

CITY OF LAWRENCE, KANSAS

Comprehensive Annual Financial Report For the Fiscal Year Ended December 31, 2011

**Prepared by:
Department of Finance**

CITY OF LAWRENCE, KANSAS

Mission Statement

MISSION

We are committed to providing excellent city services that enhance the quality of life for the Lawrence community.

VALUES

In order to fulfill our mission, we have established several guidelines:

We are committed to these basic principles:

*Integrity
Courtesy
Fairness
Honesty*

How we get the job done is as important as getting the job done.

Our interaction with the community will be professional, responsive, direct, personal, caring and appropriate.

We will promote teamwork, employee satisfaction and professional development in order to provide innovative, cost-effective, efficient service.

WE WANT OUR CITIZENS, CLIENTS AND CUSTOMERS TO HAVE HIGH EXPECTATIONS OF GOVERNMENT SERVICE, AND WE WILL DO OUR BEST TO MEET AND EXCEED THOSE EXPECTATIONS.

CITY OF LAWRENCE, KANSAS

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INTRODUCTORY SECTION

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City of Lawrence

FINANCE

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CITY MANAGER

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CITY COMMISSION

MAYOR
ROBERT J. SCHUMM

COMMISSIONERS
MICHAEL DEVER
HUGH CARTER
MIKE AMYX
ARON E. CROMWELL

June 28, 2012

To the Citizens of Lawrence:

The Comprehensive Annual Financial Report (CAFR) of the City of Lawrence for the year ended December 31, 2011 is hereby submitted. The report was prepared by the Finance Department, which is responsible for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. Unless waived by the local government, Kansas Statutes require that the financial statements be presented in conformance with generally accepted accounting principles (GAAP) and be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

The report consists of management's representations concerning the finances of the City of Lawrence. The City has established a comprehensive set of internal controls that is designed to protect the government's assets from loss and to compile sufficient reliable information for the preparation of the financial statements. Because the cost of internal controls should not exceed the benefits, internal controls are designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements have been audited by Mize Houser & Company PA, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Lawrence for the fiscal year ended December 31, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Lawrence's financial statements for the year ended December 31, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Lawrence was part of a broader, federally mandated "Single Audit" designed to meet the special needs for federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal



requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These Single Audit reports are part of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A section can be found immediately following the report of the independent auditors.

Profile of the City The City of Lawrence was founded in 1854 as a project of the New England Emigrant Aid Society. The City is located thirty-eight miles west of Kansas City, Missouri, and twenty-five miles east of Topeka, the state capitol. In addition, Lawrence is home to the University of Kansas, which is the largest local employer. The City encompasses approximately 34.3 square miles and had an estimated population in 2011 of 93,927.

The City of Lawrence has operated under the Commission-City Manager form of government since 1951. The five member Commission is elected at large to either a two or four year term. Each year the Commission chooses one of its members to serve as Mayor. The Commission is responsible for policy making, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for the day-to-day operations of the City and for hiring personnel.

The City provides a full range of services which include police and fire protection, construction and maintenance of infrastructure, community development and planning, and recreational and cultural activities. The City also operates both the water and wastewater utilities. In addition, the City provides both residential and commercial sanitation services to its citizens. The Lawrence Public Library, Lawrence Housing Authority, and Lawrence Memorial Hospital are considered component units of the City of Lawrence and thus have financial information included in this report.

The annual budget provides a foundation for financial planning and control. The City must submit its annual budget to the State of Kansas prior to the end of August. The City Commission is required to hold a public hearing to discuss the budget prior to its adoption. The budget is adopted by fund. An amendment to increase the budget is allowed up to the amount non property tax sources of revenue exceed the adopted budget. Budget to actual comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted.

The information presented in the financial statements is best understood when it is considered from the specific environment within which the City operates.

Local Economy The local economy is varied and diverse. Employment opportunities are provided by over 2000 local employers. Major employers include The University of Kansas, Lawrence Public Schools, Vangent, Lawrence Memorial Hospital, Hallmark Cards, The World Company, and Berry Plastic.

Lawrence is committed to its downtown. For years, housing opportunities in downtown have been a sought after commodity and in 2011, a developer added a \$10 million, multi-story complex that features office, housing and retail space at the corner of 9th and New Hampshire.

Also in downtown Lawrence, an \$18-million expansion and renovation of the Lawrence Public Library is planned that will increase the size of the library and for additional parking to the public.

Within the first two years of operation, the Bioscience and Technology Business Center (BTBC) on the University of Kansas' West Campus reached 100% capacity. In 2011, three new companies located within the BTBC and chose to call Lawrence home – Assurant Employee Benefits, Gyrasol and Argenta. Since the launch of the BTBC, 60 jobs have been created in Lawrence. The BTBC has proven to be an excellent resource to attract investment and entrepreneurs to the regional business community.

The average unemployment of the Lawrence MSA in 2011 was 5.2% which is down from 6.2% in 2010. The total civilian labor force was 61,400 in December, 2011. The average annual unemployment rate for 2007, 2008, 2009 and 2010 was, 3.7%, 3.9%, 5.5% and 6.2% respectively. The number of homes sold in Lawrence during 2011 was 1058, a slight decrease from the 1239 in 2010. The median selling price for a home was \$158,000 during the year, holding steady with the \$158,000 median selling price in 2010.

Major Initiatives The City Commission has adopted goals to guide future financing of activities. Included in these goals are economic development, building a sense of community, and improving transportation. Several actions were taken in 2011 to promote economic development.

In 2011, the City of Lawrence continued to place street maintenance and infrastructure at the top of the priority list. Over \$5 million in funding is dedicated to street maintenance projects each year and additional funds from the Infrastructure Sales Tax are leveraged to create a comprehensive street maintenance program that addresses various roadway issues as well as curbs, gutters and potholes. In 2011, the street maintenance program completed: 10,901 potholes repairs, crack sealed 41.5 lanes miles (\$163,000), microsurfaced 33.8 lane miles (\$1.2 million), mill & overlaid 29 lane miles (\$1.85 million), repaired or installed 22,589 linear feet of curbs and guttering, and installed 55 ADA ramps.

The City of Lawrence utilized \$3.5 million from the 2008 voter approved Infrastructure Sales Tax to completely reconstruct Kasold Street from 23rd Street to 31st Street in 2011 (an additional \$1 million was provided by KDOT for the project). The sales tax was approved to provide funding for street maintenance, infrastructure and transit services. The project began construction in December 2010 and was opened to motorists in November 2011. The entire four-lane roadway, including turn lanes, was completely rebuilt and was the first major reconstruction project to utilize sales tax funds.

In June 2011, Lawrence's local hydroelectric power plant, The Bowersock Mills and Power Company (BMPC), broke ground on a \$25-million expansion facility which will triple the production of renewable energy harnessed from the waters of the Kansas River. The current South Powerhouse produces approximately 11 million kWh of hydroelectric power and, when finished, the North and South Powerhouses combined will produce approximately 33 million kWh. BMPC has signed an agreement with the Board of Public Utilities in Kansas City, Kansas to purchase the power generated for 25 years. Through this partnership, the city will receive a more efficient, environmentally preferred method of maintaining the upstream water pool for the same cost.

Long Term Planning As Lawrence continues to experience moderate growth the need to build new infrastructure has lessened but the need to maintain existing streets and storm sewers remains very important. The city saw a slight decrease in construction activity in 2011 including the construction of more new homes than the previous year. Unemployment has decreased and remains below both the state and national averages.

The City has experienced a decrease in the number of special benefit districts to finance streets and sidewalks in the City. The City typically allows benefit district projects to be financed over a ten year period. If the property taxes are not paid by the property owners in the benefit district, the cost of the principal and interest payments are covered by the public at-large.

The City Commission has adopted a capital improvement plan for the voter approved sales tax for infrastructure. The plan includes approximately \$31 million in projects. A master plan to determine the improvements needed for the water and sanitary sewer systems is currently being reviewed. The plan will identify needed capital projects and will be the basis for future rate calculations.

The City Commission is provided with a projection of the revenue, expenditures, and fund balances of the property tax supported funds as part of the deliberations over the operating budget. The main purpose is to avoid large fluctuations in the property tax levy and to warn of potential deficits and the need to either enhance revenue sources and/or reduce the growth of expenditures. The City Commission has adopted a policy to maintain the unassigned fund balance in the General Fund at a level equal to 15-30% of expenditures.

Financial Policies The City has implemented GASB 54. GASB 54 redefines the manner in which fund balance is displayed and how special revenue funds are established. The standard places an emphasis on the availability of fund balance for future expenditures. Special revenue funds must receive a significant amount of revenue from a designated source in order to be considered a separate fund. After reviewing the standard, the City has determined that no reduction in its funds were required. Instead, the City reclassified two reserve funds to internal service funds and displayed sales tax revenue being deposited into five funds. The City Commission has adopted a new fund balance policy incorporating the new requirements.

Awards and Acknowledgements The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lawrence for its comprehensive annual financial report (CAFR) for the year ended December 31, 2011. This was the twentieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its 2011 annual budget document. In order to qualify for the Distinguished Budget Presentation Award, the budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

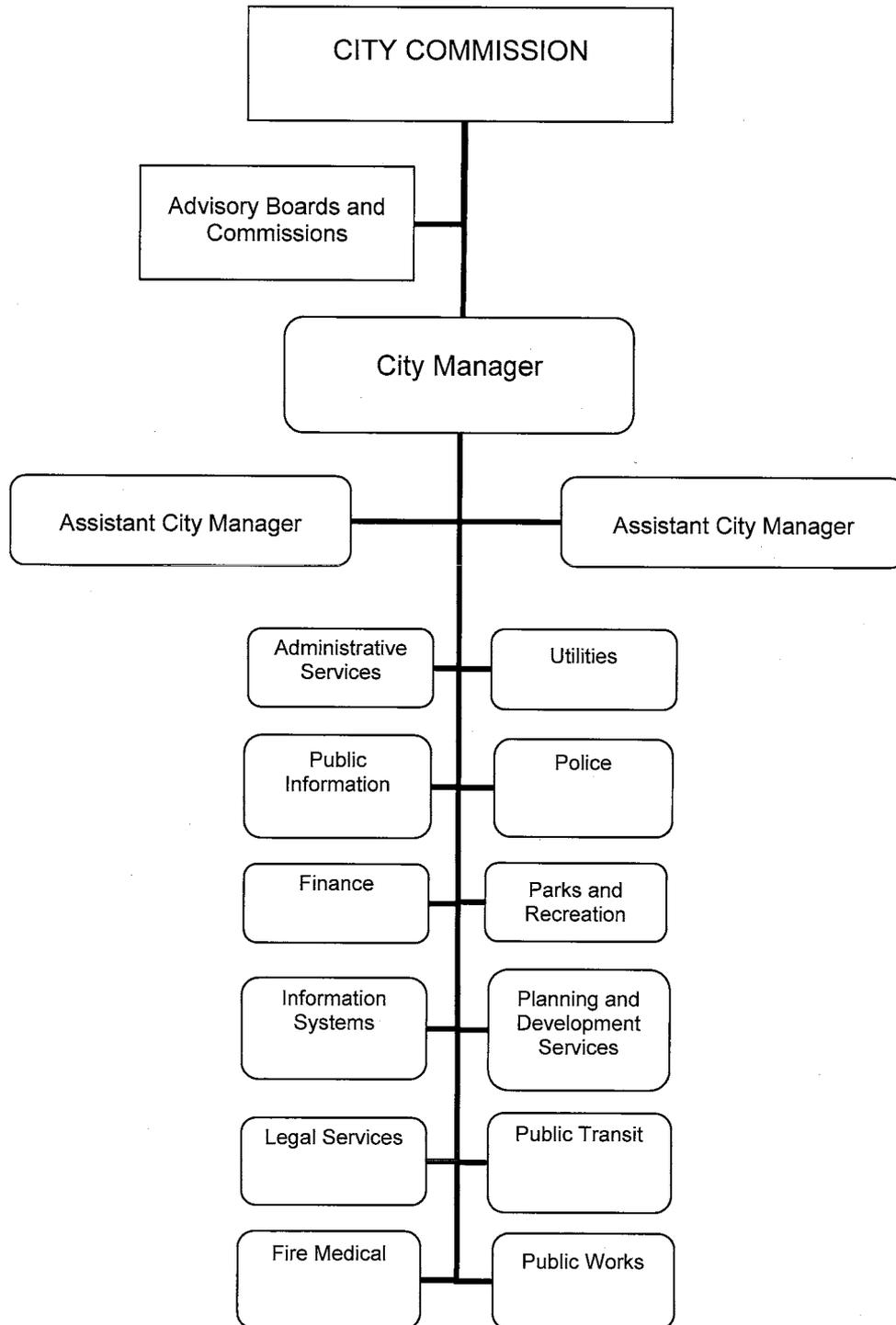
The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Special acknowledgement must be given to the work of Laura Warner. In closing, without the leadership and support of the governing body of the City, preparation of this report would not have been possible.

