call Gardner home. This is an 18% increase from just five years ago, where the number of Gardner citizens was about 16,199, and a 103.5% increase from the last census in 2000.

Even with a decrease in City assessed valuation of 3.4% from 2009 to 2010, the City still experienced assessed valuation growth of 38% since 2006 and 187% since 2001. Wealth levels and housing values exceed state averages, and Johnson County's 2010 unemployment rate at 6.5% was comparable to the state's rate of 6.4%, yet far less than the national unemployment rate of 9.6%.

Although the City's financial decline reflected the regional and national economic downturn, the City exhibited proactive and prudent management practices to mitigate the impact of revenue shortfalls caused by simultaneously declining building permits and declining property and sales tax. City management recognized the beginning of the downturn in 2007, and responded by delaying several capital projects and large, one-time purchases. Even with this foresight, the City continued to experience the repercussions of the economic downturn. In 2008, the City took further steps by reducing pay increases for employees, freezing 8 vacant positions and utilizing \$1,000,000 in reserves. In 2009, the City utilized brainstorming committees and successfully presented savings of over \$400,000 for consideration. The City also implemented a wage freeze, reduced the level of health insurance benefits, and eliminated some of the aforementioned vacant positions.

Despite the continuous diligence and proactive management practices, the City continued to face significant shortfalls due to the decrease and delinquencies of property taxes. In 2010, the City expanded cuts to line item expenses, continued the wage freeze for employees, and again delayed capital improvement projects. After much consideration and exhausting all other avenues to stabilize the budget, the City faced the most difficult budgetary decision to date and laid off six employees. These employees were chosen from the Community Development Department which had been experiencing slower activity due to decreased construction and development activities.

Although difficult, the decisions had to be made and subsequent reports have proven the City's financial health is satisfactory. The City received a 2-step increase in its debt rating from A2 to Aa3 when Moody's adopted its "Global Scale" earlier in 2010 wherein municipal debt was rated in the same manner as corporate debt. In a bond rating report prepared by Moody's for the City's August 2010 debt sale, Moody's wrote that despite the economic downturn, they anticipated Gardner's tax base will remain relatively stable due to its location in Johnson County which is considered a part of the Kansas City metropolitan area. Moody's noted that Gardner's medium sized \$1.1 billion tax base has grown at a rapid pace during the past decade. Moody's explained in their report that although overall growth has slowed, continued commercial growth is expected because BNSF Railway Company is currently constructing a 1,000 acre intermodal and warehousing facility in the neighboring city of Edgerton. Although the facility is not in the Gardner city limits, the entire region is expected to benefit from the additional jobs that will be created when the industrial park is completed.

In the same report, Moody's noted their expectation that the City's financial health will remain satisfactory despite recent draws upon reserves. Further, Moody's stated that although the City posted consecutive years of operating deficits between fiscal years 2005 and 2009, the City still maintained a satisfactory General Fund balance.

Aside from the economic downturn challenges, The City of Gardner continues to be a prosperous community. Gardner possesses excellent schools, affordable housing, sound management and governing body leadership, and a strong community spirit. With each of these attributes, Gardner is certain to prevail even in these times of economic turbulence.

### 2010 Major Initiatives

Despite difficult economic times, the City was able to focus on several large and important transportation projects in 2010. The City started construction of the long awaited Moonlight Road project in late 2009 and work continued through 2010. The project will widen approximately a mile-long section of Moonlight Road from two lanes to four lanes from 167th Street to Warren including associated storm sewer improvements, a 10-foot wide pedestrian/bike trail, street lighting, landscaping and also includes major improvements to the City's largest intersection at Moonlight and US Highway 56. After many months of work, traffic on Moonlight Road was opened to the new lanes. Items left to complete construction are sidewalk and trail installation, completion of driveway entrances, retaining walls, tree plantings, minor storm sewer work, street lighting, seeding and sodding, and work by BNSF to lower the tracks and smooth the crossing are all scheduled to occur during the winter and spring of 2011.

With funds from the federal government's American Resources and Reinvestment Program of 2009, Old 56 Highway and 56 Highway intersection was upgraded to improve the safety of the intersection. The project consisted of installation of a traffic signal and a modified tee intersection, concrete medians, an eastbound right turn lane, pavement markings, and signage.

The City, with help from the Johnson County CARS program, fully reconstructed Madison Street between Center and Cherry Streets and also a mill and overlay between Cherry Street and the White Drive intersection. The project also included relocating the mid-block school crossing to the school campus to the Spruce Street intersection.

The City used a \$100,000 grant (from federal Community Development Block Grant funding) to partially fund storm water improvements in the Parma Subdivision. This project is generally located at Moonlight Road and Valerie Lane, and included installation of approximately 800 feet of storm sewer with inlets and junction boxes and grading to improve rear yard drainage in the Parma Subdivision.

In addition to transportation related projects in 2010, the City entered into a contractual agreement with Johnson County Fire District No.1 to provide all fire services to the City of Gardner. This also included the acquisition of the City's Fire Station #2 on 183rd Street along with fire equipment and vehicles. The Fire District hired Gardner Public Safety officers that specialized in fire operations as part of the agreement. The agreement is for an initial three year term, at which time both parties have agreed to a study to determine if the contractual arrangement will continue or formally consolidate to the Fire District.

### **Future/Planned Initiatives**

As a result of the economic downturn, future capital projects are minimal. However, with the BNSF Intermodal facility under construction in the neighboring city of Edgerton, City officials expect an increase in commercial activity.

The City will implement the 183rd Street improvement project through the 2011 County Assistance Road System (CARS) program. The County will reimburse the City for 50% of project construction costs up to a maximum of \$343,000. In addition to CARS funding, the City secured \$50,000 from a Community Development Block Grant for the project. The project scope includes full depth reconstruction, shoulder construction, and ditch grading for the section of 183<sup>rd</sup> Street between Gardner Road and approximately Mulberry Street. The scope also includes an asphalt overlay, ditch grading and shoulder construction for the eastern half mile, which is between approximately Mulberry Street and Moonlight Road.

In 2011, the City of Gardner will receive a grant from the Kansas Department of Transportation (KDOT) Corridor Management Program for funding the construction of the Main Street and Center Street Intersection improvements project. Construction will include the addition of east-west turn lanes on US 56, right turn lanes on Center Street, traffic signal modification, traffic control, pavement markings, and associated site improvements. The grant will pay for one-hundred percent of the total actual cost of construction for a maximum of \$870,000. The City will be responsible for funding engineering, right-of-way acquisition, utility adjustments, and construction engineering.

Other projects expected to be completed in 2011 is maintenance and painting of water storage facilities at both the 183rd Street water tower and water storage facilities in the downtown area. This project includes painting the exterior of the 183<sup>rd</sup> Street water tower, painting the interior of the downtown standpipe, and completing several safety upgrades and repairs at both locations. The 2011 Water Treatment budget includes \$337,000 for these projects.

The City has partnered with Johnson County to implement the Gardner Lake spillway project. The preliminary engineering study was subsequently submitted to the Johnson County Stormwater Management Program (SMP), and the SMP approved funding for design in 2011 and construction in 2012. The City's share of this project is \$760,000 funded from the Water Fund. The SMP funds 75% of construction and engineering costs. The City is responsible for the remainder of costs plus land acquisition and the cost of flood proofing up to seven houses that cannot be removed from the FEMA floodplain limits.

### **Financial Planning**

The City expects 2011 and 2012 to be difficult years due to continued revenue shortfalls resulting from the struggling economy. As previously noted, the City began cost-cutting measures in 2008. The 2009, 2010 and 2011 budgets contained no wage increases, continued reduced employee benefits, further reduced line item expenses, and continued to delay capital improvement projects other than the aforementioned projects that are urgently necessary and and/or funded from outside grants.

In the City's main fund for services, the General Fund – which covers Parks and Recreation, Public Works, Finance, Community Development, and the Police and Administration departments – the 2011 budgeted expenditures were reduced another 5% less than the 2010 budget. Previously, 2010 expenditures were reduced 7% from 2009, and 2009 expenditures had been reduced 7% from 2008. The 2011 budgeted expenditures represent a total decrease of 17.9% from 2008.

The 2011 budget included a 6.5 mill increase for the Debt Service Fund to cover a revenue shortfall projected to last through 2016 due to large, delinquent special assessments attributed to developers' cash flow challenges and bankruptcies resulting from decreased building activity. The City's building activity has seen a staggering drop of 84% from a high of 443 single-family permits in 2004 to 70 single-family permits in 2010. Some of the decline in single-family construction was offset in 2010 by construction of a new apartment complex containing 168 units. Projections for the 2011 budget were for 61 single-family homes; that estimate has recently been reduced to 35. The decrease in development activity combined with the decline in valuation has been the impetus for the continuing reduction in expenditures.

The City continues to assess its utility rates in relation to current and future costs. In recent years, the City had to start transferring money from operating revenues to debt service to cover declining growth-related revenues caused by the significant decrease in new construction. Consequently, the water line replacement program has been curtailed until 2014. Most of the budgeted expenditures in the Water Fund are to pay for the City's share of the aforementioned grant-funded projects. The Wastewater Fund is in a similar situation; line replacements are curtailed until 2016. The 2011 budget included a 5% water rate increase and an 8% wastewater rate increase; there was no increase to the electric rates. The average impact for both increases is approximately \$73 a year, or \$6.08 per month for an average household in Gardner.

In the City's other funds, there are also significant impacts especially related to capital improvements. There are no park projects planned as monies designated for park improvements are being used to offset inadequate sales tax revenue used for debt payments for Celebration Park and the Aquatic Center. Most future capital projects have been reduced or delayed until such time as funds become available. There are very limited dollars for road maintenance and much of the available money is needed to cover the City's share of the aforementioned grant-funded Center Street and Main Street intersection project.

The City Council will again face tough decisions regarding how to fund services as it faces the 2012 budget process. In addition to the elimination or delay of infrastructure improvements and possible future utility rate increases, deliberation will also include considering increasing the mill levy to fund 3 additional police officers to offset staffing challenges and a decreased officer-to-citizen ratio caused by the departure of 9 public safety officers as part of the new fire services contract. Other discussion will occur regarding employee position reclassification and compensation and possible changes to the City's health insurance options.

**Acknowledgements**

The preparation of this report could not have been accomplished without the support and cooperation of the Governing Body, Administration, other City departments, external auditors, and the efficient, dedicated efforts of the entire staff of the Accounting Department. A significant amount of information provided in this letter was gleaned from City newsletters prepared by Interim City Administrator Melissa Mundt. In addition, Tom Riederer of the Southwest Johnson County Economic Development Corporation significantly contributed to the Statistical section of this document. Credit must be given to the Governing Body for their unfailing support for maintaining the highest standards of professionalism in the management of Gardner's finances.

Sincerely,



Melissa Mundt  
Interim City Administrator

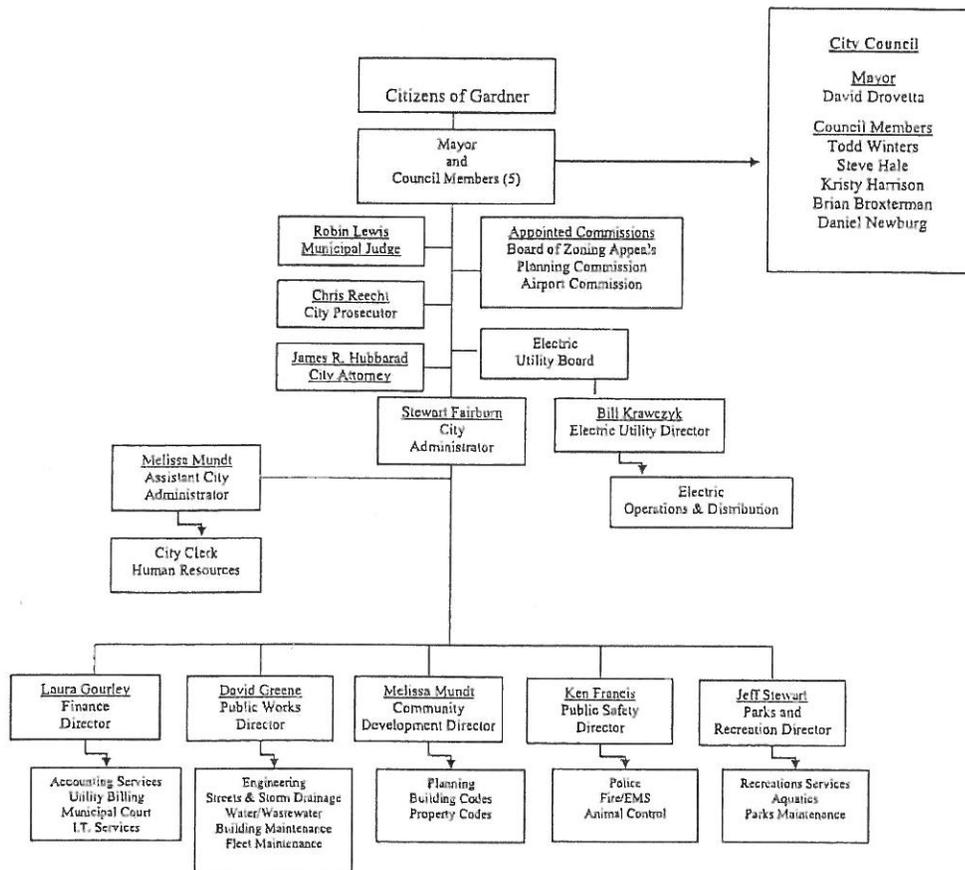


Laura Gourley  
Finance Director

CITY OF GARDNER, KANSAS

ORGANIZATIONAL CHART

December 31, 2010



City of Gardner, Kansas  
List of Elected and Appointed Officials  
December 31, 2010

Elected Officials

		<u>Term of Office</u>
Mayor	David Drovetta	2009-2013
Council President	Todd Winters	2007-2011
Council Vice President	Steve Hale	2009-2011
Councilmember	Kristy Harrison	2010-2013
Councilmember	Brian Broxterman	2010-2013
Councilmember	Daniel Newburg	2010-2011

Appointed Officials

City Administrator	Stewart Fairburn
Assistant City Administrator/Community Development Director	Melissa Mundt
Municipal Judge	Robin Lewis
City Prosecutor	Chris Reece
City Attorney	James R. Hubbard
Finance Director	Laura Gourley
Public Works Director	David Greene
Public Safety Director	Ken Francis
Parks and Recreation Director	Jeff Stewart

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gardner  
Kansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF  
**GARDNER**  
KANSAS



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended  
December 31, 2010

FINANCIAL SECTION

FINANCIAL SECTION



BERBERICH TRAHAN & CO., P.A.

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, City Administrator  
and City Council  
City of Gardner, Kansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and applicable provisions of the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. The financial statements of the Airport Association were not audited in accordance with *Government Auditing Standards*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd., Topeka, KS 66611-2050  
785-234-3427 toll free 800-530-5526 785-233-1768  
btandco@pa.com

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McGladrey

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2011, on our consideration of the City's internal control over financial reporting and on 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.

The Management's Discussion and Analysis on pages 3 through 16 and the Schedule of Funding Progress on page 73 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Berberich Trahan & Co., P.A.*

June 27, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Gardner (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of 2010 by \$92,906,720 (*net assets*). Of this amount, \$13,152,025 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$7,906,287 from the prior year.
- As of the close of 2010, the City's governmental funds reported combined ending fund balances of \$2,746,920. Approximately 83 percent of this total amount, \$2,295,331, is unreserved fund balance available for spending at the City's discretion.
- At close of the current fiscal year, unreserved fund balance for the general fund was \$3,058,934 or 28 percent of the total general fund expenditures of \$11,057,581.
- The City's investment in capital assets net of accumulated depreciation increased \$1,874,405.
- The City's long-term debt decreased by \$5,213,995 from the prior year. A combination of aggressive debt retirement, few new projects, and a new contractual agreement for Johnson County Fire District # 1 to provide fire services and purchase the City's fire station and aerial truck contributed to the decrease.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City's financial report consists of the following parts:

- Management's discussion and analysis;
- The basic financial statements, which include the government-wide and the fund financial statements, along with the notes to the basic financial statements;
- Combining and individual statements and schedules for nonmajor funds
- Statistical section

The basic financial statements of the City include the government-wide financial statements and the fund financial statements. The notes to the financial statements follow the basic financial statements and are essential for the reader's understanding of the financial statements. Other supplementary information, including the statistical section, is also included at the end of this report to provide additional information for the reader.

### ***Government-wide Financial Statements***

The government-wide financial statements present the results of the City's operations using the accrual basis of accounting, the basis of accounting used by private-sector businesses. These statements focus on the long-term financial picture of the City as a whole.

The *Statement of Net Assets* reports all of the City's assets and liabilities. Net assets, the difference between assets and liabilities, are an important measure of the City's overall financial health. Over time, the increases and decreases in net assets can be monitored to determine whether the City's financial position is improving or deteriorating.

The *Statement of Activities* shows how the net assets have changed during the fiscal year. The unique feature of this statement is how it shows the revenues and expenditures related to specific programs and how much of the programs were supported by the general taxes of the City. Since this statement is prepared on the accrual basis of accounting, all revenues and expenditures are included, regardless of when cash is actually received.

Both statements show the operations of the City broken down by governmental activities and business-type activities. Governmental activities are the operations of the City generally supported by taxes, such as public works, public safety, parks and recreation, and general administration. Business-type activities are operations of the City that are intended to recover all or a significant portion of their costs through user fees and charges. These consist of the four utilities the City operates: electric, water, wastewater, and stormwater.

### ***Fund Financial Statements***

The City uses three types of funds to manage its resources: Governmental Funds, Proprietary Funds, and Fiduciary Funds. A fund is a fiscal entity with a set of self-balancing accounts recording financial resources, together with all related liabilities and equity, and the changes therein. These accounting entities are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions, or limitations.

*Governmental Fund* financial statements are prepared on the modified accrual basis. Under the modified accrual basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and other similar items, which are recorded when due. The focus, therefore, is on the short-term financial picture of the operations reported rather than the City as a whole. Most of the City's basic operations are reported in the Governmental Fund financial statements. The information reported in these statements can be compared to the governmental activities information in the government-wide statements. The reconciliation at the end of the fund financial statements details the relationship between the two types of financial statements.

The City maintains 39 individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, Kill Creek Sewer fund, 175<sup>th</sup> & Moonlight Intersection and North Moonlight, all of which are considered to be major funds. Data from the other 34 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

*Proprietary Funds* are used by the City to account for activities that operate similar to commercial enterprises found in the private sector. Funds that charge fees for services provided to outside customers including other local governments are called Enterprise Funds. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Funds that charge fees for services provided to departments within the reporting government are known as Internal Service Funds. Proprietary Funds use the accrual basis of accounting; thus, the only reconciling items needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements relate to the elimination of internal service fund activity.

The City has four enterprise funds: Electric Fund, Water Fund, Wastewater Fund and the Storm Water Fund. The City has four Internal Service Funds: Risk Management Fund, Information Technology Services Fund, Building Maintenance Fund, and the Utility Billing Services Fund. The Electric Fund, Water Fund, and Wastewater Fund are the only funds being considered major funds for presentation purposes.

*Fiduciary Funds* are used by the City to account for resources held by the City for the benefit of a third party. Because the resources of these funds are not available for the City's operations, they are not presented in the government-wide financial statements.

#### ***Notes to the Financial Statements***

The notes to the financial statements are an integral part of the basic financial statements because they contain valuable additional information necessary for gaining a complete understanding of the City's financial statements.

#### ***Other Information***

In addition to the financial statements and the notes described above, required supplementary information concerning the City's progress in funding its obligation to provide postemployment benefits to its employees and supplementary information regarding non-major funds have been included to give the reader further information.

## ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

### *Analysis of Net Assets*

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities (net assets) by \$92,906,720 at the close of 2010. The City's net assets increased by \$7,906,287 from the prior year, with governmental activities accounting for \$4,686,691 of the increase, and business-type activities accounting for \$3,219,596 of the increase.

#### City of Gardner, Kansas Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$25,488,047	\$27,168,891	\$11,211,796	\$9,425,272	\$36,699,843	\$36,594,163
Capital assets	54,347,647	49,645,331	90,016,682	92,844,593	144,364,329	142,489,924
Total assets	<u>79,835,694</u>	<u>76,814,222</u>	<u>101,228,478</u>	<u>102,269,865</u>	<u>181,064,172</u>	<u>179,084,087</u>
Long-term liabilities	33,107,526	34,126,037	43,730,341	47,885,892	76,837,867	82,011,929
Other liabilities	9,831,402	10,478,110	1,488,183	1,593,615	11,319,585	12,071,725
Total liabilities	<u>42,938,928</u>	<u>44,604,147</u>	<u>45,218,524</u>	<u>49,479,507</u>	<u>88,157,452</u>	<u>94,083,654</u>
Net assets:						
Invested in capital assets, net of related debt	17,247,111	11,427,079	46,462,027	45,202,862	63,709,138	56,629,941
Restricted for:						
Debt service	12,728,810	13,655,355	-	-	12,728,810	13,655,355
Capital projects	428,182	-	-	-	428,182	-
Streets	2,260,553	3,191,593	-	-	2,260,553	3,191,593
Capital Improvements	199,522	776,998	-	-	199,522	776,998
Other purposes	428,490	373,364	-	-	428,490	373,364
Unrestricted	<u>3,604,098</u>	<u>2,785,686</u>	<u>9,547,927</u>	<u>7,587,496</u>	<u>13,152,025</u>	<u>10,373,182</u>
Total net assets	<u>\$36,896,766</u>	<u>\$32,210,075</u>	<u>\$56,009,954</u>	<u>\$52,790,358</u>	<u>\$92,906,720</u>	<u>\$85,000,433</u>

The largest portion of the City's net assets (69 percent) reflects its investment of \$63,709,138 in capital assets (e.g., land, buildings, infrastructure, construction in progress, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending.

An additional \$16,045,557 of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net assets of \$13,152,025 (\$3,604,098 governmental activities and \$9,547,927 business-type activities) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

*Analysis of Changes in Net Assets*

As stated earlier, the City's net assets increased by \$7,906,287 during the 2010 fiscal year. The following table reflects the revenues and expenses for the City's activities for the year ended December 31, 2010, and illustrates the comparison between 2010 and the prior year:

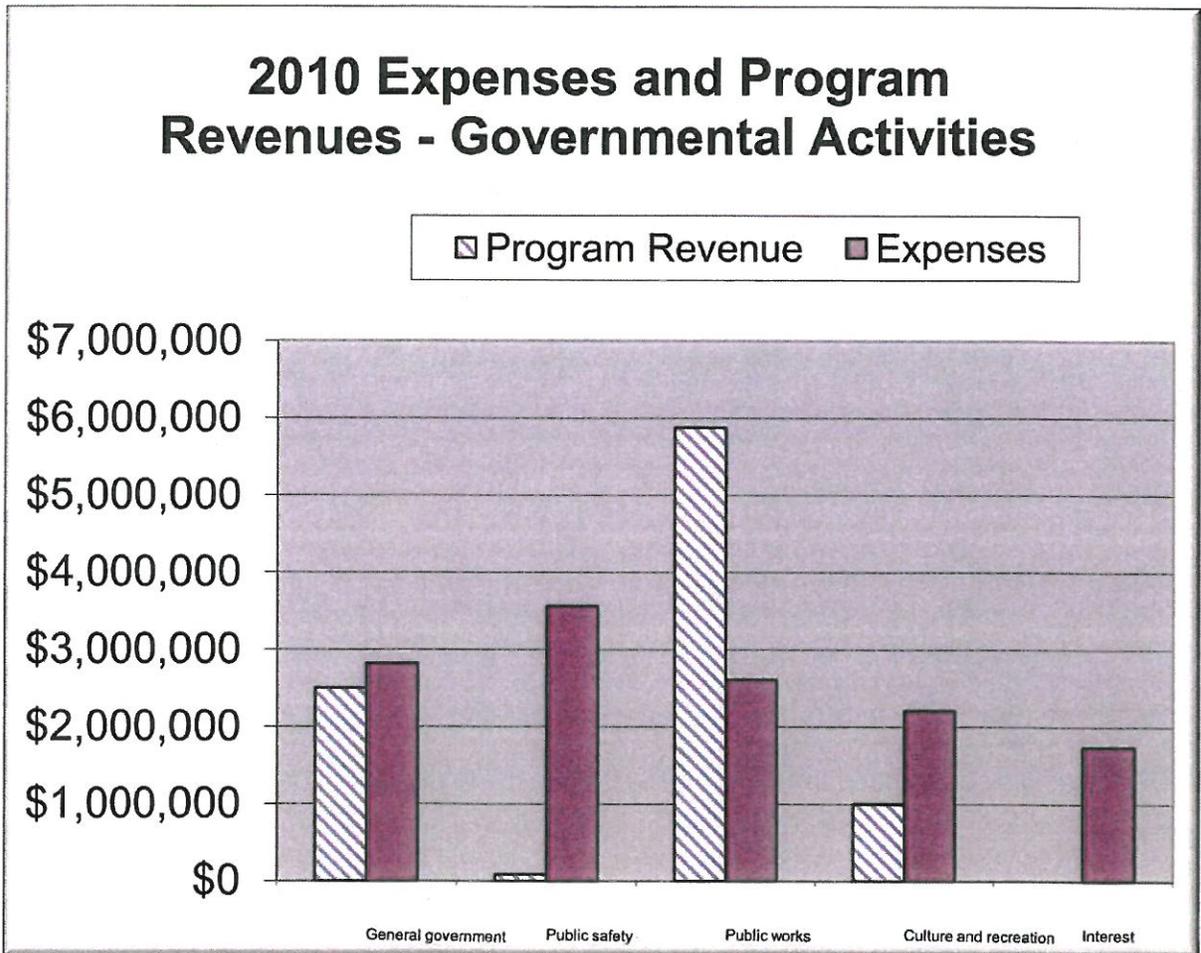
	City of Gardner, Kansas Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$1,482,965	\$1,575,790	\$22,327,315	\$19,017,881	\$23,810,280	\$20,593,671
Operating grants and contributions	2,579,475	2,514,392	-	-	2,579,475	2,514,392
Capital grants and contributions	5,400,696	7,240,013	78,263	506,591	5,478,959	7,746,604
General Revenues:						
Property taxes	3,798,207	3,788,866	-	-	3,798,207	3,788,866
Sales taxes	2,821,088	2,696,984	-	-	2,821,088	2,696,984
Franchise taxes	380,715	396,100	-	-	380,715	396,100
Excise taxes	95,710	456,384	-	-	95,710	456,384
Transient guest tax	29,338	34,702	-	-	29,338	34,702
Other	3	-	37,070	156,366	37,073	156,366
Unrestricted Investment earnings	49,690	49,100	38,020	28,208	87,710	77,308
Gain on sale of assets	2,095	-	-	-	2,095	-
Total Revenue & transfers	16,639,982	18,752,331	22,480,668	19,709,046	39,120,650	38,461,377
<b>Expenses:</b>						
General government	2,822,418	3,164,663	-	-	2,822,418	3,164,663
Public safety	3,565,455	3,567,111	-	-	3,565,455	3,567,111
Public works	2,614,530	2,674,913	-	-	2,614,530	2,674,913
Culture and recreation	2,211,773	2,271,682	-	-	2,211,773	2,271,682
Interest on long-term debt	1,742,427	1,843,829	-	-	1,742,427	1,843,829
Electric	-	-	11,572,594	9,911,349	11,572,594	9,911,349
Water	-	-	2,952,669	2,874,987	2,952,669	2,874,987
Wastewater	-	-	3,661,411	3,678,278	3,661,411	3,678,278
Stormwater	-	-	71,086	70,817	71,086	70,817
Total Expenses	12,956,603	13,522,198	18,257,760	16,535,431	31,214,363	30,057,629
Increase in net assets before transfers	3,683,379	5,230,133	4,222,908	3,173,615	7,906,287	8,403,748
Transfers	1,003,312	546,714	(1,003,312)	(546,714)	-	-
Increase in net assets	4,686,691	5,776,847	3,219,596	2,626,901	7,906,287	8,403,748
Net assets, Jan 1	32,210,075	26,433,228	52,790,358	50,163,457	85,000,433	76,596,685
Net Assets, Dec 31	\$36,896,766	\$32,210,075	\$56,009,954	\$52,790,358	\$92,906,720	\$85,000,433