Respectfully submitted,



Ed Mullins
Finance Director

City of Lawrence Organizational Chart



CITY OF LAWRENCE, KANSAS

List of Principal Officials

December 31, 2011

| Title | Name |
|---------------------------------------|------------------|
| Mayor | Mike Amyx |
| Vice Mayor | Robert Schumm |
| Commission Member | Michael H. Dever |
| Commission Member | Aron Cromwell |
| Commission Member | Hugh Carter |
| City Manager | David Corliss |
| Assistant City Manager | Cynthia Wagner |
| Assistant City Manager | Diane Stoddard |
| City Clerk | Jonathan Douglas |
| Finance Director | Ed Mullins |
| Fire Chief | Mark Bradford |
| Information Systems Director | James Wisdom |
| Legal Services Director | Toni Wheeler |
| Parks & Recreation Director (Interim) | Ernie Shaw |
| Planning and Development Services | Scott McCullough |
| Police Chief | Ron Olin |
| Public Works Director | Charles Soules |
| Utilities Director | Dave Wagner |

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lawrence
Kansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



MIZE & HOUSER
COMPANY P.A.

INDEPENDENT AUDITOR'S REPORT
ON THE BASIC FINANCIAL STATEMENTS

Mayor and City Commission
City of Lawrence, Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawrence, Kansas, as of and for the year ended December 31, 2011, 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 did not audit the financial statements of the Lawrence Memorial Hospital which statements reflect total assets of \$248,116,728 as of December 31, 2011 and total expenses of \$156,594,601 for the year then ended, and the Lawrence-Douglas County Housing Authority which statements reflect total assets of \$22,436,170 as of December 31, 2011 and total expenses of \$8,167,891 for the year then ended, which are discretely presented component units in the accompanying financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lawrence Memorial Hospital and the Lawrence-Douglas County Housing Authority is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawrence, Kansas, at December 31, 2011, 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.

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In accordance with "Government Auditing Standards," we have also issued our report dated June 28, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 18 and the schedules of funding progress on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Mike Houser: Company PA

June 28, 2012

Management's Discussion and Analysis

As management of the City of Lawrence, Kansas, we offer readers of the financial statements an overview and analysis of the financial activities of the City of Lawrence for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal of this report.

Financial Highlights

- The assets of the City of Lawrence exceeded its liabilities at the end of 2011 by \$353,091,566. Of this amount, \$63,319,765 may be used to meet the government's ongoing obligations.
- An event that helped increase net assets was a \$4.2 million increase in total capital assets.
- As of December 31, 2011, the City's governmental funds reported combined ending fund balances of \$49,122,526, an increase of \$2,071,911 in comparison with the prior year. The increase occurred as the result of an increase in the reserve funds for capital projects. Approximately 17.7% is not available for spending at the City's discretion.
- At the end of 2011, the City's unassigned general fund balance was \$12,764,449 or 23.9% of total general fund expenditures.
- The City's total long term debt decreased by over \$10.2 million during the year. The city issued \$3.9 million in tax exempt general obligation bonds for paying the costs of certain street, building, traffic signal and other improvements. The City also issued \$14.4 million of bond anticipation notes for the purpose of temporarily financing the costs of street improvements, and benefit districts in the City.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lawrence's basic financial statements. The financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Some revenues and expenses reported in the statements will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities include general government, public safety, public works, and recreation. The business-type activities include the water and sanitary sewer, sanitation, storm sewer, and golf course operations.

The government-wide financial statements include not only the City of Lawrence, but also the Lawrence Public Library, the Lawrence Public Housing Authority and Lawrence Memorial Hospital. Financial information for these component units is reported separately from the financial information presented for the City.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources.

Because the focus of governmental funds is different than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City of Lawrence maintains 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for these funds is provided in the form of combining statements in this report.

A budget is approved annually for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds are used to account for the activities of the water and sewer, sanitation, public parking, storm water, and golf course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among functions. Internal service funds are used to account for health care costs, fleet maintenance, office supplies and workers compensation and liability expenses. These activities have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer and sanitation operations. The other enterprise funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and the internal service funds is provided in the form of combining statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information concerning the City's progress in funding its obligation to fund its outstanding debt.

The combining statements are presented immediately following the required supplementary information.

Government-wide Financial Analysis

By far the largest portion of the City of Lawrence's net assets reflects its investment in capital assets. Capital assets are used to provide services and are not available for future spending. The resources needed to repay capital-related debt must be provided from other sources.

City of Lawrence's Net Assets (000's)

| | Governmental | | Business-type | | Total | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> |
| Current and other Assets | \$ 103,442 | \$ 114,244 | \$ 52,314 | \$ 49,428 | \$ 155,756 | \$ 163,672 |
| Capital Assets | <u>195,109</u> | <u>198,612</u> | <u>204,311</u> | <u>205,011</u> | <u>399,420</u> | <u>403,623</u> |
| Total | <u>\$ 298,551</u> | <u>\$ 312,856</u> | <u>\$ 256,625</u> | <u>\$ 254,439</u> | <u>\$ 555,176</u> | <u>\$ 567,295</u> |
| Other Liabilities | \$ 36,149 | \$ 44,534 | \$ 3,939 | \$ 4,010 | \$ 40,088 | \$ 48,544 |
| Long term Liabilities | <u>79,926</u> | <u>75,879</u> | <u>94,671</u> | <u>89,781</u> | <u>174,597</u> | <u>165,660</u> |
| Total | <u>\$ 116,075</u> | <u>\$ 120,413</u> | <u>\$ 98,610</u> | <u>\$ 93,791</u> | <u>\$ 214,685</u> | <u>\$ 214,204</u> |
| Net Assets: | | | | | | |
| Capital Assets Net of Debt | \$ 120,684 | \$ 129,183 | \$ 131,661 | \$ 130,911 | \$ 252,345 | \$ 260,094 |
| Restricted | 30,078 | 29,678 | - | - | 30,078 | 29,678 |
| Unrestricted | <u>30,724</u> | <u>33,582</u> | <u>27,344</u> | <u>29,738</u> | <u>58,068</u> | <u>63,320</u> |
| Total | <u>\$ 181,486</u> | <u>\$ 192,443</u> | <u>\$ 159,005</u> | <u>\$ 160,649</u> | <u>\$ 340,491</u> | <u>\$ 353,092</u> |

It was determined that the proper classification for two funds, previously categorized as special revenue funds, was internal service funds. The effect on net assets changed the Governmental Activities net assets at December 31, 2010 as reported from \$182,475,773 to \$181,485,720 with a negative net change of \$990,053. The effect on net assets changed the Business-type Activities net assets at December 31, 2010 as reported from \$158,015,321 to \$159,005,374 with a positive net change of \$990,053.

A portion of the net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet ongoing obligations.

As of the end of 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was an increase in net assets for the governmental type funds due in large part to an increase in current and other assets. The increase in governmental other liabilities was the result of the issuing of \$14.4 million in bond anticipation notes. The decrease in long term government liabilities was the result of the issuance of \$3.9 million in general obligation bonds payable from property taxes less the retirement of \$8.7 million in general obligation bonds from governmental type sources. A total \$11.4 million of the general obligation bonds are payable from Business-type activities

There was also an increase in net assets reported in connection with the business-type activities. The Water and Sewer Fund had an increase in net assets of \$1.41 million from operations. The other business-type activities reported combined increases in net assets of slightly more than \$56,000. Current assets decreased because cash was used to finance the construction of capital assets and payment of debt. Long term liabilities decreased with the retirement of \$5.4 million in debt.

Overall, the City's net assets increased by \$12,600,472 during 2011 as a result of the construction of governmental capital assets and infrastructure sales tax proceeds. The City has been using internally generated cash to fund a portion of the water and sewer capital improvements. The Storm Water Utility is responsible for retiring \$3.7 million in general obligation debt. A more complete analysis of the changes in the City's net assets is shown below.

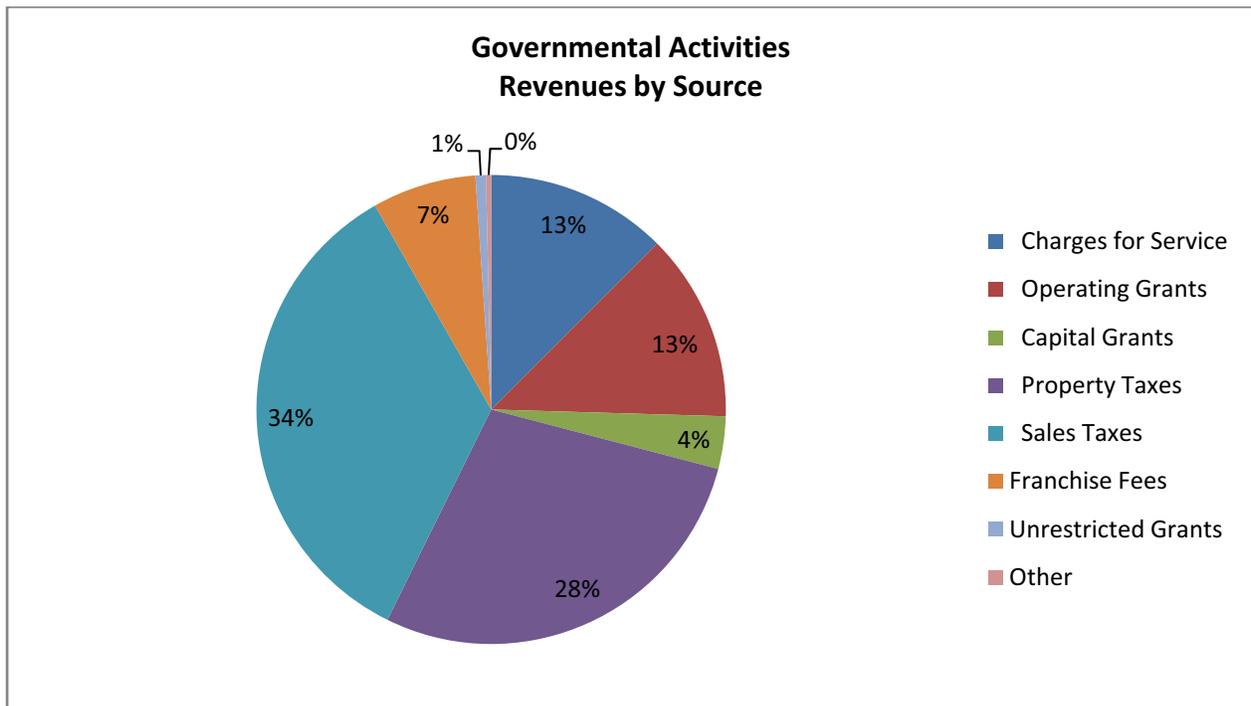
City of Lawrence's Changes in Net Assets
(000's)

| | Governmental | | Business-type | | Total | |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Service | \$ 11,845 | \$ 11,175 | \$ 45,256 | \$ 46,571 | \$ 57,101 | \$ 57,746 |
| Operating Grants | 10,417 | 11,610 | - | - | 10,417 | 11,610 |
| Capital Grants | 14,677 | 3,236 | - | - | 14,677 | 3,236 |
| General Revenues: | | | | | | |
| Property Taxes | 24,690 | 25,240 | - | - | 24,690 | 25,240 |
| Sales Taxes | 29,499 | 30,835 | - | - | 29,499 | 30,835 |
| Franchise Fees | 6,300 | 6,409 | - | - | 6,300 | 6,409 |
| Unrestricted Grants | 723 | 645 | 5 | 3 | 728 | 648 |
| Other | 344 | 320 | 554 | 726 | 898 | 1,046 |
| Total | <u>98,495</u> | <u>89,470</u> | <u>45,815</u> | <u>47,300</u> | <u>144,310</u> | <u>136,770</u> |
| Expenses | | | | | | |
| General Government | 23,127 | 22,478 | - | - | 23,127 | 22,478 |
| Public Safety | 28,650 | 29,036 | - | - | 28,650 | 29,036 |
| Public Works | 16,868 | 16,173 | - | - | 16,868 | 16,173 |
| Social Services | 1,915 | 2,264 | - | - | 1,915 | 2,264 |
| Recreation | 9,012 | 9,160 | - | - | 9,012 | 9,160 |
| Health | 1,919 | 1,438 | - | - | 1,919 | 1,438 |
| Interest on Debt | 2,813 | 2,635 | - | - | 2,813 | 2,635 |
| Water and Sewer | - | - | 26,269 | 26,972 | 26,269 | 26,972 |
| Sanitation | - | - | 9,203 | 9,945 | 9,203 | 9,945 |
| Public Parking | - | - | 1,329 | 1,330 | 1,329 | 1,330 |
| Storm Water | - | - | 1,695 | 1,822 | 1,695 | 1,822 |
| Golf | - | - | 999 | 917 | 999 | 917 |
| Total expenses | <u>84,304</u> | <u>83,184</u> | <u>39,495</u> | <u>40,986</u> | <u>123,799</u> | <u>124,170</u> |
| Excess [deficiency] | 14,191 | 6,286 | 6,320 | 6,315 | 20,511 | 12,600 |
| Transfers | 4,621 | 4,671 | [4,621] | [4,671] | - | - |
| Change in Net Assets | 18,812 | 10,957 | 1,699 | 1,644 | 20,511 | 12,600 |
| Beginning Net Assets | <u>163,664</u> | <u>181,486</u> | <u>156,316</u> | <u>159,005</u> | <u>319,980</u> | <u>340,491</u> |
| Ending Net Assets | <u>\$ 182,476</u> | <u>\$ 192,443</u> | <u>\$ 158,015</u> | <u>\$ 160,649</u> | <u>\$ 340,491</u> | <u>\$ 353,091</u> |

Governmental activities. Governmental activities increased the City’s net assets by \$10,957,015 during the year. Key elements of governmental activities during the year are as follows.