**Governmental Activities**

Governmental revenues decreased by \$2,112,349 from the prior year. This decrease is primarily due to decreases in capital grants and contributions (\$1,839,317) and excise tax revenues (\$360,674). As the City charges excise tax on platting activities, revenues are down as a result of the slowdown in the economy. These decreases were somewhat offset by increases in sales taxes (\$124,104) and operating grants and contribution (\$65,083) revenues.

Total governmental expenses decreased by \$565,595 from the prior year. The City exercised fiscal restraint of spending by restricting hiring and travel, and continuing salary freezes implemented in 2009. Overall, expenses in all areas decreased.

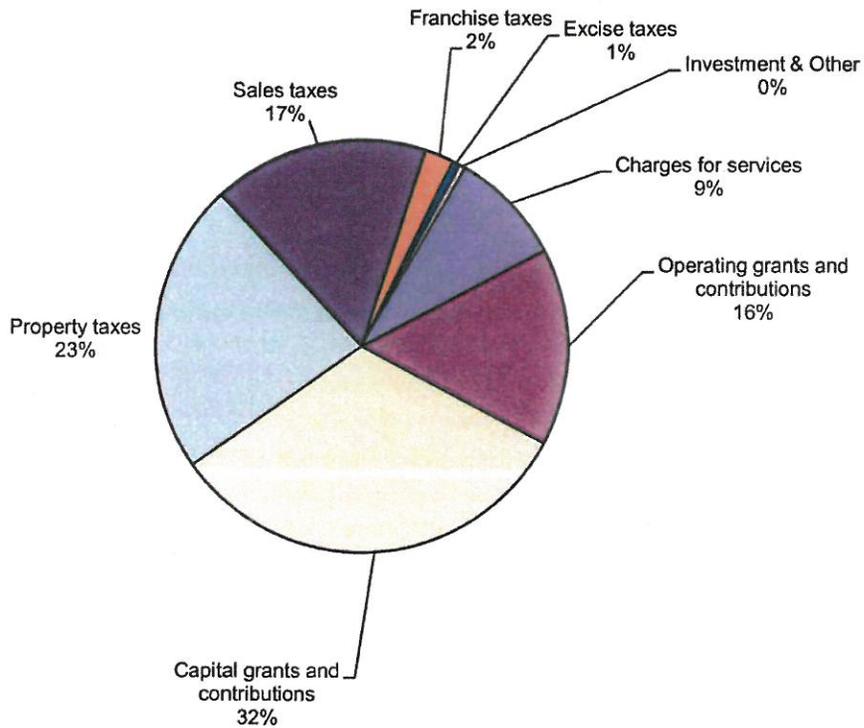
The chart below illustrates how the City's various governmental activities program revenues vs. program expenses fared in 2010.



General government program revenues include the amount of building permit and related inspection fees, special assessment mowing, miscellaneous airport revenue, as well as fines and forfeitures collected by the Municipal Court department during the year.

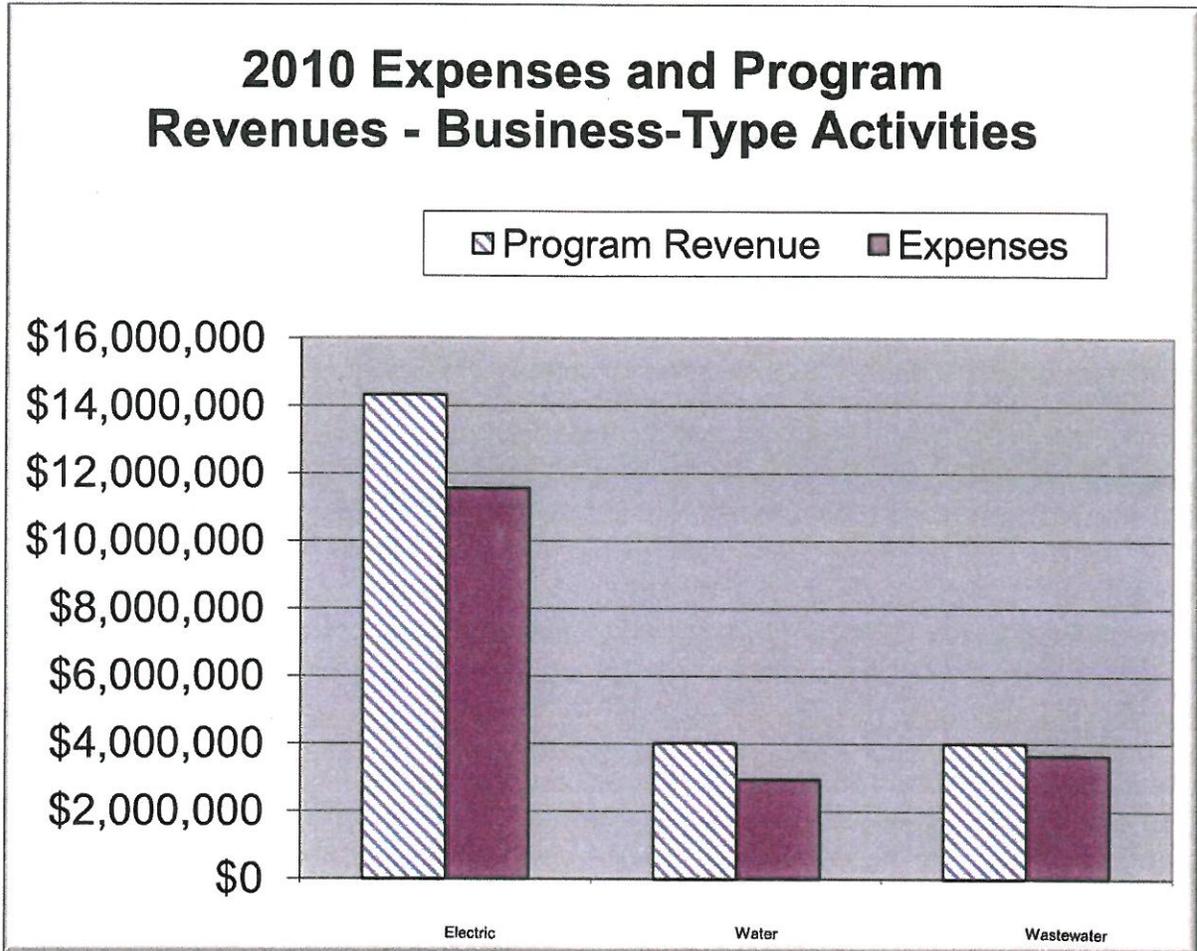
Overall program and general revenues for the City's governmental activities are:

## Revenues by Source - Governmental Activities

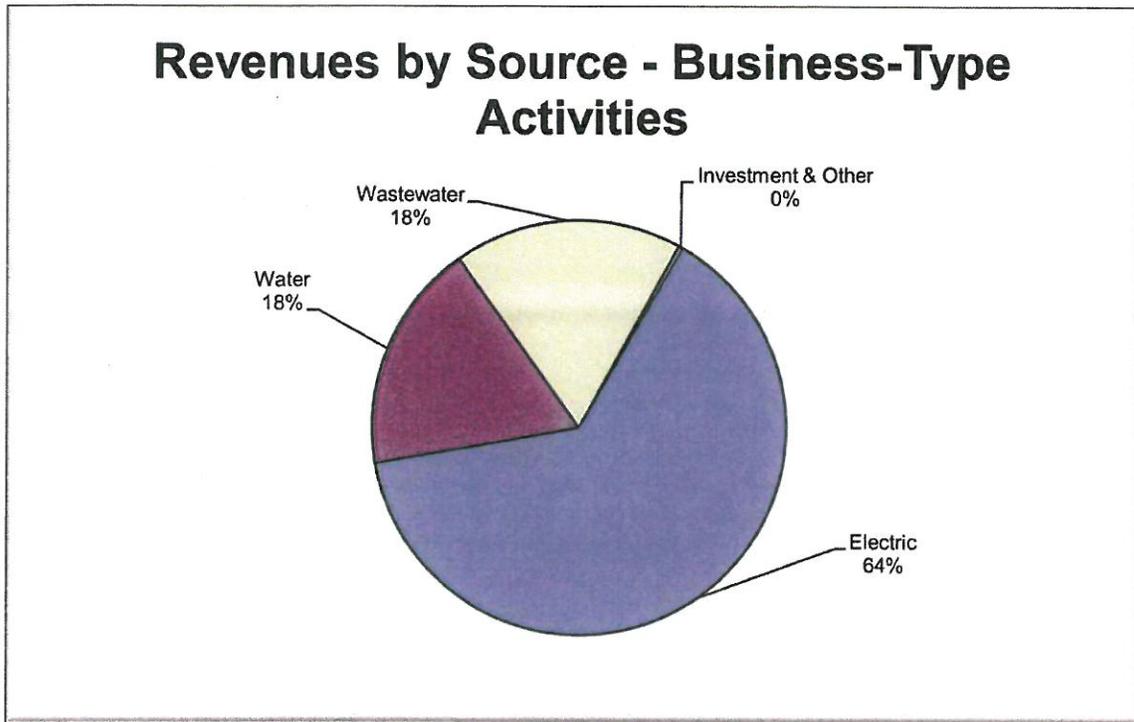


*Business Type Activities*

Business-type activities experienced a small overall increase in net assets since the prior year. The City implemented utility rate increases of 5% in water rates and an 8% increase to the wastewater base rate; electric rates were unchanged. The program revenues vs. program expenses for business-type activities chart below illustrates an overall increase in net assets for electric, water, and wastewater.



Overall program and general revenues for the City's business type activities are:



#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### *Governmental funds*

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of 2010, the City's governmental funds reported combined ending fund balances of \$2,746,920, a decrease of \$73,238 in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of 2010, the fund balance of the General Fund was \$3,059,184. Fund balance represents 28% of total General Fund expenditures of \$11,057,581. This year's fund balance represents an increase of \$400,668 over the previous year's balance. This increase is largely due to a City Council decision to cancel capital projects and make a budgeted transfer of \$400,000 to the General Fund for the purpose of increasing fund balance.

The debt service fund has a fund balance of \$105,384. This is an increase of \$27,361 from the prior year. This is attributed to increased taxes receivable caused by the City's increase to the debt service mill levy by 6.5 mills to cover the short fall caused by delinquent special assessments unpaid by developers suffering the effects of the poor economy.

Kill Creek Sewer has a fund balance of (\$3,919,387). At the end of the current fiscal year, the balance increased by \$72,372 which further increased the negative fund balance. The increase is due to debt service expenditures. This capital project was completed in 2009, for which permanent financing has not yet become available.

The 175<sup>th</sup> & Moonlight Intersection and North Moonlight are two components of the same large street construction project with a combined fund balance of \$596,120. They are new major governmental funds in 2010 because of the projects increased assets and expenditures from the prior year. The capital project is projected to be completed in 2011.

### ***Proprietary funds***

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

At the end of 2010, unrestricted net assets for the business-type activities amounted to \$9,547,927, an increase of \$1,960,431.

The Electric Fund had total net assets of \$27,370,886 at the end of 2010. This is an increase of \$2,065,414 from the previous year. The key component of this increase is an increase in operating income before transfers of \$2,806,783.

The Water Fund had total net assets of \$15,784,555 at the end of 2010. This is a decrease of \$18,378 from the previous year. This is attributable to a \$1,000,000 transfer of funds to the Sewer Fund, which was mostly offset by an increase in operating income.

The Wastewater Fund had total net assets of \$12,178,142 at the end of 2010. This is an increase of \$1,187,082 from the previous year. Key components of this increase include an increase in operating revenue for charges for sales and services of \$944,922 compared to the prior year and the aforementioned transfer from the Water Fund of \$1,000,000.

The City's Internal Service Funds had total net assets of \$46,015 at the end of 2010.

### ***Fiduciary funds***

The City maintains a fiduciary fund for the assets of the Alcohol Safety Action Program. This fund accounts for the amount collected from municipal court to be remitted to the State of Kansas. At the end of 2010, the assets of the fund were \$29,936.

## **GENERAL FUND BUDGETARY HIGHLIGHTS:**

There was no difference between the original budget and the final budget. During the year, however, total revenues were more than budgetary estimates by \$10,547. A summary of differences between budgetary estimates for revenue and actual collections is as follows:

- Property tax collections were more than the original estimate by \$26,488.
- City sales and use tax revenue was more than estimated by \$75,449.
- Franchise tax collections were less than the original budget by \$51,285. The majority of this decrease was due to a decrease in gross receipts for natural gas.
- Intergovernmental revenues were less than the original budget by \$98,661. Revenues for County sales and use tax were down as a result of the slowdown in the economy and a refund of overpaid sales taxes approved by the State of Kansas to a large business in the area.
- Licenses and permits were more than the original estimate by \$75,169. This increase is seen in the increase of building permits issued in 2010 compared to the prior year.
- Charges for services were more than the estimate by \$54,534. The majority of this increase is due to recreation programs, special events and instructional recreation fees exceeding expectations.
- Fines and fees were less than the original estimate by \$110,100. This decrease is due to a 26.4% decrease in the number of cases/citations. This was expected because of a decline in police department staffing.

In addition, expenditures were less than budgeted by \$118,359. Project reserves of \$1,863,708 were budgeted but not utilized. Also, \$1,365,000 of the debt related to the construction of Public Safety Station #2 was refunded using the proceeds from the sale of the fire department. Other expenditures were down as departments exercised fiscal restraint in spending due to the slowdown in the economy.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

The City's investment in capital assets for its governmental and business type activities as of December 31, 2010, amounted to \$144,364,329 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, roads, water lines, sewer collectors and electric lines.

#### City of Gardner's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$4,434,179	\$4,477,337	\$2,193,349	\$2,193,349	\$6,627,528	\$6,670,686
Water Rights	-	-	475,000	475,000	475,000	475,000
Construction in progress	18,527,814	10,674,031	485,478	1,989,351	19,013,292	12,663,382
Buildings	3,550,921	5,203,314	668,824	618,400	4,219,745	5,821,714
Improvements	1,110,642	1,207,663	7,572,649	-	8,683,291	1,207,663
Infrastructure	25,651,547	26,023,148	77,786,868	86,749,237	103,438,415	112,772,385
Machinery and equipment	632,687	609,809	344,837	214,159	977,524	823,968
Vehicles	439,857	1,450,029	489,677	605,097	929,534	2,055,126
	<u>\$54,347,647</u>	<u>\$49,645,331</u>	<u>\$90,016,682</u>	<u>\$92,844,593</u>	<u>\$144,364,329</u>	<u>\$142,489,924</u>

The majority of the City's increase in capital assets can be attributed to construction in progress. Some infrastructure projects that concluded and were placed in service include:

- Madison Street Rehabilitation
- Cottage Creek Drive Improvements
- Lincoln Lane Connector
- Transformer #3 Replacement at Substation No. 2
- Sewer Line Construction
- Genisis Creek Ditch Improvements

Additional information on the City's capital assets can be found in Note 6 of this report.

### *Long-Term Debt*

At the end of 2010, the City had total long-term debt outstanding of \$76,377,583. Of this amount, \$30,355,000 was general obligation debt backed by the full faith and credit of the City. However, \$20,728,550 of the general obligation debt is supported by business-type revenues. Another \$9,605,000 of the City's long-term debt outstanding is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment.

In 2002, the City entered into an irrevocable lease agreement with the Public Building Commission (PBC), a separate, not-for-profit corporation formed for the sole purpose of financing the remodeling and enlarging of City Hall. The purpose of the lease agreement is for the City to rent the building financed by the PBC Lease Revenue bonds. The rental payments are the same as the scheduled debt payments, and because the lease is irrevocable, the City is liable for the associated revenue bonds.

In 2006, the City purchased \$7,150,000 of Certificates of Participation to fund Celebration Park. The debt is paid for with a ten-year ½ cent sales tax increment voters approved in 2005.

**City of Gardner's Long-Term Debt**  
December 31, 2010

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$9,626,450	\$9,377,200	\$20,728,550	\$23,524,828	\$30,355,000	\$32,902,028
Special assessment debt with government commitment	9,605,000	10,307,972	-	-	9,605,000	10,307,972
PBC revenue bonds	3,410,000	3,545,000	-	-	3,410,000	3,545,000
Construction loan payable	5,082,322	4,065,034	22,832,614	24,183,410	27,914,936	28,248,444
Certificates of Participation	5,045,000	5,665,000	-	-	5,045,000	5,665,000
Capital lease obligations	-	830,353	47,647	92,781	47,647	923,134
	<u>\$32,768,772</u>	<u>\$33,790,559</u>	<u>\$43,608,811</u>	<u>\$47,801,019</u>	<u>\$76,377,583</u>	<u>\$81,591,578</u>

The City's total long-term debt decreased by \$5,213,995 during the fiscal year. This is due to a combination of aggressive debt retirement, few new projects, and the effects of Johnson County Fire District No. 1 purchasing the City's fire station and aerial truck that was under lease to the City.

More detailed information about the City's long-term debt is presented in Note 12 to the basic financial statements and information regarding bond anticipation notes in Note 13.

## ECONOMIC FACTORS

Located in Johnson County along Interstate 35, about 30 miles southwest of downtown Kansas City, MO, Gardner has benefited from its location near the Kansas City Metro Area. Even with a decrease in City assessed valuation of 3.4% between 2009 and 2010, the City still experienced assessed valuation growth of 38% since 2006 and 187% since 2001. More information regarding the City's assessed valuation and property tax revenues can be found in the Statistical section.

In addition, the 2010 census indicated explosive population growth of 103.5% since 2000. From 2001 through 2010, the City averaged an estimated additional population growth of 1,000 residents each year to its current estimated population of over 19,123. Wealth levels and housing values exceed state averages, and Johnson County's 2010 unemployment rate of 6.5% was comparable to the state's rate of 6.4%, yet far less than the national unemployment rate of 9.6%. More information regarding the City's demographics can be found in the Statistical section.

The City received a 2-step increase in its debt rating from A2 to Aa3 when Moody's adopted its "Global Scale" earlier in 2010 wherein municipal debt was rated in the same manner as corporate debt. In a bond rating report prepared by Moody's for the City's August 2010 debt sale, Moody's wrote that despite the economic downturn, they anticipated Gardner's tax base will remain relatively stable due to its location in Johnson County which is considered a part of the Kansas City metropolitan area. Moody's noted that Gardner's medium sized \$1.1 billion tax base has grown at a rapid pace during the past decade. Moody's explained in their report that although overall growth has slowed, continued commercial growth is expected because BNSF Railway Company is currently constructing a 1,000 acre intermodal and warehousing facility in the neighboring city of Edgerton. Although the facility is not in the Gardner city limits, the entire region is expected to benefit from the additional jobs that will be created when the industrial park is completed.

In the same report, Moody's noted their expectation that the City's financial health will remain satisfactory despite recent draws upon reserves. Further, Moody's stated that although the City posted consecutive years of operating deficits between fiscal years 2005 and 2009, the City still maintained a satisfactory General Fund balance.

Moody's further reported that although sales tax receipts remained flat from 2009, City officials made multiple adjustments during 2010, including delaying capital expenditures and implementing the aforementioned one-time transfers to mitigate a further significant reduction in the General Fund Reserves.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Finance Department, 120 East Main, Gardner, Kansas 66030.

CITY OF GARDNER, KANSAS

STATEMENT OF NET ASSETS

December 31, 2010

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Airport Association
<b>Assets:</b>				
Deposits and investments	\$ 5,157,305	\$ 7,303,401	\$ 12,460,706	\$ 147,990
Receivables, net of allowance for uncollectibles:				
Taxes	4,385,072	-	4,385,072	-
Accounts	-	2,841,165	2,841,165	8,093
Intergovernmental	1,337,762	-	1,337,762	-
Special assessments	13,147,239	-	13,147,239	-
Airport Association	141,767	-	141,767	-
Other	2,638	8,862	11,500	-
Internal balances	51,880	(51,880)	-	-
Deferred charges	331,985	289,923	621,908	-
Prepaid items	-	709	709	10,162
Inventories	-	285,759	285,759	24,607
Restricted deposits and investments	932,399	533,857	1,466,256	-
Capital assets, net of accumulated depreciation, where applicable:				
Land	4,434,179	2,193,349	6,627,528	301,500
Water rights	-	475,000	475,000	-
Construction in progress	18,527,814	485,478	19,013,292	-
Buildings	3,550,921	668,824	4,219,745	1,101,993
Improvements	1,110,642	7,572,649	8,683,291	33,818
Infrastructure	25,651,547	77,786,868	103,438,415	552,550
Machinery and equipment	632,687	344,837	977,524	-
Vehicles	439,857	489,677	929,534	-
Total assets	<u>79,835,694</u>	<u>101,228,478</u>	<u>181,064,172</u>	<u>2,180,713</u>
<b>Liabilities:</b>				
Accounts payable	313,466	498,802	812,268	4,909
Accrued expenses	70,301	34,704	105,005	-
Accrued interest payable	523,813	468,264	992,077	-
Due to primary government	-	-	-	4,368
Unearned revenue	3,711,045	-	3,711,045	7,150
Liabilities payable from restricted assets	32,777	486,413	519,190	-
Bond anticipation notes payable	5,180,000	-	5,180,000	-
Noncurrent liabilities:				
Due within one year	3,288,734	4,335,810	7,624,544	15,000
Due in more than one year	29,818,792	39,394,531	69,213,323	122,399
Total liabilities	<u>42,938,928</u>	<u>45,218,524</u>	<u>88,157,452</u>	<u>153,826</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	17,247,111	46,462,027	63,709,138	1,852,462
Restricted for:				
Debt service	12,728,810	-	12,728,810	-
Capital projects	428,182	-	428,182	-
Streets	2,260,553	-	2,260,553	-
Capital improvements	199,522	-	199,522	-
Other purposes	428,490	-	428,490	-
Unrestricted	3,604,098	9,547,927	13,152,025	174,425
Total net assets	<u>\$ 36,896,766</u>	<u>\$ 56,009,954</u>	<u>\$ 92,906,720</u>	<u>\$ 2,026,887</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 2,822,418	\$ 502,102	\$ 1,997,345	\$ -	\$ (322,971)	\$ -	\$ (322,971)	\$ -
Public safety	3,565,454	10,458	76,976	-	(3,478,020)	-	(3,478,020)	-
Public works	2,614,530	-	476,929	5,400,696	3,263,095	-	3,263,095	-
Culture and recreation	2,211,773	970,405	28,225	-	(1,213,143)	-	(1,213,143)	-
Interest on long-term debt	1,742,427	-	-	-	(1,742,427)	-	(1,742,427)	-
Total governmental activities	12,956,602	1,482,965	2,579,475	5,400,696	(3,493,466)	-	(3,493,466)	-
<b>Business-type activities:</b>								
Electric	11,572,594	14,329,969	-	-	-	2,757,375	2,757,375	-
Water	2,952,669	3,989,505	29,337	-	-	1,066,173	1,066,173	-
Wastewater	3,661,411	4,007,841	-	-	-	346,430	346,430	-
Stormwater	71,086	-	48,926	-	-	(22,160)	(22,160)	-
Total business-type activities	18,257,760	22,327,315	78,263	-	-	4,147,818	4,147,818	-
Total primary government	\$ 31,214,362	\$ 23,810,280	\$ 2,657,738	\$ 5,400,696	(3,493,466)	4,147,818	654,352	-
<b>Component unit:</b>								
Airport Association	\$ 295,087	\$ 278,083	\$ -	\$ -	-	-	-	(17,004)
<b>General revenues:</b>								
Property taxes					3,798,207	-	3,798,207	-
Sales taxes					2,821,088	-	2,821,088	-
Franchise taxes					380,715	-	380,715	-
Excise taxes					95,710	-	95,710	-
Transient guest tax					29,338	-	29,338	-
Other					3	37,070	37,073	-
Unrestricted investment earnings					49,689	38,020	87,709	1,394
Gain on sale of assets					2,095	-	2,095	-
Transfers					1,003,312	(1,003,312)	-	-
Total general revenues and transfers					8,180,157	(928,222)	7,251,935	1,394
Change in net assets					4,686,691	3,219,596	7,906,287	(15,610)
Net assets, beginning of year					32,210,075	52,790,358	85,000,433	2,042,497
Net assets, end of year					\$ 36,896,766	\$ 56,009,954	\$ 92,906,720	\$ 2,026,887