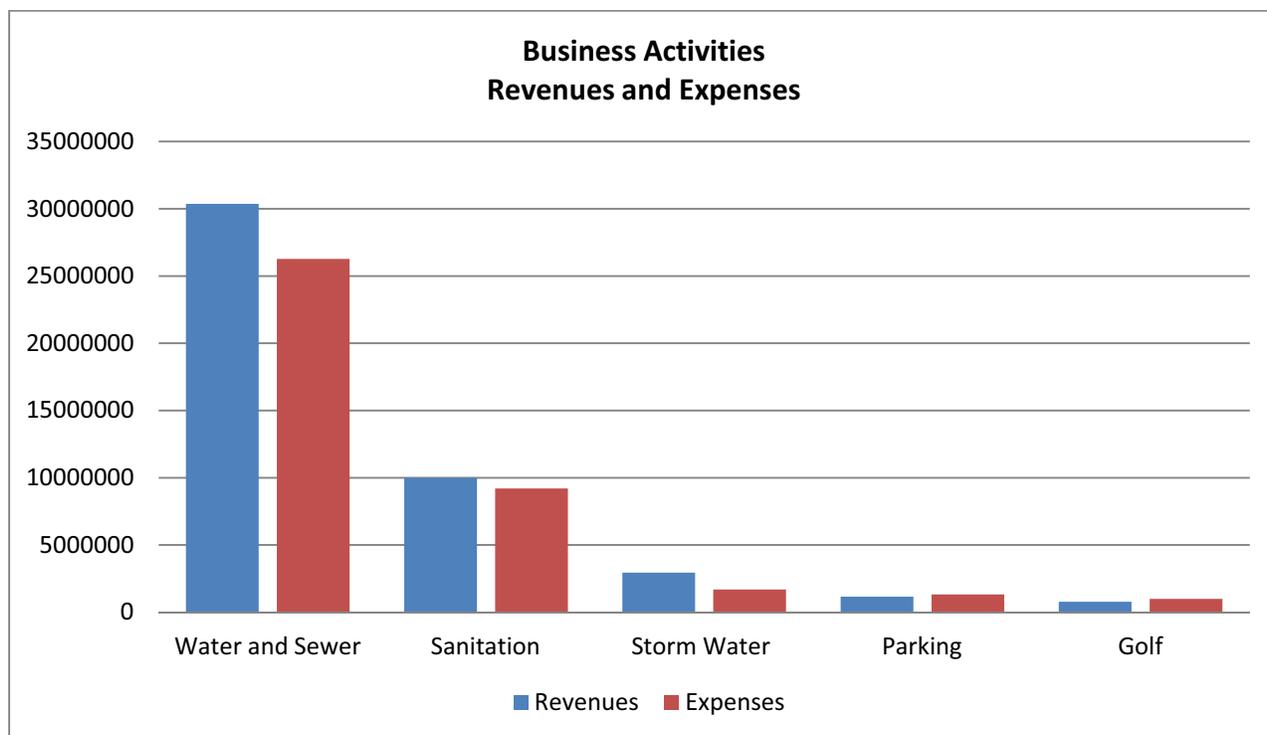
Total governmental revenues decreased by 9.2% in 2011. Operating grants increased because of a \$1.2 million increase in FTA transit grants for the purchase of buses. Capital grants decreased \$11.4 million from prior year totals as a result of a transfer of \$8.5 million in clean up funds from KDHE for the Farmland Property received in the prior year and \$1.7 million less in special assessments for the current year over previous year totals. Property taxes revenue increased slightly because of a 0.5% decrease in assessed valuation and a 1.93% increase in current taxes collected. Sales tax revenue increased because of growing consumer confidence driving increased retail sales. Franchise fees increased by only 1.73% because of an increase in electricity rates that were offset by reduced natural gas revenues from unseasonably warm winter weather.

Expenses for governmental purposes decreased 1.32%. General government expenses decreased because of a City-wide initiative to focus on streamlining processes and taking cost cutting initiatives. Employees were eligible for merit increases funded by a 1.5% merit pool. There was also an increase in the employer contribution for health care. The 2011 budget included a reduction of 5 positions in the governmental funds and 5 in the business type funds. Public safety expenses increased 1.34% because of additional hiring of police personnel. Public Works expenses decreased primarily to reduce expenses to match revenues. Expenses for social services increased because of higher CDBG and HOME grants. Health expenses decreased because of a reduction in grants for social programs.



Business-type activities. Business-type activities increased the City’s net assets by \$1,643,457. The Water and Sewer Fund and Storm Water Fund experienced positive changes in net assets while the Sanitation, Public Parking and Golf Course Funds experienced reductions. The key elements of the changes in net assets are as follows:

- Positive change in net assets in the Water and Sewer Fund equaling \$1,411,442 with no increase in water or sewer rates in 2011.
- Positive net income in the Storm Water Fund equaling \$732,843. Storm water fees were not changed in 2011.
- Program revenue decreased due to a transfer of \$8.5 million in clean up funds from KDHE for the Farmland Property received in prior year. Interest earnings were also significantly lower.
- Business-type operating expenses were 3.8% more than 2011 business-type operating expenses and were constrained in order to balance revenues and expenses. Water and Sewer Fund expenses increased \$702,136 because of increasing treatment chemical costs and increased water demand driving overall higher revenues with needed additional expenses.



Financial Analysis of the Government's Funds

Governmental funds. The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending in future years.

- As of December 31, 2011, the City of Lawrence's governmental funds reported combined ending fund balances of \$49,122,526, an increase of \$2,071,911 from the prior year. Approximately 17.7% is not available for spending at the City's discretion. This amount has been committed to liquidate contracts and purchase orders and pay debt service and legal claims.

The General Fund is the primary operating fund of the City. At the end of 2011, unassigned general fund balance totaled \$12,764,449, while total general fund balance was \$13,253,834. Unassigned general fund balance represents 23.9% of total general fund expenditures, within the 15-30% range established by the City Commission's adopted fund balance policy.

Key factors affecting the general fund balance are as follows:

- An increase of 3.2% in general fund expenditures.
- A 2.4% increase in property taxes due to an increase in the percent of current taxes collected and greater delinquent tax collections.
- A 1.73% increase in franchise revenue due to increases in electricity rates and usage.

The debt service fund has a total fund balance of \$8,491,589, all of which is restricted for debt service. The amounts of debt payments are projected to increase in the near future to finance the construction of a new voter approved library.

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

Unrestricted net assets of the Water and Sewer Fund totaled \$21,547,847 at the end of 2011. The unrestricted net assets of the Sanitation Fund amounted to \$1,972,414 at the end of 2011. The change in net assets for the Water and Sewer Fund was \$1,411,442. The Sanitation Fund had a decrease in net assets of \$383,234. The hot

dry summer had an impact on the water and sewer fund. Due to the higher demand for water, water revenue was almost \$561,000 more than budgeted.

General Fund Budgetary Highlights

The City of Lawrence adopts its budget on a fund basis. The 2011 adopted General Fund budget was not amended by the City Commission during the year. On the revenue side, nearly every revenue category was less than the budgeted amount with the exception of property taxes and electric franchise taxes. Expenditure adjustments between programs and line items were significant since departments were directed to reduce spending. The more significant operational changes to the 2011 budget from prior year budgets are listed below:

- A total of 5 open positions were eliminated.
- A 1.5% merit pool was budgeted for all employees.
- Departments and outside agencies were requested to reduce their non-personnel operating budgets by 2.5% in order to better match revenues.

Capital Asset and Debt Administration

Capital assets. The City’s investments in capital assets for its governmental and business type activities as of December 31, 2011, amounts to \$403,622,378 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, roads, and bridges. The increase in capital assets for the current year was 1.05%. (For additional information on the city’s capital assets please read Note 8 on page 51.)

Major capital asset additions during the year included the following:

- Completion of 6th Street widening Project
- Completion of 6th Street/Massachusetts to Folk Road Street Project
- 2011 Microsurfacing Street Program
- Construction of anaerobic digester improvements
- Purchase of a hazmat /pumper truck

City of Lawrence's Capital Assets
(net of depreciation)
(000's)

| | Governmental | | Business-type | | Total | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> |
| Land | \$ 15,255 | \$ 15,255 | \$ 5,956 | \$ 5,998 | \$ 21,211 | \$ 21,253 |
| Buildings | 32,248 | 31,121 | 55,718 | 70,925 | 87,966 | 102,046 |
| Improvements | 18,181 | 17,021 | 109,349 | 115,260 | 127,530 | 132,281 |
| Equipment | 6,416 | 9,468 | 5,247 | 4,784 | 11,663 | 14,252 |
| Infrastructure | 116,021 | 122,741 | - | - | 116,021 | 122,741 |
| Construction in Progress | <u>6,988</u> | <u>3,006</u> | <u>28,041</u> | <u>8,043</u> | <u>35,029</u> | <u>11,049</u> |
| Total | \$ <u>195,109</u> | \$ <u>198,612</u> | \$ <u>204,311</u> | \$ <u>205,010</u> | \$ <u>399,420</u> | \$ <u>403,622</u> |

Long-term debt. At the end of 2011, the City of Lawrence had total bonded debt outstanding of \$130,025,000. Of this amount, \$79,145,000 comprises debt backed by the full faith and credit of the government (general obligation debt). The remainder of the bonded debt represents bonds secured solely by revenue generated by the Water and Sewer utility (revenue bonds). In addition, the City had \$24,902,681 due in accordance with the State Revolving Loan Fund (SRF) program for wastewater projects. (For additional information on the city’s debt please read Note 7 on page 45.)

City of Lawrence's Outstanding Debt
General Obligation and Revenue Bonds
(000's)

| | Governmental | | Business-type | | Total | |
|--------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| General Obligation | \$ 72,563 | \$ 67,739 | \$ 12,582 | \$ 11,406 | \$ 85,145 | \$ 79,145 |
| Revenue | - | - | 53,025 | 50,880 | 53,025 | 50,880 |
| SRF | - | - | 26,957 | 24,903 | 26,957 | 24,903 |
| Total | \$ 72,563 | \$ 67,739 | \$ 92,564 | \$ 87,189 | \$ 165,127 | \$ 154,928 |

The City's total outstanding debt decreased \$10.2 million during the year. The City issued \$3.9 million in general obligation bonds and retired \$14.1 million in general obligation debt. In governmental activities, \$3.9 million in general obligation bonds was issued while \$8.7 million was retired. In business-type activities, \$5.4 million in debt was retired with storm water revenue and water and sewer revenue.

The City of Lawrence maintained its rating of Aa1 on its general obligation debt by Moody's. The City's revenue bonds have been rated Aa2 by Moody's.

Kansas statutes limit the amount of general obligation debt a city may issue to 30 percent of total assessed valuation. On December 31, 2011 the debt limitation for the City of Lawrence was \$278,590,681, which is significantly in excess of the \$93,520,000 in general obligation debt the City had outstanding as of December 31, 2011.

Economic Factors and 2012 Budget

The average unemployment rate for Lawrence MSA in 2011 was 5.2%, a decrease of 1.0% from the previous year. This is below the 2011 State average of 6.4%. The City experienced a decrease of 0.5% in its assessed valuation in 2011. The 2011 assessed valuation is used to fund the 2012 budget. The City continued to work on the environmental clean-up of the Farmland property through expenditures of \$250,000.

It is expected that the revenues will exceed expenditures by approximately \$400,000 in the General Fund in 2012. Revenues are projected to be \$1,000,000 above budget. Because of sluggish economic growth during the time the 2012 budget was being developed, the budget incorporated a 2.0% increase in sales tax. Other major revenue sources had smaller increases. Funding for infrastructure maintenance was maintained in the 2012 budget in order to continue to address infrastructure needs. The 2012 budget includes a property tax increase of 1.89 mills which includes 1.50 mills for Library debt, 0.20 mills for library operation, 0.43 mills for general operating expenses and a 0.24 mill reduction to eliminate the mill levy for the Recreation Fund. A commitment to fund \$250,000 for OPEB (Other Post-Employment Benefits) was included in the 2012 budget. A total of 5 positions were added in the Police Department and a 1.20% merit pool was provided.

The City Commission approved a 2.0% increase in the rate charged for water and wastewater. The increase in sanitation rates for residential customers was 2.7% for 2012. The sanitation rate increase was implemented to cover increased operating expenses and to avoid a larger rate increase in the future. A study committee has been formed to review sanitation operations and make recommendations on future service delivery.

Requests for Information

This financial report is designed to provide a general overview of the City of Lawrence's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Lawrence, Finance Director, P.O. Box 708, Lawrence, KS 66044. The City's website can be found at www.lawrenceks.org.

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BASIC FINANCIAL STATEMENTS

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CITY OF LAWRENCE, KANSAS

Statement of Net Assets December 31, 2011

| Assets | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|--------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Cash | \$ 41,987,702 | 31,747,173 | 73,734,875 | 14,847,454 |
| Investments | 34,576,924 | 8,499,452 | 43,076,376 | 98,187,576 |
| Receivables (net of allowance of \$126,771) | 41,401,776 | 3,124,648 | 44,526,424 | 25,973,580 |
| Internal balances | (4,065,672) | 4,065,672 | — | — |
| Inventories | 343,606 | 1,666,146 | 2,009,752 | 2,866,674 |
| Prepaid items | — | 325,386 | 325,386 | 4,219,132 |
| Deferred costs | — | — | — | 739,876 |
| Other assets | — | — | — | 836,623 |
| Capital assets (Net) | | | | |
| Land and construction in progress | 18,261,440 | 14,041,219 | 32,302,659 | 7,674,004 |
| Other capital assets, net of depreciation | 180,350,112 | 190,969,607 | 371,319,719 | 119,128,877 |
| Total assets | \$ 312,855,888 | 254,439,303 | 567,295,191 | 274,473,796 |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 5,381,385 | 4,010,593 | 9,391,978 | 14,852,745 |
| Unearned revenue | 24,532,134 | — | 24,532,134 | 547,693 |
| Temporary notes payable | 14,620,813 | — | 14,620,813 | — |
| Long-term liabilities | | | | |
| Due within one year | 11,922,297 | 6,474,955 | 18,397,252 | 4,623,597 |
| Due in more than one year | 63,956,524 | 83,304,924 | 147,261,448 | 70,924,066 |
| Total liabilities | \$ 120,413,153 | 93,790,472 | 214,203,625 | 90,948,101 |
| Net Assets | | | | |
| Invested in capital assets, net of debt | \$ 129,183,408 | 130,911,335 | 260,094,743 | 61,270,017 |
| Restricted for: | | | | |
| Debt service | 20,977,943 | — | 20,977,943 | 1,270,603 |
| Improvements | 8,235,939 | — | 8,235,939 | — |
| Other purposes | 463,176 | — | 463,176 | — |
| Unrestricted | 33,582,269 | 29,737,496 | 63,319,765 | 120,985,075 |
| Total net assets | \$ 192,442,735 | 160,648,831 | 353,091,566 | 183,525,695 |

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

CITY OF LAWRENCE, KANSAS

Statement of Activities
For the Year Ended December 31, 2011

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 22,477,809 | 8,293,905 | 4,385,947 | — | (9,797,957) | — | (9,797,957) | — |
| Public safety | 29,036,287 | 453,968 | 109,253 | 127,875 | (28,345,191) | — | (28,345,191) | — |
| Public works | 15,679,396 | 175,722 | 2,706,545 | 985,948 | (11,811,181) | — | (11,811,181) | — |
| Health | 1,438,414 | 152,099 | — | — | (1,286,315) | — | (1,286,315) | — |
| Social services | 2,264,240 | 117,843 | 2,572,921 | — | 426,524 | — | 426,524 | — |
| Culture and recreation | 8,106,806 | 1,955,406 | 645,080 | 54,697 | (5,451,623) | — | (5,451,623) | — |
| Tourism | 1,052,713 | — | 1,190,204 | — | 137,491 | — | 137,491 | — |
| Airport | 494,077 | 25,828 | — | 78,015 | (390,234) | — | (390,234) | — |
| Interest on long-term debt | 2,634,868 | — | — | 1,989,430 | (645,438) | — | (645,438) | — |
| Total governmental activities | <u>83,184,610</u> | <u>11,174,771</u> | <u>11,609,950</u> | <u>3,235,965</u> | <u>(57,163,924)</u> | <u>—</u> | <u>(57,163,924)</u> | <u>—</u> |
| Business-type activities: | | | | | | | | |
| Water & sewer | 26,971,544 | 31,089,678 | — | — | — | 4,118,134 | 4,118,134 | — |
| Sanitation | 9,945,012 | 10,546,148 | — | — | — | 601,136 | 601,136 | — |
| Parking | 1,330,036 | 1,264,390 | — | — | — | (65,646) | (65,646) | — |
| Stormwater | 1,822,001 | 2,952,788 | — | — | — | 1,130,787 | 1,130,787 | — |
| Golf course | 917,860 | 718,419 | — | — | — | (199,441) | (199,441) | — |
| Total business-type activities | <u>40,986,453</u> | <u>46,571,423</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>5,584,970</u> | <u>5,584,970</u> | <u>—</u> |
| Total primary government | <u>\$ 124,171,063</u> | <u>57,746,194</u> | <u>11,609,950</u> | <u>3,235,965</u> | <u>(57,163,924)</u> | <u>5,584,970</u> | <u>(51,578,954)</u> | <u>—</u> |
| Component units: | | | | | | | | |
| Lawrence Housing Authority | \$ 8,167,891 | 8,015,979 | — | 330,073 | — | — | — | 178,161 |
| Lawrence Memorial Hospital | 156,594,601 | 166,138,221 | — | 1,858,870 | — | — | — | 11,402,490 |
| Lawrence Public Library | 3,474,446 | 189,283 | 3,418,533 | — | — | — | — | 133,370 |
| Total component units | <u>\$ 168,236,938</u> | <u>174,343,483</u> | <u>3,418,533</u> | <u>2,188,943</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>11,714,021</u> |
| General Revenues | | | | | | | | |
| Taxes | | | | | | | | |
| Property taxes, levied for general purposes | | | | | 18,721,655 | — | 18,721,655 | — |
| Property taxes, levied for debt service | | | | | 6,518,555 | — | 6,518,555 | — |
| Franchise taxes | | | | | 6,408,974 | — | 6,408,974 | — |
| Sales taxes | | | | | 30,835,166 | — | 30,835,166 | — |
| Grants and contributions not restricted to specific programs | | | | | 645,080 | 3,303 | 648,383 | — |
| Unrestricted investment earnings | | | | | 134,306 | 105,578 | 239,884 | 2,608,482 |
| Miscellaneous | | | | | 185,909 | 620,900 | 806,809 | 123,565 |
| Transfers | | | | | 4,671,294 | (4,671,294) | — | — |
| Total general revenues and transfers | | | | | <u>68,120,939</u> | <u>(3,941,513)</u> | <u>64,179,426</u> | <u>2,732,047</u> |
| Change in net assets | | | | | 10,957,015 | 1,643,457 | 12,600,472 | 14,446,068 |
| Net assets—beginning, as restated | | | | | 181,485,720 | 159,005,374 | 340,491,094 | 169,079,627 |
| Net assets—ending | | | | | <u>\$ 192,442,735</u> | <u>160,648,831</u> | <u>353,091,566</u> | <u>183,525,695</u> |

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

CITY OF LAWRENCE, KANSAS

Balance Sheet
Governmental Funds
December 31, 2011

| Assets | General Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-------------------------|-----------------------------|--------------------------------|--------------------------------|
| Cash | \$ 6,659,893 | 8,601,382 | 1,506,187 | 15,006,922 | 31,774,384 |
| Investments | 6,516,128 | 500,007 | 11,425,257 | 5,798,871 | 24,240,263 |
| Receivables: | | | | | |
| Taxes | 13,041,963 | 6,649,805 | — | 2,716,546 | 22,408,314 |
| Special assessments | — | 13,498,152 | — | — | 13,498,152 |
| Intergovernmental | 2,669,326 | — | 58,286 | 395,068 | 3,122,680 |
| Accounts (net of allowance of \$4,166) | 892,570 | 11,261 | — | 80,470 | 984,301 |
| Franchise fees | 542,890 | — | — | — | 542,890 |
| Loans | — | — | — | 440,176 | 440,176 |
| Accrued interest | 1,508 | 21 | 3,366 | 7,633 | 12,528 |
| Due from other funds | 262,000 | — | — | — | 262,000 |
| Restricted assets: | | | | | |
| Cash | — | — | — | 2,208,386 | 2,208,386 |
| Investments | — | — | — | 6,027,429 | 6,027,429 |
| Total assets | \$ 30,586,278 | 29,260,628 | 12,993,096 | 32,681,501 | 105,521,503 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,527,676 | — | 120,986 | 150,451 | 1,799,113 |
| Accrued payroll | 1,351,602 | — | — | 183,689 | 1,535,291 |
| Due to other funds | — | — | — | 262,000 | 262,000 |
| Unamortized premium | — | — | 245,813 | — | 245,813 |
| Temporary notes payable | — | — | 14,375,000 | — | 14,375,000 |
| Unearned revenue | 14,453,166 | 20,769,039 | — | 2,959,555 | 38,181,760 |
| Total liabilities | 17,332,444 | 20,769,039 | 14,741,799 | 3,555,695 | 56,398,977 |
| Fund balances: | | | | | |
| Nonspendable | — | — | — | 463,176 | 463,176 |
| Restricted | — | 8,491,589 | — | 8,235,939 | 16,727,528 |
| Assigned | 489,385 | — | — | 20,498,354 | 20,987,739 |
| Unassigned | 12,764,449 | — | (1,748,703) | (71,663) | 10,944,083 |
| Total fund balances | 13,253,834 | 8,491,589 | (1,748,703) | 29,125,806 | 49,122,526 |
| Total liabilities and fund balances | \$ 30,586,278 | 29,260,628 | 12,993,096 | 32,681,501 | |

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. | 198,338,030 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 13,649,626 |
| Internal service funds are used by management to charge the costs of fleet repairs office supplies, and health insurance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 8,076,633 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (76,744,080) |
| Net assets of governmental activities | \$ 192,442,735 |

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

CITY OF LAWRENCE, KANSAS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year ended December 31, 2011

| | General Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-------------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 31,432,778 | 6,518,555 | — | 15,651,113 | 53,602,446 |
| Special assessments | — | 3,763,111 | — | — | 3,763,111 |
| Licenses and permits | 944,702 | — | — | — | 944,702 |
| Charges for services | 4,382,165 | — | — | 2,020,708 | 6,402,873 |
| Fines, forfeitures and penalties | 2,829,328 | — | — | 113,126 | 2,942,454 |
| Interest | 38,499 | 18,731 | — | 88,084 | 145,314 |
| Intergovernmental | 10,037,952 | — | — | 11,975,299 | 22,013,251 |
| Reimbursements | 17,669 | — | 431,425 | — | 449,094 |
| Miscellaneous | 154,732 | 205,279 | 182,542 | 647,822 | 1,190,375 |
| Total revenues | <u>49,837,825</u> | <u>10,505,676</u> | <u>613,967</u> | <u>30,496,152</u> | <u>91,453,620</u> |
| Expenditures: | | | | | |
| Current expenditures: | | | | | |
| General government | 14,802,789 | — | — | 7,550,553 | 22,353,342 |
| Public safety | 27,913,403 | — | — | 574,344 | 28,487,747 |
| Public works | 6,176,628 | — | — | 3,472,231 | 9,648,859 |
| Health | 992,405 | — | — | 444,244 | 1,436,649 |
| Social services | — | — | — | 1,777,310 | 1,777,310 |
| Culture and recreation | 3,186,288 | — | — | 4,501,957 | 7,688,245 |
| Tourism | — | — | — | 1,051,345 | 1,051,345 |
| Airport | 131,461 | — | — | 246,439 | 377,900 |
| Capital outlay | 290,051 | — | 4,104,547 | 6,494,784 | 10,889,382 |
| Debt service: | | | | | |
| Principal retirement | — | 7,712,386 | — | 1,006,624 | 8,719,010 |
| Interest and fiscal charges | — | 2,269,579 | — | 352,647 | 2,622,226 |
| Total expenditures | <u>53,493,025</u> | <u>9,981,965</u> | <u>4,104,547</u> | <u>27,472,478</u> | <u>95,052,015</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(3,655,200)</u> | <u>523,711</u> | <u>(3,490,580)</u> | <u>3,023,674</u> | <u>(3,598,395)</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 3,702,879 | 60,014 | — | 1,502,500 | 5,265,393 |
| Transfers (out) | (98,000) | — | (281,769) | (210,750) | (590,519) |
| Issuance of general obligation bonds | — | — | 3,895,000 | — | 3,895,000 |
| Total other financing sources (uses) | <u>3,604,879</u> | <u>60,014</u> | <u>3,613,231</u> | <u>1,291,750</u> | <u>8,569,874</u> |
| Net changes in fund balances | <u>(50,321)</u> | <u>583,725</u> | <u>122,651</u> | <u>4,315,424</u> | <u>4,971,479</u> |
| Fund balance, beginning of year, as restated | <u>13,304,155</u> | <u>7,907,864</u> | <u>(1,871,354)</u> | <u>24,810,382</u> | <u>44,151,047</u> |
| Fund balance, end of year | <u>\$ 13,253,834</u> | <u>8,491,589</u> | <u>(1,748,703)</u> | <u>29,125,806</u> | <u>49,122,526</u> |

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

CITY OF LAWRENCE, KANSAS

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2011**

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

| | |
|---|-----------------------------|
| Net changes in fund balances - total governmental funds | \$ 4,971,479 |
| 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. This is the amount by which capital outlays exceeded depreciation in the current period. | 3,524,576 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (1,997,863) |
| 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. | 4,824,010 |
| 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. | (783,039) |
| The net revenue of certain activities of internal service funds is reported with governmental activities. | <u>417,852</u> |
| Change in net assets of governmental activities | \$ <u><u>10,957,015</u></u> |