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

BALANCE SHEET  
GOVERNMENTAL FUNDS

December 31, 2010

	General	Debt Service	Kill Creek Sewer	175th & Moonlight Intersection	North Moonlight	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>							
Deposits and investments	\$ 1,613,218	\$ 105,384	\$ 34	\$ 59,650	\$ -	\$ 3,379,019	\$ 5,157,305
Receivables (net of allowance for uncollectibles):							
Taxes	2,953,821	1,139,575	-	-	-	291,676	4,385,072
Special assessments	-	13,147,239	-	-	-	-	13,147,239
Intergovernmental	287,155	-	-	510,030	378,163	162,414	1,337,762
Airport Association	-	-	-	-	-	141,767	141,767
Other	2,638	-	-	-	-	-	2,638
Restricted deposits and investments	32,777	-	579	674,675	-	224,368	932,399
Due from other funds	1,030,391	-	-	9,645	-	187,264	1,227,300
<b>Total assets</b>	<b>\$ 5,920,000</b>	<b>\$ 14,392,198</b>	<b>\$ 613</b>	<b>\$ 1,254,000</b>	<b>\$ 378,163</b>	<b>\$ 4,386,508</b>	<b>\$ 26,331,482</b>
<b>Liabilities and fund balances:</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 188,017	\$ -	\$ -	\$ 40,990	\$ 53,049	\$ 23,980	\$ 306,036
Accrued payroll	68,552	-	-	-	-	-	68,552
Temporary notes payable	-	-	3,920,000	-	-	1,260,000	5,180,000
Other	32,777	-	-	-	-	-	32,777
Deferred revenue	2,571,470	14,286,814	-	-	-	-	16,858,284
Due to other funds	-	-	-	-	942,004	196,909	1,138,913
<b>Total liabilities</b>	<b>2,860,816</b>	<b>14,286,814</b>	<b>3,920,000</b>	<b>40,990</b>	<b>995,053</b>	<b>1,480,889</b>	<b>23,584,562</b>
<b>Fund balances:</b>							
<b>Reserved for:</b>							
Encumbrances	250	-	-	36,201	125,101	152,638	314,190
Long-term loan receivable	-	-	-	-	-	137,399	137,399
<b>Unreserved, reported in:</b>							
General fund	3,058,934	-	-	-	-	-	3,058,934
Debt service fund	-	105,384	-	-	-	-	105,384
Special revenue funds	-	-	-	-	-	3,565,909	3,565,909
Capital projects funds	-	-	(3,919,387)	1,176,809	(741,991)	(950,327)	(4,434,896)
<b>Total fund balances</b>	<b>3,059,184</b>	<b>105,384</b>	<b>(3,919,387)</b>	<b>1,213,010</b>	<b>(616,890)</b>	<b>2,905,619</b>	<b>2,746,920</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,920,000</b>	<b>\$ 14,392,198</b>	<b>\$ 613</b>	<b>\$ 1,254,000</b>	<b>\$ 378,163</b>	<b>\$ 4,386,508</b>	<b>\$ 26,331,482</b>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2010

Total fund balances in Governmental Funds Balance Sheet	\$ 2,746,920
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	54,266,875
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	13,147,239
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(33,296,563)
Internal service funds are used by management to charge the costs of building maintenance and information technology services to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	<u>32,295</u>
Net assets of governmental activities	<u><u>\$ 36,896,766</u></u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Year Ended December 31, 2010

	General	Debt Service	Kill Creek Sewer	175th & Moonlight Intersection	North Moonlight	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>							
<b>Taxes:</b>							
Property	\$ 3,137,368	\$ 446,124	\$ -	\$ -	\$ -	\$ 214,715	\$ 3,798,207
Sales	1,487,449	-	-	-	-	1,333,639	2,821,088
Franchise	380,715	-	-	-	-	-	380,715
Excise	-	-	-	-	-	95,710	95,710
Special assessments	-	974,839	-	-	-	-	974,839
Intergovernmental	1,476,339	-	-	3,287,308	1,758,924	1,199,583	7,722,154
Licenses and permits	210,369	-	-	-	-	165,823	376,192
Charges for services	800,534	-	-	-	-	-	800,534
Fines and fees	217,900	-	-	-	-	-	217,900
Investment earnings	17,699	2,794	723	2,216	171	26,086	49,689
Other	56,641	51,131	-	-	-	116,761	224,533
<b>Total revenues</b>	<b>7,785,014</b>	<b>1,474,888</b>	<b>723</b>	<b>3,289,524</b>	<b>1,759,095</b>	<b>3,152,317</b>	<b>17,461,561</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General government	1,818,055	-	-	-	-	770,732	2,588,787
Public safety	3,224,327	-	-	-	-	-	3,224,327
Public works	1,459,363	-	-	-	-	-	1,459,363
Culture and recreation	1,843,546	-	-	-	-	-	1,843,546
Capital outlay	111,754	-	-	4,981,294	2,503,325	1,506,166	9,102,539
<b>Debt service:</b>							
Principal	2,375,352	1,948,762	-	-	-	770,000	5,094,114
Interest and fiscal charges	225,184	949,099	41,817	-	-	237,042	1,453,142
Other	-	66,493	31,278	49,833	-	11,454	159,058
<b>Total expenditures</b>	<b>11,057,581</b>	<b>2,964,354</b>	<b>73,095</b>	<b>5,031,127</b>	<b>2,503,325</b>	<b>3,295,394</b>	<b>24,924,876</b>
Deficiency of revenues under expenditures	(3,272,567)	(1,489,466)	(72,372)	(1,741,603)	(744,230)	(143,077)	(7,463,315)
<b>Other financing sources (uses):</b>							
General obligation bonds	-	-	-	2,794,765	-	-	2,794,765
Construction loan	-	-	-	662,677	639,650	-	1,302,327
Proceeds from sale of capital assets	2,281,216	-	-	-	-	-	2,281,216
Insurance proceeds	8,457	-	-	-	-	-	8,457
Transfers in	1,383,562	1,516,827	-	-	-	520,011	3,420,400
Transfers out	-	-	-	-	-	(2,417,088)	(2,417,088)
<b>Total other financing sources (uses)</b>	<b>3,673,235</b>	<b>1,516,827</b>	<b>-</b>	<b>3,457,442</b>	<b>639,650</b>	<b>(1,897,077)</b>	<b>7,390,077</b>
<b>Net change in fund balances</b>	<b>400,668</b>	<b>27,361</b>	<b>(72,372)</b>	<b>1,715,839</b>	<b>(104,580)</b>	<b>(2,040,154)</b>	<b>(73,238)</b>
Fund balances, beginning of year	2,658,516	78,023	(3,847,015)	(502,829)	(512,310)	4,945,773	2,820,158
Fund balances, end of year	\$ 3,059,184	\$ 105,384	\$ (3,919,387)	\$ 1,213,010	\$ (616,890)	\$ 2,905,619	\$ 2,746,920

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances - total governmental funds	\$ (73,238)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	7,094,626
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to to decrease net assets	(2,394,050)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(823,675)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long- term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,046,474
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(164,081)
Internal service funds are used by management to charge the costs of building maintenance and information technology services to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	<u>635</u>
Change in net assets of governmental activities	<u>\$ 4,686,691</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL

GENERAL FUND

Year Ended December 31, 2010

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes:			
Property	\$ 3,110,880	\$ 3,137,368	\$ 26,488
Sales	1,412,000	1,487,449	75,449
Franchise	432,000	380,715	(51,285)
Intergovernmental	1,575,000	1,476,339	(98,661)
Licenses and permits	135,200	210,369	75,169
Charges for services	746,000	800,534	54,534
Fines and fees	328,000	217,900	(110,100)
Investment earnings	20,500	17,699	(2,801)
Other	14,887	56,641	41,754
Total revenues	<u>7,774,467</u>	<u>7,785,014</u>	<u>10,547</u>
Expenditures:			
General government	2,074,500	1,817,118	257,382
Public safety	3,682,800	3,222,789	460,011
Public works	1,584,700	1,424,051	160,649
Culture and recreation	1,931,300	1,842,401	88,899
Capital outlay	-	111,754	(111,754)
Project reserve	1,863,708	-	1,863,708
Debt service:			
Principal	-	2,375,352	(2,375,352)
Interest and fiscal charges	-	225,184	(225,184)
Total expenditures	<u>11,137,008</u>	<u>11,018,649</u>	<u>118,359</u>
Excess of revenues over (under) expenditures	<u>(3,362,541)</u>	<u>(3,233,635)</u>	<u>128,906</u>
Other financing sources and (uses):			
Transfers in	1,381,424	1,383,562	2,138
Insurance proceeds	-	8,457	8,457
Proceeds from sale of capital assets	-	2,281,216	2,281,216
Total other financing sources and (uses)	<u>1,381,424</u>	<u>3,673,235</u>	<u>2,291,811</u>
Net change in fund balances	(1,981,117)	439,600	2,420,717
Fund balances, beginning of year	1,981,117	2,619,334	638,217
Fund balances, end of year	<u>\$ -</u>	<u>3,058,934</u>	<u>\$ 3,058,934</u>
Explanation of difference between budgetary and GAAP fund balances:			
Encumbrances for equipment and supplies ordered but not received are not recorded for GAAP purposes until received		250	
GAAP fund balance, end of year		<u>\$ 3,059,184</u>	

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2010

	Major Funds	
	Electric	Water
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 3,379,415	\$ 2,833,192
Accounts receivable, net	1,878,269	463,455
Other receivable	-	8,862
Restricted deposits and investments	453,618	71,571
Prepaid items	709	-
Inventories	203,729	82,030
Due from other funds	24,640	-
Total current assets	<u>5,940,380</u>	<u>3,459,110</u>
<b>Noncurrent assets:</b>		
Deferred charges	122,066	34,510
<b>Capital assets:</b>		
Land	634,908	964,968
Water rights	-	475,000
Buildings	693,145	-
Construction in progress	-	485,478
Infrastructure	41,003,435	24,526,240
Improvements	6,056,474	2,362,347
Machinery and equipment	432,533	140,061
Vehicles	288,141	353,294
Less accumulated depreciation	(17,907,566)	(5,688,894)
Total capital assets	<u>31,201,070</u>	<u>23,618,494</u>
Total noncurrent assets	<u>31,323,136</u>	<u>23,653,004</u>
Total assets	<u>37,263,516</u>	<u>27,112,114</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	369,361	96,981
Accrued expenses	15,723	9,728
Customer and developer deposits	414,842	71,571
Accrued interest payable	77,591	135,931
Due to other funds	50	2,772
Compensated absences	35,709	23,355
Current portion of capital lease payable	-	-
Current portion of bonds payable	1,440,200	742,500
Current portion of construction loans payable	-	262,457
Total current liabilities	<u>2,353,476</u>	<u>1,345,295</u>
<b>Noncurrent liabilities:</b>		
Other postemployment benefit obligation	11,851	11,196
Compensated absences	2,537	1,660
Bonds payable, net	7,524,766	4,718,886
Construction loan payable	-	5,250,522
Total noncurrent liabilities	<u>7,539,154</u>	<u>9,982,264</u>
Total liabilities	<u>9,892,630</u>	<u>11,327,559</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	22,274,880	12,644,129
Unrestricted	5,096,006	3,140,426
Total net assets	<u>\$ 27,370,886</u>	<u>\$ 15,784,555</u>

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Net assets of business-type activities

See accompanying notes to basic financial statements.