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

CITY OF LAWRENCE, KANSAS

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

Year Ended December 31, 2011
(With Comparative Actual Amounts for 2010)

| | 2011 | | | Variance Positive (Negative) | 2010 Actual |
|--|-----------------------|---------------------|----------------------|------------------------------------|---------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Taxes | \$ 42,416,644 | 42,416,644 | 43,821,329 | 1,404,685 | 42,143,397 |
| Licenses and permits | 869,039 | 869,039 | 944,702 | 75,663 | 871,264 |
| Charges for services | 4,473,990 | 4,473,990 | 4,382,165 | (91,825) | 4,566,670 |
| Fines, forfeitures and penalties | 2,950,000 | 2,950,000 | 2,829,328 | (120,672) | 2,957,151 |
| Interest | 250,000 | 250,000 | 38,499 | (211,501) | 109,899 |
| Intergovernmental | 9,772,400 | 9,772,400 | 10,037,952 | 265,552 | 9,464,860 |
| Reimbursements | 106,000 | 106,000 | 17,669 | (88,331) | 31,393 |
| Miscellaneous | 158,000 | 158,000 | 154,732 | (3,268) | 386,173 |
| Total revenues | <u>60,996,073</u> | <u>60,996,073</u> | <u>62,226,376</u> | <u>1,230,303</u> | <u>60,530,807</u> |
| Expenditures: | | | | | |
| General government | 14,816,723 | 15,175,913 | 14,771,738 | 404,175 | 13,729,405 |
| Public safety | 27,645,358 | 27,274,680 | 27,779,899 | (505,219) | 27,564,591 |
| Public works | 6,537,526 | 6,550,856 | 6,327,151 | 223,705 | 6,190,952 |
| Health | 1,018,511 | 1,018,511 | 998,823 | 19,688 | 978,290 |
| Culture and recreation | 3,180,338 | 3,183,739 | 3,164,592 | 19,147 | 3,219,407 |
| Airport | 194,286 | 194,286 | 131,461 | 62,825 | 124,272 |
| Capital outlay | 406,237 | 400,994 | 252,345 | 148,649 | 333,340 |
| Total expenditures | <u>53,798,979</u> | <u>53,798,979</u> | <u>53,426,009</u> | <u>372,970</u> | <u>52,140,257</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>7,197,094</u> | <u>7,197,094</u> | <u>8,800,367</u> | <u>1,603,273</u> | <u>8,390,550</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 3,589,874 | 3,589,874 | 3,702,879 | 113,005 | 3,675,128 |
| Transfers out | <u>(19,821,059)</u> | <u>(19,821,059)</u> | <u>(12,486,551)</u> | <u>7,334,508</u> | <u>(11,882,871)</u> |
| Total other financing sources (uses) | <u>(16,231,185)</u> | <u>(16,231,185)</u> | <u>(8,783,672)</u> | <u>7,447,513</u> | <u>(8,207,743)</u> |
| Excess (deficiency) of revenues and other sources over (under) expenditures and other (uses) | <u>\$ (9,034,091)</u> | <u>(9,034,091)</u> | 16,695 | <u>9,050,786</u> | 182,807 |
| Fund balance, beginning of year | | | 13,304,155 | | 12,831,420 |
| Net change in reserve for encumbrances | | | <u>(67,016)</u> | | <u>289,928</u> |
| Fund balance, end of year | | | <u>\$ 13,253,834</u> | | <u>13,304,155</u> |

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

CITY OF LAWRENCE, KANSAS

Balance Sheet
Proprietary Funds
December 31, 2011

| Assets | Business-type Activities-Enterprise Funds | | | | Total | Governmental |
|--|---|------------------|---------------------|---------------------------|-----------------------|-----------------------------------|
| | Water and Sewer | Sanitation | Storm Water Utility | Nonmajor Enterprise Funds | | Activities-Internal Service Funds |
| Current assets: | | | | | | |
| Cash | \$ 16,290,661 | 1,638,874 | 1,301,648 | 642,655 | 19,873,838 | 8,004,932 |
| Investments | 2,495,709 | 1,000,007 | 500,000 | — | 3,995,716 | 4,309,232 |
| Receivables: | | | | | | |
| Accounts (net of allowance of \$122,606) | 2,124,183 | 799,505 | 187,056 | 8,732 | 3,119,476 | 391,802 |
| Accrued interest | 5,063 | 65 | 44 | — | 5,172 | 933 |
| Inventories | 1,661,483 | — | — | 4,663 | 1,666,146 | 343,606 |
| Prepaid items | 325,386 | — | — | — | 325,386 | — |
| Restricted cash: | | | | | | |
| Customer deposits | 575,655 | 2,000 | — | — | 577,655 | — |
| Current portion of revenue bonds | 1,405,694 | — | — | — | 1,405,694 | — |
| Restricted investments: | | | | | | |
| Customer deposits | 500,001 | — | — | — | 500,001 | — |
| Current portion of revenue bonds | 804,306 | — | — | — | 804,306 | — |
| Total current assets | <u>26,188,141</u> | <u>3,440,451</u> | <u>1,988,748</u> | <u>656,050</u> | <u>32,273,390</u> | <u>13,050,505</u> |
| Noncurrent assets: | | | | | | |
| Restricted cash | 9,889,986 | — | — | — | 9,889,986 | — |
| Restricted investments | 3,199,429 | — | — | — | 3,199,429 | — |
| Total restricted assets | <u>13,089,415</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>13,089,415</u> | <u>—</u> |
| Capital assets: | | | | | | |
| Land | 3,683,851 | — | 1,835,583 | 479,055 | 5,998,489 | — |
| Buildings and improvements | 242,533,166 | 1,555,872 | 12,973,072 | 7,700,727 | 264,762,837 | 674,819 |
| Equipment | 6,504,940 | 6,927,474 | 1,784,329 | 569,797 | 15,786,540 | 319,123 |
| Construction in progress | 8,042,730 | — | — | — | 8,042,730 | — |
| Accumulated depreciation | (74,152,053) | (6,190,935) | (3,418,072) | (5,818,710) | (89,579,770) | (720,420) |
| Total capital assets | <u>186,612,634</u> | <u>2,292,411</u> | <u>13,174,912</u> | <u>2,930,869</u> | <u>205,010,826</u> | <u>273,522</u> |
| Total noncurrent assets | <u>199,702,049</u> | <u>2,292,411</u> | <u>13,174,912</u> | <u>2,930,869</u> | <u>218,100,241</u> | <u>273,522</u> |
| Total assets | <u>\$ 225,890,190</u> | <u>5,732,862</u> | <u>15,163,660</u> | <u>3,586,919</u> | <u>250,373,631</u> | <u>13,324,027</u> |
| Liabilities and Net Assets | | | | | | |
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 1,233,410 | 360,182 | 9,428 | 28,440 | 1,631,460 | 581,895 |
| Accrued interest payable | 703,325 | — | 44,075 | — | 747,400 | — |
| Claims payable | — | — | — | — | — | 394,751 |
| Accrued payroll | 307,428 | 179,624 | 24,633 | 42,392 | 554,077 | 38,522 |
| Accrued vacation and sick pay | 498,316 | 329,099 | 47,492 | 71,949 | 946,856 | 71,666 |
| Current portion of general obligation bonds | 600,000 | — | 592,375 | — | 1,192,375 | — |
| Total unrestricted current liabilities | <u>3,342,479</u> | <u>868,905</u> | <u>718,003</u> | <u>142,781</u> | <u>5,072,168</u> | <u>1,086,834</u> |
| Current liabilities payable from restricted assets: | | | | | | |
| Customer deposits | 1,075,656 | 2,000 | — | — | 1,077,656 | — |
| Current portion of revenue bonds | 2,210,000 | — | — | — | 2,210,000 | — |
| Total current liabilities payable from restricted assets | <u>3,285,656</u> | <u>2,000</u> | <u>—</u> | <u>—</u> | <u>3,287,656</u> | <u>—</u> |
| Total current liabilities | <u>6,628,135</u> | <u>870,905</u> | <u>718,003</u> | <u>142,781</u> | <u>8,359,824</u> | <u>1,086,834</u> |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 502,173 | 339,469 | 49,971 | 91,700 | 983,313 | 94,888 |
| General obligation bonds payable | 7,105,000 | — | 3,108,850 | — | 10,213,850 | — |
| Revenue bonds payable | 48,670,000 | — | — | — | 48,670,000 | — |
| Notes payable | 24,902,681 | — | — | — | 24,902,681 | — |
| Net OPEB obligation | 319,986 | 257,663 | 24,698 | 58,457 | 660,804 | — |
| Total noncurrent liabilities | <u>81,499,840</u> | <u>597,132</u> | <u>3,183,519</u> | <u>150,157</u> | <u>85,430,648</u> | <u>94,888</u> |
| Total liabilities | <u>88,127,975</u> | <u>1,468,037</u> | <u>3,901,522</u> | <u>292,938</u> | <u>93,790,472</u> | <u>1,181,722</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | 116,214,368 | 2,292,411 | 9,473,687 | 2,930,869 | 130,911,335 | 273,522 |
| Unrestricted | 21,547,847 | 1,972,414 | 1,788,451 | 363,112 | 25,671,824 | 11,868,783 |
| Total net assets | <u>137,762,215</u> | <u>4,264,825</u> | <u>11,262,138</u> | <u>3,293,981</u> | <u>156,583,159</u> | <u>12,142,305</u> |
| Total liabilities and net assets | <u>\$ 225,890,190</u> | <u>5,732,862</u> | <u>15,163,660</u> | <u>3,586,919</u> | <u>250,373,631</u> | <u>13,324,027</u> |
| Total net assets | | | | | 156,583,159 | |
| Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | <u>4,065,672</u> | |
| Net assets of business-type activities | | | | | <u>\$ 160,648,831</u> | |

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

CITY OF LAWRENCE, KANSAS

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

For the Year Ended December 31, 2011

| | Business-type Activities-Enterprise Funds | | | | Total | Governmental Activities- Internal Service Funds |
|--|---|--------------------|---------------------------|---------------------------------|---------------------|---|
| | Water and Sewer | Sanitation | Storm Water Utility | Nonmajor Enterprise Funds | | |
| Operating revenues: | | | | | | |
| Charges for services | \$ 30,829,083 | 10,337,452 | 2,952,788 | 1,982,809 | 46,102,132 | 13,594,226 |
| Other sales | 260,595 | 208,696 | — | — | 469,291 | — |
| Total operating revenues | <u>31,089,678</u> | <u>10,546,148</u> | <u>2,952,788</u> | <u>1,982,809</u> | <u>46,571,423</u> | <u>13,594,226</u> |
| Operating expenses: | | | | | | |
| Continuing operations | — | 9,422,629 | 1,228,563 | 1,935,858 | 12,587,050 | 4,727,372 |
| Transmission and distribution | 13,426,229 | — | — | — | 13,426,229 | — |
| General administration | 4,676,578 | — | — | — | 4,676,578 | 60,843 |
| Health insurance claims | — | — | — | — | — | 8,202,471 |
| Depreciation and amortization | 5,736,635 | 575,541 | 450,227 | 337,683 | 7,100,086 | 28,338 |
| Total operating expenses | <u>23,839,442</u> | <u>9,998,170</u> | <u>1,678,790</u> | <u>2,273,541</u> | <u>37,789,943</u> | <u>13,019,024</u> |
| Operating income (loss) | <u>7,250,236</u> | <u>547,978</u> | <u>1,273,998</u> | <u>(290,732)</u> | <u>8,781,480</u> | <u>575,202</u> |
| Nonoperating revenues (expenses) | | | | | | |
| Interest income | 87,727 | 6,103 | 3,497 | 1,209 | 98,536 | 21,257 |
| Interest expense and fiscal charges | (3,223,202) | — | (144,652) | — | (3,367,854) | — |
| Grant proceeds | 3,303 | — | — | — | 3,303 | — |
| Gain (loss) on sale of capital assets | — | — | — | — | — | 702 |
| Other | 315,227 | 308,710 | — | (3,380) | 620,557 | 3,000 |
| Total nonoperating revenues (expenses) | <u>(2,816,945)</u> | <u>314,813</u> | <u>(141,155)</u> | <u>(2,171)</u> | <u>(2,645,458)</u> | <u>24,959</u> |
| Income (loss) before transfers | <u>4,433,291</u> | <u>862,791</u> | <u>1,132,843</u> | <u>(292,903)</u> | <u>6,136,022</u> | <u>600,161</u> |
| Transfers (out) | <u>(3,021,849)</u> | <u>(1,246,025)</u> | <u>(400,000)</u> | <u>—</u> | <u>(4,667,874)</u> | <u>(7,000)</u> |
| Change in net assets | <u>1,411,442</u> | <u>(383,234)</u> | <u>732,843</u> | <u>(292,903)</u> | <u>1,468,148</u> | <u>593,161</u> |
| Net assets, beginning of year | <u>136,350,773</u> | <u>4,648,059</u> | <u>10,529,295</u> | <u>3,586,884</u> | | <u>11,549,144</u> |
| Net assets, end of year | <u>\$ 137,762,215</u> | <u>4,264,825</u> | <u>11,262,138</u> | <u>3,293,981</u> | | <u>12,142,305</u> |
| Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds | | | | | <u>175,309</u> | |
| Change in net assets of business-type activities | | | | | <u>\$ 1,643,457</u> | |

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

CITY OF LAWRENCE, KANSAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

| | Business-type Activities-Enterprise Funds | | | | | Governmental |
|--|---|------------------|---------------------|---------------------------|---------------------|-----------------------------------|
| | Water and Sewer | Sanitation | Storm Water Utility | Nonmajor Enterprise Funds | Total | Activities-Internal Service Funds |
| Cash flows from operating activities: | | | | | | |
| Receipts from customers and users | \$ 31,382,876 | 10,856,988 | 2,972,845 | 1,987,183 | 47,199,892 | 13,540,387 |
| Payments to suppliers | (8,814,561) | (3,247,545) | (469,021) | (506,007) | (13,037,134) | (11,967,894) |
| Payments to employees | (8,905,972) | (5,782,297) | (752,776) | (1,387,573) | (16,828,618) | (1,149,921) |
| Net cash provided by (used in) operating activities | <u>13,662,343</u> | <u>1,827,146</u> | <u>1,751,048</u> | <u>93,603</u> | <u>17,334,140</u> | <u>422,572</u> |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers out | (3,021,849) | (1,246,025) | (400,000) | — | (4,667,874) | (7,000) |
| Cash flows from capital and related financing activities: | | | | | | |
| Acquisition and construction of capital assets | (7,254,852) | (247,229) | (245,141) | (52,733) | (7,799,955) | (6,199) |
| Proceeds from sales of capital assets | — | — | — | — | — | 702 |
| Proceeds from capital grant | 3,303 | — | — | — | 3,303 | — |
| Principal payments on debt | (4,799,444) | — | (575,990) | — | (5,375,434) | — |
| Interest payments on debt | (3,267,022) | — | (150,865) | — | (3,417,887) | — |
| Net cash used in capital and related financing activities | <u>(15,318,015)</u> | <u>(247,229)</u> | <u>(971,996)</u> | <u>(52,733)</u> | <u>(16,589,973)</u> | <u>(5,497)</u> |
| Cash flows from investing activities: | | | | | | |
| Receipt of interest and dividends | 89,620 | 6,038 | 3,454 | 1,209 | 100,321 | 24,431 |
| Purchases of investments | (18,818,754) | (1,000,007) | (700,000) | — | (20,518,761) | (10,421,063) |
| Sales of investments | 23,572,423 | — | 200,000 | — | 23,772,423 | 12,613,003 |
| Net cash provided by (used in) investing activities | <u>4,843,289</u> | <u>(993,969)</u> | <u>(496,546)</u> | <u>1,209</u> | <u>3,353,983</u> | <u>2,216,371</u> |
| Net increase (decrease) in cash | 165,768 | (660,077) | (117,494) | 42,079 | (569,724) | 2,626,446 |
| Cash and cash equivalents, beginning of year | 27,996,228 | 2,300,951 | 1,419,142 | 600,576 | 32,316,897 | 5,378,486 |
| Cash and cash equivalents, end of year | <u>\$ 28,161,996</u> | <u>1,640,874</u> | <u>1,301,648</u> | <u>642,655</u> | <u>31,747,173</u> | <u>8,004,932</u> |
| Components of cash and cash equivalents at end of year: | | | | | | |
| Cash | \$ 16,290,661 | 1,638,874 | 1,301,648 | 642,655 | 19,873,838 | 8,004,932 |
| Restricted cash - customer deposits | 575,655 | 2,000 | — | — | 577,655 | — |
| Restricted cash - revenue bonds | 1,405,694 | — | — | — | 1,405,694 | — |
| Restricted cash - noncurrent | 9,889,986 | — | — | — | 9,889,986 | — |
| | <u>\$ 28,161,996</u> | <u>1,640,874</u> | <u>1,301,648</u> | <u>642,655</u> | <u>31,747,173</u> | <u>8,004,932</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | \$ 7,250,236 | 547,978 | 1,273,998 | (290,732) | 8,781,480 | 575,202 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Depreciation | 5,736,635 | 575,541 | 450,227 | 337,683 | 7,100,086 | 28,338 |
| Other income | 315,227 | 308,710 | — | (3,380) | 620,557 | 3,000 |
| Change in: | | | | | | |
| Accounts receivable | (22,029) | 2,130 | 20,057 | 7,754 | 7,912 | (56,839) |
| Inventories of supplies | 252,438 | — | — | 7,648 | 260,086 | (36,035) |
| Prepaid items | (42,272) | — | — | — | (42,272) | — |
| Accounts payable | (150,473) | 233,821 | (14,873) | 5,133 | 73,608 | 86,601 |
| Claims payable | — | — | — | — | — | (187,605) |
| Accrued payroll | 18,728 | (5,541) | (724) | (484) | 11,979 | 3,678 |
| Customer deposits | 35,784 | 205 | — | — | 35,989 | — |
| Accrued vacation and sick pay | 76,750 | 10,239 | 7,598 | (4,976) | 89,611 | 6,232 |
| Net OPEB obligation | 191,319 | 154,063 | 14,765 | 34,957 | 395,104 | — |
| Total adjustments | <u>6,412,107</u> | <u>1,279,168</u> | <u>477,050</u> | <u>384,335</u> | <u>8,552,660</u> | <u>(152,630)</u> |
| Net cash provided by (used in) operating activities | <u>\$ 13,662,343</u> | <u>1,827,146</u> | <u>1,751,048</u> | <u>93,603</u> | <u>17,334,140</u> | <u>422,572</u> |

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

CITY OF LAWRENCE, KANSAS

Statement of Assets and Liabilities
All Agency Funds

December 31, 2011

| | |
|---------------------------------------|-------------------|
| Assets | |
| Cash | \$ 398,415 |
| Restricted assets - court receivables | <u>131,401</u> |
| Total assets | <u>\$ 529,816</u> |
| Liabilities | |
| Accounts payable | \$ 398,415 |
| Court bonds payable | <u>131,401</u> |
| Total liabilities | <u>\$ 529,816</u> |

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

CITY OF LAWRENCE, KANSAS

Combining Statement of Net Assets - Discretely Presented Component Units
December 31, 2011

| Assets | Lawrence Housing Authority | Lawrence Memorial Hospital | Lawrence Public Library | Total Component Units |
|---|----------------------------------|----------------------------------|-------------------------------|-----------------------------|
| Current assets: | | | | |
| Cash | \$ 2,365,234 | 11,420,004 | 1,062,216 | 14,847,454 |
| Investments | 2,920,844 | 95,266,732 | — | 98,187,576 |
| Receivables (net) | 2,897,828 | 23,075,752 | — | 25,973,580 |
| Inventories | 64,200 | 2,802,474 | — | 2,866,674 |
| Prepaid items | 75,144 | 4,143,988 | — | 4,219,132 |
| Deferred costs | — | 739,876 | — | 739,876 |
| Other assets | 16,125 | 820,498 | — | 836,623 |
| Capital assets (net) | | | | |
| Land and construction in progress | 2,253,585 | 5,420,419 | — | 7,674,004 |
| Other capital assets, net of depreciation | 11,843,210 | 104,426,985 | 2,858,682 | 119,128,877 |
| Total assets | <u>\$ 22,436,170</u> | <u>248,116,728</u> | <u>3,920,898</u> | <u>274,473,796</u> |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 361,147 | 14,312,830 | 178,768 | 14,852,745 |
| Unearned revenue | 426,254 | 121,439 | — | 547,693 |
| Long-term liabilities | | | | |
| Due within one year | — | 4,623,597 | — | 4,623,597 |
| Due in more than one year | 2,821,257 | 68,102,292 | 517 | 70,924,066 |
| Total liabilities | <u>\$ 3,608,658</u> | <u>87,160,158</u> | <u>179,285</u> | <u>90,948,101</u> |
| Net Assets | | | | |
| Invested in capital assets, net of debt | \$ 14,096,795 | 44,314,540 | 2,858,682 | 61,270,017 |
| Restricted for: | | | | |
| Debt service | — | 1,270,603 | — | 1,270,603 |
| Unrestricted | 4,730,717 | 115,371,427 | 882,931 | 120,985,075 |
| Total net assets | <u>\$ 18,827,512</u> | <u>160,956,570</u> | <u>3,741,613</u> | <u>183,525,695</u> |

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

CITY OF LAWRENCE, KANSAS

Combining Statement of Activities - Discretely Presented Component Units
For the Year Ended December 31, 2011

| | Lawrence Housing Authority | Lawrence Memorial Hospital | Lawrence Public Library | Total Component Units |
|--------------------------------------|---|---|--|--------------------------------------|
| Expenses | \$ 8,167,891 | 156,594,601 | 3,474,446 | 168,236,938 |
| Program revenues: | | | | |
| Charges for services | 8,015,979 | 166,138,221 | 189,283 | 174,343,483 |
| Operating grants and contributions | — | — | 3,418,533 | 3,418,533 |
| Capital grants and contributions | 330,073 | 1,858,870 | — | 2,188,943 |
| Net (expense) revenue | 178,161 | 11,402,490 | 133,370 | 11,714,021 |
| General Revenues | | | | |
| Unrestricted investment earnings | 61,691 | 2,545,615 | 1,176 | 2,608,482 |
| Miscellaneous | — | 122,500 | 1,065 | 123,565 |
| Total general revenues and transfers | 61,691 | 2,668,115 | 2,241 | 2,732,047 |
| Change in net assets | 239,852 | 14,070,605 | 135,611 | 14,446,068 |
| Net assets-beginning, restated | 18,587,660 | 146,885,965 | 3,606,002 | 169,079,627 |
| Net assets-ending | \$ 18,827,512 | 160,956,570 | 3,741,613 | 183,525,695 |

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

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

(1) Summary of Significant Accounting Policies

The City of Lawrence, Kansas (the City) is a municipal corporation governed by an elected five-member commission. These basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported as a separate column in the basic financial statements to emphasize they are legally separate. The more significant of the City's accounting policies are described below.

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from certain business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units 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 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.

B. Measurement Focus, 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 and fiduciary fund 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. Agency funds have no measurement focus.

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. For this purpose, the City considers revenues to be available if they are collected

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, APB opinions, and ARBs.

Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The internal service funds account for operations that provide services to other departments or agencies of the government on a cost-reimbursement basis. The City has five internal service funds. The General Liability Fund accounts for the payment of auto and general liability insurance claims. The Workers Comp Liability Fund accounts for the payment of workers compensation claims. The Central Maintenance Fund accounts for the repairs and maintenance expenses of the City's fleet of vehicles and equipment. The Stores Fund accounts for the purchase of office supplies. The Health Insurance Fund accounts for the payment of health insurance claims.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Agency funds do, however, use the accrual basis of accounting. Agency funds are used by the City of Lawrence for payroll withholdings, court bonds, certain Parks & Recreation activities and to record proceeds from fire insurance claims.

The City reports the following major governmental funds:

- *General Fund* is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.
- *Debt Service Fund* is used to account for the accumulation of resources and payment of general obligation bond principal, interest and other related costs from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for this payment.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

- *Capital Projects Fund* is used to account for financial resources designated for the acquisition or construction of major capital projects other than those financed by proprietary funds.

The City reports the following major proprietary funds:

- *Water and Sewer Fund* is used to account for the operations of the City's water and sewer operations.
- *Sanitation Fund* is used to account for the operations of the City's refuse collection service.
- *Storm Water Utility Fund* is used to account for the storm water fees and expenses for repair and maintenance of the storm water system .

C. Inventories

Inventories are valued at cost, which approximates market, using the average cost method. The costs of the Governmental Fund Type inventories are recorded as expenditures when consumed rather than when purchased.

D. Budgetary Procedures

Kansas Statutes require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specifically exempted by statute), Debt Service Funds and certain Enterprise Funds.

A legal annual operating budget is not required for the Capital Projects Fund and the following Special Revenue Funds:

Airport Improvement Fund
Capital Improvement Reserve Fund
Equipment Reserve Fund
Guest Tax Reserve Fund
Sales Tax Reserve Fund
Law Enforcement Grant Fund
City Parks Memorial Fund
Farmland Remediation Fund
Cemetery Perpetual Care Fund
Cemetery Mausoleum Fund
Housing Trust Fund
Outside Agency Fund
Wee Folks Scholarship Fund
Fair Housing Assistance Fund
CDBG Recovery Fund
Community Development Fund
Rehabilitation Escrow Fund
Home Program Fund
Transportation Planning Fund
Law Enforcement Trust Fund

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of budget for the succeeding calendar year on or before August 1 of each year.
- b. Publication of proposed budget and notice of public hearing on or before August 5 of each year.
- c. Public hearing on or before August 15 of each year, but at least ten days after public notice.
- d. Adoption of final budget on or before August 25 of each year.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The City did not amend the 2011 budget.

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

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

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.

E. Pooled Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds managed by the City. The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are invested to the extent available in certificates of deposit and other authorized investments. Earnings from these investments, unless specifically designated, are allocated to the investing fund at maturity based on the percentage of funds invested to total investment. All investments are carried at fair value.

F. Receivables and Payables

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Accounts Receivable. The City records revenues when services are provided. All receivables are shown net of an allowance for doubtful accounts.

Taxes Receivable. Collection of current year property tax by the County Treasurer is not completed, apportioned or distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operations of the City and, therefore, are not susceptible to accrual. Accruals of uncollected current year property taxes are offset by deferred revenue and are identical to the adopted budget for 2012. It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the accounting period, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Property taxes are levied and liens against property are placed on November 1 of the year prior to the fiscal year for which they are budgeted. Payments are due November 1, becoming delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year. This procedure eliminates the need to issue tax anticipation notes since funds will be on hand prior to the beginning of each fiscal year. The City Treasurer draws down all available funds from the County Treasurer's office in two-month intervals. Taxes remaining due and unpaid at February 15 and July 1 are subject to collection procedures prescribed in state statutes.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years and an initial, individual cost of more than \$5,000 for property plant and equipment, or \$50,000 for infrastructure assets. Such assets are stated at actual or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Depreciation of plant and equipment is provided on the straight-line basis over the estimated useful lives of the respective assets as follows:

| | |
|---|-------------|
| Water treatment plant and water sewer mains | 50 years |
| Buildings | 10-50 years |
| Improvements other than buildings | 10-50 years |
| Office equipment | 3-20 years |
| Machinery | 3-20 years |
| Infrastructure | 50-80 years |

The cost of normal maintenance and repairs are charged to expenses. Major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement and any resulting gain or loss is reflected in the basic financial statements.

H. Bond Discounts/Issuance Costs

In Governmental Fund Types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for Proprietary Fund Types in the government wide financial statements are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method.