Wastewater	Nonmajor Fund Stormwater	Total	Internal Service Funds
\$ 1,088,684	\$ -	\$ 7,301,291	\$ 2,110
499,441	-	2,841,165	-
-	-	8,862	-
8,668	-	533,857	-
-	-	709	-
-	-	285,759	-
228	-	24,868	1,169
<u>1,597,021</u>	<u>-</u>	<u>10,996,511</u>	<u>3,279</u>
133,347	-	289,923	-
593,473	-	2,193,349	-
-	-	475,000	-
-	-	693,145	-
-	-	485,478	-
43,290,821	23,080	108,843,576	-
1,394,562	737,691	10,551,074	-
220,009	-	792,603	104,340
409,586	-	1,051,021	14,749
<u>(11,444,650)</u>	<u>(36,912)</u>	<u>(35,078,022)</u>	<u>(28,859)</u>
<u>34,463,801</u>	<u>723,859</u>	<u>90,007,224</u>	<u>90,230</u>
<u>34,597,148</u>	<u>723,859</u>	<u>90,297,147</u>	<u>90,230</u>
<u>36,194,169</u>	<u>723,859</u>	<u>101,293,658</u>	<u>93,509</u>
23,460	-	489,802	16,430
9,253	-	34,704	1,749
-	-	486,413	-
254,742	-	468,264	-
28,760	61,208	92,790	21,634
24,123	-	83,187	-
47,647	-	47,647	-
810,000	-	2,992,700	-
949,819	-	1,212,276	-
<u>2,147,804</u>	<u>61,208</u>	<u>5,907,783</u>	<u>39,813</u>
11,207	-	34,254	7,681
1,714	-	5,911	-
5,485,486	-	17,729,138	-
16,369,816	-	21,620,338	-
<u>21,868,223</u>	<u>-</u>	<u>39,389,641</u>	<u>7,681</u>
<u>24,016,027</u>	<u>61,208</u>	<u>45,297,424</u>	<u>47,494</u>
10,809,701	723,859	46,452,569	90,230
1,368,441	(61,208)	9,543,665	(44,215)
<u>\$ 12,178,142</u>	<u>\$ 662,651</u>	<u>55,996,234</u>	<u>\$ 46,015</u>
		13,720	
		<u>\$ 56,009,954</u>	

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended December 31, 2010

	Major Funds	
	Electric	Water
Operating revenues:		
Charges for sales and services	\$ 14,329,969	\$ 3,989,505
Other	-	-
Total operating revenues	<u>14,329,969</u>	<u>3,989,505</u>
Operating expenses:		
Administration	615,842	333,890
Wholesale energy cost	7,505,041	-
Generation	412,746	-
Treatment	-	1,248,404
Distribution and collection	1,270,388	263,800
Contractual services	-	-
Other supplies and expenses	-	-
Repairs and maintenance	-	-
Depreciation and amortization	1,366,992	708,038
Other	18,767	20,569
Total operating expenses	<u>11,189,776</u>	<u>2,574,701</u>
Operating income (loss)	<u>3,140,193</u>	<u>1,414,804</u>
Nonoperating revenues (expenses):		
Intergovernmental	-	29,337
Investment earnings	14,908	15,318
Developer reimbursements	37,070	-
Interest expense	(385,388)	(380,504)
Other	-	-
Total nonoperating revenues (expenses)	<u>(333,410)</u>	<u>(335,849)</u>
Income (loss) before transfers and contributions	2,806,783	1,078,955
Transfers in	-	-
Transfers out	(741,369)	(1,097,333)
Change in net assets	2,065,414	(18,378)
Total net assets, beginning of year	<u>25,305,472</u>	<u>15,802,933</u>
Total net assets, end of year	<u>\$ 27,370,886</u>	<u>\$ 15,784,555</u>

Change in net assets

Some amounts reported for business-type activities in the statements of activities are different because the net revenue of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

See accompanying notes to basic financial statements.

Wastewater	Nonmajor Fund Stormwater	Total	Internal Service Funds
\$ 4,007,841	\$ -	\$ 22,327,315	\$ 1,722,705
-	-	-	11,246
<u>4,007,841</u>	<u>-</u>	<u>22,327,315</u>	<u>1,733,951</u>
287,809	-	1,237,541	481,978
-	-	7,505,041	-
-	-	412,746	-
876,910	-	2,125,314	-
220,623	-	1,754,811	-
-	46,627	46,627	1,072,027
-	-	-	61,840
-	-	-	36,387
1,411,507	24,459	3,510,996	11,310
-	-	39,336	62,137
<u>2,796,849</u>	<u>71,086</u>	<u>16,632,412</u>	<u>1,725,679</u>
1,210,992	(71,086)	5,694,903	8,272
-	48,926	78,263	-
7,794	-	38,020	-
-	-	37,070	-
(820,837)	-	(1,586,729)	-
(46,257)	-	(46,257)	-
<u>(859,300)</u>	<u>48,926</u>	<u>(1,479,633)</u>	<u>-</u>
351,692	(22,160)	4,215,270	8,272
1,000,000	-	1,000,000	-
<u>(164,610)</u>	<u>-</u>	<u>(2,003,312)</u>	<u>-</u>
1,187,082	(22,160)	3,211,958	8,272
10,991,060	684,811	52,784,276	37,743
<u>\$ 12,178,142</u>	<u>\$ 662,651</u>	<u>\$ 55,996,234</u>	<u>\$ 46,015</u>
		\$ 3,211,958	
		7,638	
		<u>\$ 3,219,596</u>	

CITY OF GARDNER, KANSAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended December 31, 2010

	Major Funds	
	Electric	Water
Cash flows from operating activities:		
Receipts from customers	\$ 14,197,236	\$ 3,925,511
Other	-	-
Payments to suppliers	(8,710,224)	(1,334,960)
Payments to employees	(932,848)	(533,797)
Net cash provided by (used in) operating activities	<u>4,554,164</u>	<u>2,056,754</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	-	-
Transfers to other funds	(741,369)	(1,097,333)
Net cash provided by (used in) noncapital financing activities	<u>(741,369)</u>	<u>(1,097,333)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(539,593)	(105,655)
Principal paid on capital lease	-	-
Principal paid on general obligation bonds	(1,326,628)	(684,650)
Principal paid on construction loan	-	(253,533)
Interest paid on general obligation bonds, construction loan, and capital lease	(360,885)	(389,614)
Reimbursements from developers	37,070	-
Proceeds from capital grants	-	29,337
Other financing costs	-	-
Net cash provided by (used in) capital and related financing activities	<u>(2,190,036)</u>	<u>(1,404,115)</u>
Cash flows from investing activities:		
Interest received	14,908	15,318
Net increase (decrease) in cash and cash equivalents	1,637,667	(429,376)
Cash and cash equivalents, beginning of year	2,195,366	3,334,139
Cash and cash equivalents, end of year	<u>\$ 3,833,033</u>	<u>\$ 2,904,763</u>

(Continued)

<u>Wastewater</u>	<u>Nonmajor Fund Stormwater</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 3,988,315	\$ -	\$ 22,111,062	\$ 1,729,493
-	-	-	11,246
(873,631)	(48,926)	(10,967,741)	(1,235,921)
(493,819)	-	(1,960,464)	(481,758)
<u>2,620,865</u>	<u>(48,926)</u>	<u>9,182,857</u>	<u>23,060</u>
1,000,000	-	1,000,000	-
(164,610)	-	(2,003,312)	-
<u>835,390</u>	<u>-</u>	<u>(1,003,312)</u>	<u>-</u>
(28,381)	-	(673,629)	(22,509)
(45,134)	-	(45,134)	-
(785,000)	-	(2,796,278)	-
(1,097,263)	-	(1,350,796)	-
(840,320)	-	(1,590,819)	-
-	-	37,070	-
-	48,926	78,263	-
(46,257)	-	(46,257)	-
<u>(2,842,355)</u>	<u>48,926</u>	<u>(6,387,580)</u>	<u>(22,509)</u>
<u>7,794</u>	<u>-</u>	<u>38,020</u>	<u>-</u>
621,694	-	1,829,985	551
<u>475,658</u>	<u>-</u>	<u>6,005,163</u>	<u>1,559</u>
<u>\$ 1,097,352</u>	<u>\$ -</u>	<u>\$ 7,835,148</u>	<u>\$ 2,110</u>

CITY OF GARDNER, KANSAS

STATEMENT OF CASH FLOWS  
(Continued)

PROPRIETARY FUNDS

Year Ended December 31, 2010

	Major Funds	
	Electric	Water
Cash consists of:		
Cash	\$ 3,379,415	\$ 2,833,192
Restricted deposits and investments	453,618	71,571
	<u>\$ 3,833,033</u>	<u>\$ 2,904,763</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 3,140,193	\$ 1,414,804
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Items not requiring cash:		
Depreciation expense	1,366,992	708,038
Other postemployment benefit obligation	2,584	2,030
Changes in:		
Receivables	(157,277)	(69,789)
Due from other funds	26,392	145
Prepaid expenses	231,134	-
Accounts payable	(70,969)	(5,564)
Due to other funds	50	(417)
Accrued liabilities	16,913	1,857
Customer deposits	(1,848)	5,650
Net cash provided by (used in) operating activities	<u>\$ 4,554,164</u>	<u>\$ 2,056,754</u>

See accompanying notes to basic financial statements.

<u>Wastewater</u>	<u>Nonmajor Fund Stormwater</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,088,684	\$ -	\$ 7,301,291	\$ 2,110
8,668	-	533,857	-
\$ 1,097,352	\$ -	\$ 7,835,148	\$ 2,110
\$ 1,210,992	\$ (71,086)	\$ 5,694,903	\$ 8,272
1,411,507	24,459	3,510,996	11,310
4,359	-	8,973	2,790
(83,188)	-	(310,254)	-
63,662	-	90,199	6,788
-	-	231,134	-
10,294	-	(66,239)	(14,006)
(2,266)	(2,299)	(4,932)	7,698
5,505	-	24,275	208
-	-	3,802	-
\$ 2,620,865	\$ (48,926)	\$ 9,182,857	\$ 23,060
\$ 2,620,865	\$ (48,926)	\$ 9,182,857	\$ 23,060

CITY OF GARDNER, KANSAS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
December 31, 2010

	<u>Agency Fund</u> <u>Alcohol Safety</u> <u>Action Program</u>
<u>ASSETS</u>	
Deposits and investments	\$ 29,936
<u>LIABILITIES</u>	
Due to others	\$ 29,936

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2010

1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Gardner, Kansas (the City) is located in Johnson County, Kansas and was first incorporated in 1887 under the provisions of the constitution and general statutes of the State of Kansas. The City operates under a Mayor-Council-Administrator form of government and provides a full range of services including public safety (police and fire); public works; community services; recreation and leisure; planning and codes enforcement; general management; and electric, water, wastewater, and stormwater utilities. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

*Blended Component Unit.* The Public Building Corporation (PBC) is a not-for-profit corporation governed by the Mayor, certain City Council members and members of the City's management. The PBC's sole purpose is to acquire assets and construct facilities and infrastructure for the benefit of the City through the issuance of revenue bonds pursuant to Kansas Statute 12-1757. The financial statements of the PBC have been included within the City's reporting entity as a capital projects fund (City Hall). Separately issued financial statements of the PBC are not available.

*Discretely Presented Component Unit.* The Airport Association is a not-for-profit corporation that operates the municipal airport located in the City and promotes economic development at the facility. The governing body of the Airport Association is appointed by the City Council. The Airport Association must obtain the City's approval before issuing debt and the City has also issued debt for the Airport Association. The Airport Association's revenue is derived from the rental of hangar and building space, the sale of fuel and the sale of crops grown on airport property. The Airport Association is presented as an enterprise fund. Separately issued financial statements for the Airport Association are not available.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The agency fund does not have a measurement focus and uses the accrual basis of accounting to report its financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 90-day availability period is used for revenue recognition for all governmental funds revenues except property taxes. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Property taxes, sales taxes, franchise taxes, interest associated with the current fiscal period, and certain state and federal grants and entitlements are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. While property taxes are shown on the balance sheet as current assets of the City, they are not recognized as revenue at year end because statutory provisions prohibit their use until the year for which they were raised and budgeted. Instead, they are offset by deferred revenue accounts.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This fund accounts for the general operating transactions of the City including public safety, public works, parks, recreation, and administration.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The Kill Creek Sewer fund is used to account for the acquisition and construction of a major capital sewer improvement.