I. Compensated Absences

Under terms of the City's personnel policy, employees are granted vacation and sick leave in varying amounts based upon the length of service. In the event of termination, an employee with over six months of service will receive all accumulated vacation and one-fourth accumulated sick leave. All vacation and sick leave is accrued when incurred in the government wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are paid from the fund in which the employees are paid.

J. Capitalization of Interest

Interest costs incurred on borrowed funds during the period of construction of capital assets for Enterprise Funds are capitalized, when material, as a component of the cost of acquiring such assets. There was no interest capitalized during 2011.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

L. Deferred Revenue

The City has reported as deferred revenue certain taxes and special assessments which have been deemed to be measurable but not available.

M. Comparative Data / Reclassifications

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

N. Fund Equity

In the fund financial statements, governmental funds report fund balance in the following classifications: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to remain intact. Restricted fund balance indicates that constraints have been placed on the use of resources either by being externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city commission. Assigned fund balances include amounts that are constrained by the City management's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available restricted amounts is considered to be spent first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the following is the order in which resources will be expended: committed, assigned and unassigned.

The following is the detail for fund balance classifications in the financial statements:

| | Major Governmental Funds | | | Other Governmental Funds | Total Governmental Funds |
|------------------------|--------------------------|-------------------------|-----------------------------|--------------------------------|--------------------------------|
| | General Fund | Debt Service Fund | Capital Projects Fund | | |
| Fund Balances: | | | | | |
| Nonspendable for: | | | | | |
| Donor restriction | \$ - | - | - | 23,000 | 23,000 |
| Loans | - | - | - | 440,176 | 440,176 |
| Restricted for: | | | | | |
| Capital outlay | - | - | - | 8,235,939 | 8,235,939 |
| Debt service | - | 8,491,589 | - | - | 8,491,589 |
| Assigned for: | | | | | |
| General government | 41,520 | - | - | 2,660,308 | 2,701,828 |
| Public Safety | 157,079 | - | - | 373,960 | 531,039 |
| Public Works | 194,393 | - | - | 676,117 | 870,510 |
| Health | 6,538 | - | - | - | 6,538 |
| Social services | - | - | - | 329,483 | 329,483 |
| Culture and recreation | 89,855 | - | - | 3,601,104 | 3,690,959 |
| Tourism | - | - | - | 90,333 | 90,333 |
| Airport | - | - | - | 55,381 | 55,381 |
| Capital outlay | - | - | - | 12,711,668 | 12,711,668 |
| Unassigned | 12,764,449 | - | (1,748,703) | (71,663) | 10,944,083 |
| | <u>\$ 13,253,834</u> | <u>8,491,589</u> | <u>(1,748,703)</u> | <u>29,125,806</u> | <u>49,122,526</u> |

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

(2) Reporting Entity

The City has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the City, or the significance of their relationship with the City are such that exclusion would be misleading or incomplete. This consideration relied on the underlying concept that elected officials are accountable for the actions of those they appoint to govern other organizations and that the City's financial statements should report this accountability. Although elected officials are accountable for the actions of all appointees, generally accepted accounting principles establish financial accountability as the threshold for including an organization in the financial statements of the reporting entity. Financial accountability results from one of the following criteria:

1. The primary government (in this case the City of Lawrence) is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization and there is a potential for the organization to provide specific financial benefits to or impose burdens on the primary government.
2. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of other circumstances.

Based on this analysis, the following organizations have been classified as component units of the City of Lawrence and are presented on the discrete basis to emphasize that they are separate from the City:

The Lawrence Housing Authority, created by State Statutes with a variety of corporate powers, operates the City's low income housing program, serving Lawrence and Douglas County. The Housing Authority is governed by a five member board appointed by the Mayor with approval of the City Commission. It is a component unit because it satisfies criterion 1 above.

The Lawrence Memorial Hospital, created by State Statutes with a variety of corporate powers, operates the city Hospital. The hospital is governed by a nine member board appointed by the Mayor with approval of the City Commission. It is a component unit because it satisfies criterion 1 above.

The City of Lawrence Public Library, created by State Statutes as a body corporate, operates the City's public library, serving primarily Lawrence and Douglas County. The library is governed by a seven member board appointed by the Mayor with approval by the City Commission. It is a component unit because it satisfies criteria 1 & 2 above.

Complete financial statements for each of the individual component units may be obtained at the entity's administrative offices.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

| | | |
|---|--|---|
| Lawrence Housing Authority 1600 Haskell Avenue Lawrence, Kansas 66044 | Lawrence Public Library 707 Vermont Lawrence, Kansas 66044 | Lawrence Memorial Hospital 325 Maine Lawrence, Kansas 66044 |
|---|--|---|

(3) Reconciliation of Government-wide and Fund Financial Statements

A. 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 – 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 \$76,744,080 difference are as follows:

| | | |
|--|----|------------|
| Bonds payable | \$ | 67,738,775 |
| Accrued interest payable | | 1,031,813 |
| Claims and judgments payable | | 342,682 |
| Compensated absences | | 5,804,614 |
| Net OPEB obligation | | 1,826,196 |
| Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities | \$ | 76,744,080 |

B. 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 changes 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 \$3,524,576 difference are as follows:

| | | |
|---|----|-------------|
| Capital outlay | \$ | 11,480,395 |
| Depreciation expense | | (7,955,819) |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities | \$ | 3,524,576 |

Another element of that reconciliation explains 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 \$4,824,010 difference are as follows:

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

| | | |
|---|----|-------------------------|
| Debt issued: | | |
| Issuance of general obligation bonds | \$ | (3,895,000) |
| Principal repayments: | | |
| General obligation debt | | <u>8,719,010</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities | \$ | <u><u>4,824,010</u></u> |

Another element of that reconciliation explains 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 \$783,039 difference are as follows:

| | | |
|---|----|-------------------------|
| Compensated absences | \$ | (338,617) |
| Claims and judgments | | 660,116 |
| Accrued interest | | (12,642) |
| Net OPEB obligation | | <u>(1,091,896)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities | \$ | <u><u>(783,039)</u></u> |

(4) Budgetary Accounting

The accounting principles employed by the City in its budgetary accounting and reporting differ from those used to present financial statements in accordance with generally accepted accounting principles due to the inclusion of encumbrances and reimbursements with expenditures in the budgetary basis statement.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

(5) Deposits and Investments

Deposits – At December 31, 2011, the City held the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Maturity Less Than 5 years</u> |
|-------------------------------------|----------------------|---------------|---------------------------------------|
| Certificate of Deposit | \$ 6,000,000 | n/a | 6,000,000 |
| FHLB | 8,010,223 | AAA | 8,010,223 |
| FNMA | 20,556,807 | AAA | 20,556,807 |
| FMCDN | 1,997,708 | AAA | 1,997,708 |
| FHLMC | 5,000,010 | | 5,000,010 |
| FHLMC | 1,500,000 | AAA | 1,500,000 |
| Kansas Municipal Investment Pool | 11,628 | AAA | 11,628 |
| | <u>\$ 43,076,376</u> | | |

The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

The City Commission has adopted an Investment and Cash Management Policy that is reviewed annually by the Pooled Money Investment Board. The City's policy was certified by the MTA US&C Review Board. The policy establishes performance standards, legal authority, and procedures for the City's investments.

Interest rate risk The City of Lawrence manages its exposure to declines in the fair market value of its investments by planning an orderly liquidation of its portfolio upon the occurrence of an unforeseen event in accordance with our investment policy. Otherwise, the City plans on holding its investments to maturity.

Credit risk Kansas statutes and City policy limit the investment of public funds to certificates of deposit and U.S. Treasury obligations. The City of Lawrence has been granted expanded investment powers by the Pooled Money Investment Board of the State of Kansas and has adopted a policy detailing their ability to also invest in the obligations of government sponsored corporations. The obligations of government sponsored corporations are not the liabilities of the U.S. government and do pose some credit risk. The City has no formal policy relating to the additional risks posed by implicitly guaranteed government agencies.

Concentration of credit risk The City of Lawrence's investment policy does not allow for more than 30% of the city's investment portfolio to be invested in the certificates of deposit of any one institution.

Custodian credit risk-deposits In the case of deposits, this is the risk that in the event of a bank failure, the city's deposits may not be returned. Under State statute, deposits and certificates of deposit must be 100% collateralized. Most of the collateral is held at the Federal Reserve Bank in Boston, the remaining amount of collateral is held at the Country Club Bank in Kansas City, Missouri under a

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

custodial agreement. Obligations of government sponsored agencies are held by the City's brokerage firms. To sell securities to the City the firm must be a primary dealer.

(6) Tax Revenue

Tax revenue for the year ended December 31, 2011 is as follows:

| | Primary Government | | | Total |
|-------------------------|---------------------------|--------------------------------------|-----------------------------------|-------------------|
| | General Fund | Special Revenue Funds | Debt Service Funds | |
| Property taxes | \$ 14,188,379 | 3,007,265 | 6,008,357 | 23,204,001 |
| Motor vehicle tax | 1,179,237 | 255,224 | 510,051 | 1,944,512 |
| Payment in lieu of tax | 91,477 | 73 | 147 | 91,697 |
| Utility franchise taxes | 6,408,974 | - | - | 6,408,974 |
| Sales taxes* | 9,564,711 | 12,388,551 | - | 21,953,262 |
| Tax revenue | \$ 31,432,778 | 15,651,113 | 6,518,555 | 53,602,446 |

*This amount does not include county-wide taxes, which are included as intergovernmental revenues in the individual fund statements.

The City's property tax levies per \$1,000 assessed valuation for the year ended December 31, 2011 were as follows:

| Fund | Levy |
|---------------------------------|------------------|
| Primary government: | |
| General | \$ 16.182 |
| Library | 3.258 |
| Recreation | 0.241 |
| Debt Service | 6.998 |
| Total primary government | \$ 26.679 |

City of Lawrence, Kansas
Notes to Basic Financial Statements
December 31, 2011

(7) Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2011:

| <u>Type of Issue</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|--------------------------|------------------|-------------------|-----------------------|----------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 72,562,785 | 3,895,000 | 8,719,010 | 67,738,775 | 9,307,625 |
| Estimated claims and judgements payable | 1,002,798 | 393,292 | 1,053,408 | 342,682 | - |
| Accrued vacation and sick pay | 5,626,319 | 3,306,706 | 2,961,857 | 5,971,168 | 2,614,672 |
| Net OPEB obligation | 734,300 | 1,178,543 | 86,647 | 1,826,196 | - |
| Total primary government | <u>\$ 79,926,202</u> | <u>8,773,541</u> | <u>12,820,922</u> | <u>75,878,821</u> | <u>11,922,297</u> |
| Business-type activities: | | | | | |
| General obligation bonds | \$ 12,582,215 | - | 1,175,990 | 11,406,225 | 1,192,375 |
| Revenue bonds | 53,025,000 | - | 2,145,000 | 50,880,000 | 2,210,000 |
| Long term notes payable | 26,957,125 | - | 2,054,444 | 24,902,681 | 2,125,724 |
| Accrued vacation and sick pay | 1,840,558 | 1,332,424 | 1,242,813 | 1,930,169 | 946,856 |
| Net OPEB obligation | 265,700 | 426,457 | 31,353 | 660,804 | - |
| Total primary government | <u>\$ 94,670,598</u> | <u>1,758,881</u> | <u>6,649,600</u> | <u>89,779,879</u> | <u>6,474,955</u> |

The following is a summary of temporary note transactions for the year ended December 31, 2011:

| <u>Type of Issue</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|----------------------------|--------------------------|-------------------|-------------------|-----------------------|
| Governmental activities | \$ 7,465,000 | 14,375,000 | 7,465,000 | 14,375,000 |
| Premium on temporary notes | - | 245,813 | - | 245,813 |
| | <u>\$ 7,465,000</u> | <u>14,620,813</u> | <u>7,465,000</u> | <u>14,620,813</u> |

Net OPEB obligation: The City operates a single employer defined benefit healthcare plan administered by the City. The Employee Benefit Plan (the Plan) provides medical benefits to eligible early retirees and their spouses. K.S.A. 12-5040 requires all local governmental entities in the state that provide a group healthcare plan to make participation available to all retirees and dependents until the retiree reaches the age of 65 years. The Health Insurance Fund has been used to liquidate net other postemployment benefit obligations in prior years. No separate financial report is issued for the Plan.