The 175<sup>th</sup> and Moonlight Intersection fund is used to account for the acquisition and construction of a major capital street improvement.

The North Moonlight fund is used to account for the acquisition and construction of a major capital street improvement.

The City reports the following major proprietary funds:

The electric fund accounts for the operation and maintenance activities of the City's electric distribution system.

The water fund accounts for the operation and maintenance activities of the City's water distribution system.

The wastewater fund accounts for the operation and maintenance activities of the City's wastewater collection and treatment system.

Additionally, the City reports the following fund types:

The agency fund accounts for the amounts collected from the municipal court to be remitted to the State of Kansas.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Internal service funds account for risk management, information technology, building maintenance and utility billing services provided to other departments on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this rule is charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water, wastewater and stormwater funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

Cash and investments of the individual funds are combined to form a pool that is managed by the Director of Finance. Each fund's equity in the pool is included in "deposits and investments" in the financial statements. These pooled deposits and investments consist of operating accounts, money market mutual funds, and investments in the Kansas Municipal Investment Pool (MIP) which is overseen by the State of Kansas. The money market mutual funds are recorded at fair value. The fair value of the City's position in the MIP is the same as the pool value of the shares. Investment earnings, including interest income, are allocated to the funds required to accumulate interest; other investment earnings are allocated based on management discretion and upon their average daily equity balances. If a fund is not required to account for its own earnings by law or regulation, the earnings are allocated to the General Fund.

For the fiscal year ended December 31, 2010, interest earnings of \$ 87,709 were allocated to the various funds.

The City Hall capital projects fund holds money market mutual funds totaling \$ 103 separate from the pooled cash and investments.

Statement of Cash Flows

For purposes of the statement of cash flows, the City considers deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2010, cash equivalents consisted of money market mutual funds included in pooled cash described above.

Allowances for Uncollectibles

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 238 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 8.27% of outstanding property taxes at December 31, 2010.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets

The State of Kansas requires the City to maintain customer utility and developer deposits separate from City assets in the enterprise funds. Interest earned on deposits is credited back to customers as required by State statutes. Restricted assets in the general fund consist of court bond deposits. Restricted deposits and investments are also set aside for capital projects.

Property Taxes

The City's property tax is levied each year on the assessed value of all real estate listed as of the prior January 1, the lien date. Assessed values are established by Johnson County. The assessed value at January 1, 2009 upon which the 2010 levy was based was approximately \$ 135,100,770.

Property taxes are legally restricted for use in financing operations of the ensuing year. Accordingly, the City defers revenue recognition until the year for which they are to be used. Property taxes are levied on November 1 of each year. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the following year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. The Johnson County Treasurer is the tax collection agent for all taxing entities within the County. Property taxes levied in prior years that remain uncollected are recorded as receivables, net of estimated uncollectibles.

Receivable and Payables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue is reported as follows:

General fund property taxes receivable	\$ 2,571,470
Debt service fund property taxes receivable	1,139,575
Debt service fund special assessments receivable	<u>13,147,239</u>
	<u>\$ 16,858,284</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist of expendable supplies and merchandise held for consumption. All inventories are valued at the lower of cost using the first-in/first-out (FIFO method) or market.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, sidewalks and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

Buildings and improvements	20 - 40 years
Machinery and equipment	10 years
Vehicles	10 years
Infrastructure	15 - 50 years

The City acquired water rights during 2008 for \$ 475,000 which is reported in the water fund and business-type activities column in the government-wide financial statements as a capital asset. The water rights acquired are considered to have an indefinite life. As a result, no amortization will be taken on the acquired rights.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences

The City's policies allow up to one and one half times employees' earned rates of vacation to be carried over to subsequent years. This carryover is payable upon separation from service and ranges from 120 to 240 hours depending upon the employee's length of service.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only when they have matured, for example, as a result of employee resignations and retirements.

Sick leave for full-time employees is earned at the rate of approximately four hours per bi-weekly pay period with a maximum accumulation of 1,040 hours. Regular part-time employees accrue sick leave at a proportional rate to full-time employees. Accumulated sick pay is not vested, and therefore is not recorded in the financial statements.

Long-Term Obligations

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

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

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Concentrations of Credit Risk

Loans are extended, on a fully secured basis, to local businesses under an economic development loan program. Credit is extended to citizens for special assessments levied by the City for capital improvements. These special assessments are secured by liens on the related properties. Unsecured credit is extended to customers for electric, water and sewer fees and charges for services.

Intergovernmental receivables include unsecured amounts due from federal, state and county agencies for various grant programs.

Use of Estimates

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

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements

At December 31, 2010, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the City. The statements that might impact the City are as follows:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued in February 2009. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, was issued in November 2010. The objective of this statement is to improve financial reporting by modifying certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria and guidance for reporting component units as if they were part of the primary government (that is, blending). Additionally, this statement requires a primary government to report its equity interest in a component unit as an asset. The provisions of this statement are effective for periods beginning after June 15, 2012.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$ 33,296,563 difference are as follows:

General obligation bonds payable	\$ (19,231,450)
Issuance premium	(51,387)
PBC lease revenue bonds	(3,410,000)
Construction loans payable	(5,082,322)
Certificates of participation	(5,045,000)
Accrued interest payable	(523,813)
Other postemployment benefit obligations	(102,163)
Deferred charges for issuance costs	331,985
Compensated absences	(182,413)
	<hr/>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$ (33,296,563)

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 7,094,626 difference are as follows:

Capital outlay	\$ 8,954,956
Depreciation expense	<u>(1,860,330)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 7,094,626</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$ 1,046,474 difference are as follows:

Debt issued or incurred:	
Construction loans	\$ (1,302,327)
General obligation bonds	(2,770,000)
Premium on general obligation bonds	(24,765)
Principal repayments:	
General obligation bonds payable	3,223,722
PBC lease revenue bonds	135,000
Certificates of participation	620,000
Construction loans	285,039
Capital leases payable	830,353
Capitalization of bond issuance costs	<u>49,452</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 1,046,474</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$ 164,081 difference are as follows:

Compensated absences	\$ 40,009
Accrued interest	(130,228)
Other postemployment benefit obligation	(22,784)
Amortization of issuance costs	<u>(51,078)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (164,081)</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

3 - Stewardship, Compliance and Accountability

Budgetary Information

Applicable Kansas statutes require that budgets be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), enterprise funds and the debt service fund. A legal operating budget is not required for the capital projects funds, the airport special revenue fund, and the capital improvement reserve fund. All budgets are prepared utilizing the modified accrual basis further modified by the encumbrance method of accounting – that is, commitments such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures.

The Statutes provide for the following sequence and timetable in adoption of budgets:

- a. Preparation of proposed budget for the succeeding calendar year on or before August 1 of each year.
- b. Publication of proposed budget on or before August 5 of each year.
- c. A minimum of ten days' notice of public hearing, published in a local newspaper, on or before August 15 of each year.
- d. Public hearing on or before August 15 of each year.
- e. Adoption of final budget on or before August 25 of each year.

Kansas statutes permit transferring budgeted amounts from one object or purpose to another within the same fund; however, such statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures in an individual fund. The City Administrator is authorized to approve over-expenditures at the departmental level or transfers of budgeted appropriations between departments. However, management may not amend a fund's total budgeted expenditures without Council approval. The legal level of budgetary control is the fund level. 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. All unencumbered appropriations lapse at the end of the year. Encumbered appropriations are not reappropriated in the ensuing year's budget but are carried forward until liquidated or cancelled. Kansas statutes permit original budgets to be increased for previously unbudgeted increases in revenue other than ad valorem property taxes. The City must first publish a notice of public hearing to amend the budget. Ten days after publication, a public hearing is held and the governing body may amend the budget at that time. There were no budget amendments in 2010.

CITY OF GARDNER, KANSAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (Continued)

3 - Stewardship, Compliance and Accountability (Continued)

Deficit Fund Balances

The Kill Creek Sewer, Prairiebrooke, North Moonlight, Celebration Park and Gardner Junction Park capital projects funds had deficit fund balances of \$ 3,919,387, \$ 1,261,127, \$ 616,890, \$ 93,167 and \$8,518 respectively, as of December 31, 2010. The funds incurred expenditures for which permanent financing had not yet become available. The building maintenance, risk management and utility billing services internal service funds had deficit net assets of \$ 6,569, \$ 1,778 and \$1,153, respectively, as of December 31, 2010.

4 - Deposits and Investments

Deposits

*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. Kansas statutes require that deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City. The carrying amount of deposits for the City was not exposed to custodial credit risk.

The Airport Association does not have a policy covering custodial credit risk. At December 31, 2010, the Airport Association's deposits were not exposed to custodial credit risk.

Investments

At December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
State of Kansas Municipal Investment Pool	< 1 year	\$ 730,990
Money market mutual funds	< 1 year	215,973

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

4 - Deposits and Investments (Continued)

Investments (Continued)

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but requires that to the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City is not exposed to significant interest rate risk.

*Credit risk*

Kansas statutes authorize the City, with certain restrictions, to deposit or invest in temporary notes, no-fund warrants, open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, the State of Kansas Municipal Investment Pool, or to make direct investments. The City has an investment policy which does not impose limitations beyond those of the State of Kansas. The City's investments in the Municipal Investment Pool are rated AA Af/S1+ by Standard & Poor's. The City's investments in money market mutual funds are rated AA Am by Standard & Poor's and Aaa by Moody's.

*Custodial Credit Risk – Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investments are not exposed to custodial credit risk.

5 - Loan Receivable

During 2007 and 2008, the City made loans to the Airport Association for airport improvements. At December 31, 2010, the receivable balance was \$ 137,399 and is included in noncurrent liabilities on the Airport Association component unit column of the statement of net assets. The final principal and interest payments are to be made in 2019.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	\$ 4,477,337	\$ 2,000	\$ (45,158)	\$ -	\$ 4,434,179
Construction in progress	10,674,031	8,657,340	-	(803,557)	18,527,814
Total capital assets not being depreciated	15,151,368	8,659,340	(45,158)	(803,557)	22,961,993
Capital assets being depreciated:					
Buildings	6,452,200	37,041	(1,630,392)	-	4,858,849
Improvements	2,191,785	-	-	-	2,191,785
Infrastructure	36,606,502	60,909	-	803,557	37,470,968
Machinery and equipment	1,469,565	164,274	-	-	1,633,839
Vehicles	2,754,120	45,390	(1,676,246)	-	1,123,264
Total capital assets being depreciated	49,474,172	307,614	(3,306,638)	803,557	47,278,705
Less accumulated depreciation for:					
Buildings	(1,248,886)	(160,942)	101,900	-	(1,307,928)
Improvements	(984,122)	(97,021)	-	-	(1,081,143)
Infrastructure	(10,583,354)	(1,236,067)	-	-	(11,819,421)
Machinery and equipment	(859,756)	(141,396)	-	-	(1,001,152)
Vehicles	(1,304,091)	(235,162)	855,846	-	(683,407)
Total accumulated depreciation	(14,980,209)	(1,870,588)	957,746	-	(15,893,051)
Total capital assets being depreciated, net	34,493,963	(1,562,974)	(2,348,892)	803,557	31,385,654
Governmental activities capital assets, net	\$ 49,645,331	\$ 7,096,366	\$ (2,394,050)	\$ -	\$ 54,347,647

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 2,193,349	\$ -	\$ -	\$ -	\$ 2,193,349
Water rights	475,000	-	-	-	475,000
Construction in progress	1,989,351	54,215	-	(1,558,088)	485,478
<b>Total capital assets not being depreciated</b>	<b>4,657,700</b>	<b>54,215</b>	<b>-</b>	<b>(1,558,088)</b>	<b>3,153,827</b>
Capital assets being depreciated:					
Buildings	626,228	66,917	-	-	693,145
Improvements	9,096,804	27,644	-	1,426,626	10,551,074
Infrastructure	108,349,006	363,108	-	131,462	108,843,576
Machinery and equipment	610,379	192,733	-	-	803,112
Vehicles	1,159,700	-	(108,679)	-	1,051,021
<b>Total capital assets being depreciated</b>	<b>119,842,117</b>	<b>650,402</b>	<b>(108,679)</b>	<b>1,558,088</b>	<b>121,941,928</b>
Less accumulated depreciation for:					
Buildings	(7,828)	(16,493)	-	-	(24,321)
Improvements	(2,604,298)	(374,127)	-	-	(2,978,425)
Infrastructure	(28,092,275)	(2,964,433)	-	-	(31,056,708)
Machinery and equipment	(396,220)	(62,055)	-	-	(458,275)
Vehicles	(554,603)	(94,939)	88,198	-	(561,344)
<b>Total accumulated depreciation</b>	<b>(31,655,224)</b>	<b>(3,512,047)</b>	<b>88,198</b>	<b>-</b>	<b>(35,079,073)</b>
<b>Total capital assets being depreciated, net</b>	<b>88,186,893</b>	<b>(2,861,645)</b>	<b>(20,481)</b>	<b>1,558,088</b>	<b>86,862,855</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 92,844,593</b>	<b>\$ (2,807,430)</b>	<b>\$ (20,481)</b>	<b>\$ -</b>	<b>\$ 90,016,682</b>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 191,690
Public safety	240,374
Public works	1,075,730
Culture and recreation	<u>362,794</u>

Total depreciation expense - governmental activities	<u><u>\$ 1,870,588</u></u>
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Business-type activities:

Electric	\$ 1,366,992
Water	708,038
Wastewater	1,411,507
Stormwater	24,459
Utility billing services	<u>1,051</u>

Total depreciation expense - business-type activities	<u><u>\$ 3,512,047</u></u>
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CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Capital Assets (Continued)

Capital asset activity for the Airport Association component unit for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 301,500	\$ -	\$ -	\$ 301,500
Total capital assets not being depreciated	301,500	-	-	301,500
Capital assets being depreciated:				
Buildings	1,622,403	39,700	-	1,662,103
Equipment	13,390	-	-	13,390
Improvements	54,433	-	-	54,433
Infrastructure	778,922	-	-	778,922
Total capital assets being depreciated	2,469,148	39,700	-	2,508,848
Less accumulated depreciation for:				
Buildings	(514,158)	(45,952)	-	(560,110)
Equipment	(13,390)	-	-	(13,390)
Improvements	(17,894)	(2,721)	-	(20,615)
Infrastructure	(199,968)	(26,404)	-	(226,372)
Total accumulated depreciation	(745,410)	(75,077)	-	(820,487)
Total capital assets being depreciated, net	1,723,738	(35,377)	-	1,688,361
Airport Association capital assets, net	<u>\$ 2,025,238</u>	<u>\$ (35,377)</u>	<u>\$ -</u>	<u>\$ 1,989,861</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plans

Plan Description

The 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 (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees hired prior to July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6% for employees hired after July 1, 2009. K.S.A. 74-4975 establishes the 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 January through March and July through December 2010 was 7.14%. The KEPRS employer rate established by statute for April through June 2010 was 6.14%. The City employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008 were \$ 261,495, \$ 235,225, and \$ 216,519, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating employer rate established for fiscal years beginning in 2010 is 12.86%. 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 contributions to KP&F for the years ending December 31, 2010, 2009, and 2008 were \$ 234,877, \$ 259,422, and \$ 280,510, respectively, equal to the statutory required contributions for each year.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Defined Contribution Plan

The City has established a Section 457 deferred compensation plan for those full-time employees not covered by the KP&F program. The plan administrator International City/County Management Association establishes the annual employee and employer contribution rates for those participating in KPERS as the difference between the rates under the KP&F and KPERS programs. For employees not yet eligible for KPERS, the rates are the same as those for the KP&F program. For 2010, the City's contributions were \$ 24,858.

9 - Other Postemployment Healthcare Benefits

*Description.* The City offers postemployment health and dental insurance to retired employees through Midwest Public Risk (MPR) which is a risk pool comprised of more than 120 entity members. MPR functions as an agent multiple-employer plan. The pool arrangement that is maintained to collect premiums and pay claims/administrative costs does not qualify as an "OPEB Plan" and thus cannot be treated as holding assets in order to offset OPEB liabilities. Though retiree benefits are not directly paid by the City, they are implicitly paid over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. Retirees of the City (and their dependents) may elect to continue coverage in the medical and dental plans offered through MPR. Spousal coverage may continue for up to three years upon retiree death or retiree attainment of age 65. In any event, spousal coverage is not available beyond spouse age 65. MPR issues a publicly available financial report that may be obtained by writing to MPR at 19400 East Valley View Parkway, Independence, Missouri 64055.

*Funding Policy.* Through MPR, the City provides health and dental insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125% of the premium cost for other similarly situated employees. The contribution requirements of plan members and the City are established and may be amended by the MPR Board of Directors. Retirees contribute 100% of the cost of premiums, which vary depending on the coverage selected.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

9 - Other Postemployment Healthcare Benefits (Continued)

The City appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditures on a pay-as-you-go basis through the General Fund, Proprietary Funds, and Internal Service Funds. In 2010, plan members receiving benefits contributed \$ 15,348 to the plan and the City contributed \$ 12,000 to the plan.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 47,574
Interest on net OPEB obligation	6,299
Adjustment to annual required contribution	<u>(7,326)</u>
Annual OPEB cost (expense)	46,547
Contributions made	<u>(12,000)</u>
Increase in net OPEB obligation	34,547
Net OPEB obligation, January 1, 2010	<u>109,552</u>
Net OPEB obligation, December 31, 2010	<u><u>\$ 144,099</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008, 2009 and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 61,088	7.11%	\$ 56,747
2009	57,146	7.60%	109,552
2010	46,547	25.78%	144,099

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

9 - Other Postemployment Healthcare Benefits (Continued)

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 296,691. The City's policy is to fund the benefits on a pay-as-you-go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 296,691. The covered payroll (annual payroll of active employees covered by the plan) was \$ 6,425,894 and the ratio of the UAAL to the covered payroll was 4.6 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was applied. The actuarial assumptions included a 5.75 percent discount rate, which reflects the expected rate of return of the MPR Health and Dental Fund as it is used to pay retiree claims. The valuation assumed annual healthcare cost trend rates of six to ten percent in the first six years and an ultimate rate of five and one-half percent after seven years. The UAAL is being amortized on a level dollar closed basis over a period of 30 years with the remaining amortization period of 29 years.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Risk Management

The City is exposed to various risks of loss related to torts; that is, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health benefits and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in claims from prior years.

The City obtains workers' compensation and employee health insurance through its membership in the Kansas Eastern Region Insurance Trust (KERIT) and MPR, whose members consist of local cities and counties. KERIT is a risk-sharing pool organized under the insurance laws of the State of Kansas which self-insures workers' compensation and other related expenses up to certain limits and reinsures additional excess amounts up to certain limits. The City pays annual premiums to KERIT based upon historical experience and legal requirements mandated by the State of Kansas. The trust agreement allows for member assessments in the event claims and expenses exceed KERIT's self-insured retention limit. MPR operates as a purchasing pool to provide medical and dental insurance coverage on both a self-insured and conventional basis. The City does not anticipate any additional assessments in excess of premiums paid as a result of its participation in these trusts.

11 - Capital Projects

The City is currently improving its water/sewer and electrical systems, working on street projects and performing various new developments. These projects are being funded primarily by the issuance of bonds, both general obligation and special assessment.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Capital Projects (Continued)

Following is a summary of project-to-date costs to December 31, 2010 on the capital projects compared to the amount authorized:

	<u>Costs to Date</u>	<u>Amount Authorized</u>
Governmental improvements	\$ 7,495,846	\$ 7,767,485
Benefit districts	10,987,818	14,363,039
Sewer improvements	33,528	40,130
Water improvements	451,949	500,000
Stormwater improvements	42,481	42,604
	<u>\$ 19,011,622</u>	<u>\$ 22,713,258</u>

12 - Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

CITY OF GARDNER, KANSAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

12 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

General obligation bonds payable at December 31, 2010 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2010	Outstanding December 31, 2010
General Obligation Bonds:					
Governmental activities:					
2001A refunding	3.5%-4.6%	\$ 394,661	11/1/2016	\$ 25,000	\$ 190,000
2002B refunding and improvement	2.0%-4.2%	210,000	9/1/2016	15,000	30,000
2003C refunding and improvement	1.5%-3.6%	2,821,000	10/1/2013	268,550	831,800
2004D refunding and improvement	3.5%-4.5%	830,000	10/1/2024	35,000	535,000
2005A improvement	3.0%-3.75%	3,355,000	10/1/2015	330,000	1,830,000
2006A improvement	4.0%-4.125%	3,545,000	10/1/2016	245,000	2,720,000
2008A improvement	3.00%-4.00%	1,810,000	10/1/2018	1,530,000	140,000
2008B improvement	3.125%-4.00%	435,000	10/1/2018	40,000	360,000
2009C refunding and improvement	1.50%-2.55%	251,850	9/1/2015	32,200	219,650
2010A refunding and improvement	2.00%-3.60%	2,770,000	10/1/2030	-	2,770,000
				<u>\$ 2,520,750</u>	<u>\$ 9,626,450</u>
Business-type activities:					
2002B refunding and improvement	2.0%-4.2%	4,550,000	9/1/2016	\$ 350,000	\$ 2,285,000
2003C refunding and improvement	1.5%-3.5%	329,000	10/1/2012	16,450	28,200
2004D refunding and improvement	3.5%-3.85%	495,000	10/1/2014	50,000	225,000
2005A improvement	3.0%-3.75%	1,320,000	10/1/2015	130,000	715,000
2006A improvement	4.0%-4.125%	7,150,000	10/1/2016	680,000	4,715,000
2008A improvement	3.00%-4.00%	2,910,000	10/1/2018	265,000	2,430,000
2008B improvement	3.125%-4.00%	6,250,000	10/1/2018	565,000	5,155,000
2008D refunding	3.25%-5.40%	1,410,000	11/1/2016	215,000	805,000
2009A improvement	2.00%-3.7%	2,267,028	10/1/2019	217,028	2,050,000
2009C refunding and improvement	1.50%-2.90%	2,628,150	9/1/2016	307,800	2,320,350
				<u>\$ 2,796,278</u>	<u>\$ 20,728,550</u>

CITY OF GARDNER, KANSAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (Continued)

12 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The future annual requirements for general obligation bonds outstanding as of December 31, 2010 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,182,300	\$ 342,566	\$ 2,992,700	\$ 730,870
2012	1,394,600	296,092	3,065,400	633,182
2013	1,443,700	246,939	3,121,300	530,491
2014	1,249,850	195,216	3,015,150	423,169
2015	1,256,000	149,576	3,044,000	318,581
2016 - 2020	1,340,000	397,503	5,490,000	383,678
2021 - 2025	895,000	236,360	-	-
2026 - 2030	865,000	92,213	-	-
	<u>\$ 9,626,450</u>	<u>\$ 1,956,465</u>	<u>\$ 20,728,550</u>	<u>\$ 3,019,971</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

12 - Long-Term Debt (Continued)

Special Assessment Bonds

The City's special assessment debt was issued to provide funds for the construction of infrastructure in new commercial and residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. Special assessment bonds at December 31, 2010 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2010	Outstanding December 31, 2010
Special Assessment Bonds:					
Governmental activities:					
2001A refunding	3.5%-4.6%	\$ 480,339	11/1/2016	\$ 35,000	\$ 230,000
2002B refunding and improvement	2.0%-4.0%	100,000	9/1/2012	10,000	-
2003C refunding and improvement	1.5%-4.4%	670,000	10/1/2018	60,000	290,000
2004D refunding and improvement	3.5%-4.1%	1,835,000	10/1/2019	150,000	1,025,000
2008B improvement	3.125%-4.5%	3,215,000	10/1/2028	160,000	2,910,000
2009A improvement	2.00%-4.00%	5,437,972	10/1/2024	287,972	5,150,000
				<u>\$ 702,972</u>	<u>\$ 9,605,000</u>

CITY OF GARDNER, KANSAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (Continued)

12 - Long-Term Debt (Continued)

Special Assessment Bonds (Continued)

Annual debt service requirements to maturity for special assessment bonds are as follows:

	Governmental Activities	
	Principal	Interest
2011	\$ 715,000	\$ 343,225
2012	735,000	322,635
2013	755,000	301,140
2014	730,000	278,758
2015	725,000	255,246
2016 - 2020	3,025,000	935,229
2021 - 2025	2,425,000	379,849
2026 - 2030	495,000	45,000
	\$ 9,605,000	\$ 2,861,082

Sale of Fire Department

In the current year, the City sold its Fire Department and all related equipment to Johnson County Fire District No. 1 (the District). In exchange for \$ 2,277,616, the District assumed ownership of the Bronto Aerial Apparatus under capital lease and also purchased Public Safety Station #2 for the amount of the annual bond payments and the final payment to be made in 2016 on the 2008A General Obligation bonds related to Public Safety Station #2. The City paid \$ 784,629 to relieve the remaining debt associated with the capital lease for the Bronto Aerial Apparatus. The amount of \$ 1,485,453 was wired to an escrow agent for the 2008A General Obligation Bonds partial defeasance that occurred. The City retained the remaining \$ 7,534.

Defeased Debt

The City has defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At December 31, 2010, \$ 1,920,000 of the bonds that are considered defeased are outstanding.