City of Lawrence, Kansas
Notes to Basic Financial Statements

December 31, 2011

Debt payable, other than claims and judgments and compensated absences, at December 31, 2011 is composed of the following:

| Debt Issue | Date Issued | Date Matured | Interest Rate | Original Amount | Balance At End of Year | Due in One Year |
|------------------------------------|-------------|--------------|---------------|-----------------|------------------------|-----------------|
| General obligation bonds: | | | | | | |
| Internal improvement | 2001 | 2012 | 4.37-6.125 | \$ 2,840,000 | \$ 295,000 | \$ 295,000 |
| Internal improvement | 2001 | 2013 | 3.25-5.15 | 1,420,000 | 290,000 | 140,000 |
| Internal improvement | 2002 | 2013 | 3.5-4.25 | 9,070,000 | 1,830,000 | 890,000 |
| Internal improvement | 2002 | 2019 | 3.9-4.95 | 2,115,000 | 1,180,000 | 140,000 |
| Internal improvement | 2002 | 2014 | 2.8-3.7 | 920,000 | 285,000 | 90,000 |
| Refunding | 2003 | 2016 | 2.25-4.2 | 4,270,000 | 1,285,000 | 240,000 |
| Refunding | 2003 | 2016 | 2.25-4.2 | 10,190,000 | 4,325,000 | 790,000 |
| Internal improvement | 2003 | 2014 | 2.25-3.6 | 2,905,000 | 820,000 | 265,000 |
| Internal improvement | 2003 | 2015 | 2.5-3.8 | 3,145,000 | 1,250,000 | 290,000 |
| Internal improvement | 2004 | 2015 | 2.25-4.0 | 3,520,000 | 1,260,000 | 305,000 |
| Internal improvement | 2004 | 2016 | 2.5-3.0 | 10,600,000 | 4,820,000 | 900,000 |
| Internal improvement | 2004 | 2016 | 3.0-4.5 | 1,600,000 | 730,000 | 135,000 |
| Internal improvement | 2005 | 2017 | 3.2-4.0 | 11,095,000 | 6,000,000 | 920,000 |
| Internal improvement | 2006 | 2018 | 4.00 | 17,130,000 | 10,770,000 | 1,385,000 |
| Internal improvement | 2007 | 2019 | 4.0-4.25 | 11,345,000 | 8,065,000 | 885,000 |
| Internal improvement | 2008 | 2020 | 3.0-3.875 | 11,890,000 | 10,370,000 | 1,000,000 |
| Internal improvement | 2009 | 2021 | 2.0-3.5 | 3,250,000 | 2,760,000 | 245,000 |
| Internal improvement | 2010 | 2034 | 4.25-5.7 | 2,975,000 | 2,975,000 | 0 |
| Internal improvement | 2010 | 2022 | 1.25-3.0 | 8,920,000 | 8,235,000 | 690,000 |
| Internal improvement | 2010 | 2023 | 1.25-3.0 | 8,305,000 | 7,705,000 | 600,000 |
| Internal improvement | 2011 | 2023 | 2.0-3.0 | 3,895,000 | 3,895,000 | 295,000 |
| | | | | | 79,145,000 | 10,500,000 |
| Revenue bonds: | | | | | | |
| Water and sewerage improvement | 2005 | 2025 | 4.0-4.25 | 25,910,000 | 17,765,000 | 1,625,000 |
| Water and sewerage improvement | 2007 | 2032 | 3.75-4.65 | 19,800,000 | 19,350,000 | 125,000 |
| Water and sewerage improvement | 2008 | 2028 | 3.0-4.50 | 4,270,000 | 3,810,000 | 165,000 |
| Water and sewerage improvement | 2009 | 2031 | 1.85-6.15 | 10,385,000 | 9,955,000 | 295,000 |
| | | | | | 50,880,000 | 2,210,000 |
| Long term notes payable: | | | | | | |
| Kansas Public Wastewater Loan Fund | 2000 | 2021 | 3.44 | 44,522,971 | 24,902,681 | 2,125,724 |
| | | | | | 24,902,681 | 2,125,724 |
| Total primary government | | | | | \$ 154,927,681 | 14,835,724 |

In 2011, the City issued \$3,895,000 of general obligation bonds for paying the costs of certain street, building, traffic signal, and other improvements. The General Obligation Bonds, Series 2011-A are due in annual installments of \$295,000 to \$370,000 with interest due in semiannual installments at an average rate of 1.90% through September 1, 2023.

In 2011, the City issued \$14,375,000 of temporary notes for the purpose of temporarily financing the costs of street improvements, and benefit district projects in the Northwest part of the City. The Temporary Notes, Series 2011-I, bear interest of .39% and mature October 1, 2012.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

The City intends to redeem all temporary notes outstanding at December 31, 2011 in 2012 from proceeds of general obligation bonds and/or other temporary notes issued to finance the improvements.

General obligation bonds to be paid with tax levies:

| <u>Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|--------------------------|-------------------------|----------------------|
| 2012 | \$ 9,307,625 | 2,420,790 | 11,728,415 |
| 2013 | 9,323,067 | 2,103,576 | 11,426,643 |
| 2014 | 8,493,482 | 1,781,113 | 10,274,595 |
| 2015 | 8,495,721 | 1,490,821 | 9,986,542 |
| 2016 | 8,120,819 | 1,187,211 | 9,308,030 |
| 2017-2021 | 20,278,062 | 2,526,808 | 22,804,870 |
| 2022-2026 | 2,265,000 | 582,345 | 2,847,345 |
| 2027-2031 | 850,000 | 319,585 | 1,169,585 |
| 2032-2036 | 604,999 | 69,825 | 674,824 |
| Total | \$ <u>67,738,775</u> | <u>12,482,074</u> | <u>80,220,849</u> |

General obligation bonds to be paid with enterprise revenues:

| <u>Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|--------------------------|-------------------------|----------------------|
| 2012 | \$ 1,192,375 | 295,749 | 1,488,124 |
| 2013 | 1,216,933 | 268,262 | 1,485,195 |
| 2014 | 1,246,518 | 239,622 | 1,486,140 |
| 2015 | 1,279,279 | 209,740 | 1,489,019 |
| 2016 | 1,314,181 | 175,909 | 1,490,090 |
| 2017-2021 | 3,906,938 | 465,045 | 4,371,983 |
| 2022-2026 | 1,250,001 | 53,250 | 1,303,251 |
| Total | \$ <u>11,406,225</u> | <u>1,707,577</u> | <u>13,113,802</u> |

City of Lawrence, Kansas
Notes to Basic Financial Statements
December 31, 2011

Total general obligation bonds:

| <u>Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|--------------------------|-------------------------|----------------------|
| 2012 | \$ 10,500,000 | 2,716,539 | 13,216,539 |
| 2013 | 10,540,000 | 2,371,838 | 12,911,838 |
| 2014 | 9,740,000 | 2,020,735 | 11,760,735 |
| 2015 | 9,775,000 | 1,700,561 | 11,475,561 |
| 2016 | 9,435,000 | 1,363,120 | 10,798,120 |
| 2017-2021 | 24,185,000 | 2,991,853 | 27,176,853 |
| 2022-2026 | 3,515,001 | 635,595 | 4,150,596 |
| 2027-2031 | 850,000 | 319,585 | 1,169,585 |
| 2032-2036 | 604,999 | 69,825 | 674,824 |
| Total | \$ <u>79,145,000</u> | <u>14,189,651</u> | <u>93,334,651</u> |

Revenue bonds:

| <u>Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|--------------------------|-------------------------|----------------------|
| 2012 | \$ 2,210,000 | 2,304,105 | 4,514,105 |
| 2013 | 2,280,000 | 2,220,860 | 4,500,860 |
| 2014 | 2,360,000 | 2,132,685 | 4,492,685 |
| 2015 | 2,455,000 | 2,039,260 | 4,494,260 |
| 2016 | 2,550,000 | 1,941,260 | 4,491,260 |
| 2017-2021 | 13,630,000 | 8,007,943 | 21,637,943 |
| 2022-2026 | 12,925,000 | 4,899,665 | 17,824,665 |
| 2027-2031 | 9,265,000 | 2,253,983 | 11,518,983 |
| 2032-2036 | 3,205,000 | 293,750 | 3,498,750 |
| Total | \$ <u>50,880,000</u> | <u>26,093,511</u> | <u>76,973,511</u> |

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Long-term notes payable, State Revolving Loan Fund:

| <u>Year</u> | | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|----|--------------------------|-------------------------|----------------------|
| 2012 | \$ | 2,125,724 | 777,587 | 2,903,311 |
| 2013 | | 2,199,478 | 709,194 | 2,908,672 |
| 2014 | | 2,275,791 | 638,427 | 2,914,218 |
| 2015 | | 2,354,751 | 565,205 | 2,919,956 |
| 2016 | | 2,436,451 | 489,442 | 2,925,893 |
| 2017-2021 | | <u>13,510,486</u> | <u>1,215,511</u> | <u>14,725,997</u> |
| Total | \$ | <u>24,902,681</u> | <u>4,395,366</u> | <u>29,298,047</u> |

The Water and Sewage System Revenue Bonds require that one-sixth of the next interest payment due, one-twelfth of the next principal due, and one-sixth of the agent charges next due be set aside monthly in a restricted account and that a bond reserve be maintained if net revenues of the Water and Sewer System are less than 120% of the maximum annual debt service. A depreciation and emergency account is also to be maintained at a minimum of \$50,000. The City is in compliance with all requirements.

Conduit Debt: The City has entered into several conduit debt arrangements wherein the City issues industrial revenue bonds to finance a portion of the construction of facilities by private enterprises. In return, the private enterprises have executed mortgage notes or leases with the City. The City is not responsible for payment of the original bonds, but rather the debt is secured only by the cash payments agreed to be paid by the private enterprises under the terms of the mortgage or lease agreements. Generally, the conduit debt is arranged so that payments required by the private enterprises are equal to the mortgage payment schedule related to the original debt. At December 31, 2011, total outstanding conduit debt was \$48,205,000.

Lawrence Memorial Hospital Component Unit Debt:

The following is a summary of the long-term debt of the Lawrence Memorial Hospital, a proprietary fund type component unit. This debt is to be paid solely with Hospital revenues.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Changes in long term debt transactions:

| <u>Type of Issue</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------|--------------------------|-------------------|-------------------|-----------------------|----------------------------|
| Revenue bonds | \$ 60,958,811 | 10,500,000 | 1,681,061 | 69,777,750 | 2,145,000 |
| Retirement plan obligation | 489,239 | 90,327 | 94,785 | 484,781 | 15,239 |
| | <u>\$ 61,448,050</u> | <u>10,590,327</u> | <u>1,775,846</u> | <u>70,262,531</u> | <u>2,160,239</u> |

The City has issued Series 2003, Series 2006 and Series 2011 hospital revenue bonds under a Bond Indenture dated June 1, 1994, as amended and supplemented, to finance expansion and renovation of Hospital facilities, acquire equipment and property, refinance a prior bond issue and reimburse the Hospital for certain capital expenditures. The issuance of these bonds does not directly, indirectly or contingently, obligate the City, the State or any other political subdivision thereof to levy any form of taxation therefore or to make any appropriation for their payment.

| <u>Debt Issue</u> | <u>Date Matured</u> | <u>Interest Rate</u> | <u>Original Amount</u> | <u>Balance At End of Year</u> | <u>Due in One Year</u> |
|-------------------------------|---------------------|----------------------|------------------------|-------------------------------|------------------------|
| Series 2006 | 2019 | 2.5-5.38 | 17,450,000 | \$ 10,490,000 | 1,100,000 |
| Series 2011 | 2036 | 5.0-5.25 | 51,845,000 | 48,660,000 | 715,000 |
| Series 2006 | 2021 | 4.67 | 10,500,000 | 10,500,000 | 330,000 |
| Total Revenue Bonds | | | | 69,650,000 | 2,145,000 |
| Unamortized loss on refunding | | | | 127,750 | - |
| | | | | <u>\$ 69,777,750</u> | <u>2,145,000</u> |

Annual debt service requirements for hospital revenue bonds as of December 31, 2011 are as follows:

| <u>Year</u> | <u>Principal Due</u> | <u>Interest Due</u> | <u>Total Due</u> |
|-------------|----------------------|---------------------|--------------------|
| 2012 | \$ 2,145,000 | 3,520,072 | 5,665,072 |
| 2013 | 2,250,000 | 3,411,045 | 5,661,045 |
| 2014 | 2,350,000 | 3,296,829 | 5,646,829 |
| 2015 | 2,470,000 | 3,176,298 | 5,646,298 |
| 2016 | 2,605,000 | 3,048,639 | 5,653,639 |
| 2017-2021 | 19,180,000 | 13,173,576 | 32,353,576 |
| 2022-2026 | 9,720,000 | 8,928,945 | 18,648,945 |
| 2027-2031 | 12,680,000 | 6,148,444 | 18,828,444 |
| 2032-2036 | 16,250,000 | 2,569,958 | 18,819,958 |
| Total | <u>\$ 69,650,000</u> | <u>47,273,806</u> | <u>116,923,806</u> |

Arbitrage – The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The City has no arbitrage liability for tax-exempt debt as of December 31, 2011.

(8) Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

| | Restated Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------------------|-------------------|---------------------|--------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 15,254,632 | - | - | 15,254,632 |
| Construction in progress | <u>6,987,678</u> | <u>7,605,945</u> | <u>(11,586,815)</u> | <u>3,006,808</u> |
| Total capital assets, not being depreciated | <u>22,242,310</u> | <u>7,605,945</u> | <u>(11,586,815)</u> | <u>18,261,440</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 60,992,042 | 792,512 | - | 61,784,554 |
| Improvements other than buildings | 29,474,553 | - | - | 29,474,553 |
| Machinery and equipment | 25,471,836 | 4,607,382 | (1,185,428) | 28,893,790 |
| Infrastructure | <u>173,129,261</u> | <u>9,984,364</u> | <u>-</u> | <u>183,113,625</u> |
| Total capital assets being depreciated | <u>289,067,692</u> | <u>15,384,258</u> | <u>(1,185,428)</u> | <u>303,266,522</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 28,743,956 | 1,919,535 | - | 30,663,491 |
| Improvements other than buildings | 11,293,035 | 1,160,383 | - | 12,453,418 |
| Machinery and equipment | 19,055,518 | 1,556,066 | (1,185,428) | 19,426,156 |
| Infrastructure | <u>57,025,171</u> | <u>3,348,174</u> | <u>-</u> | <u>60,373,345</u> |
| Total accumulated depreciation | <u>116,117,680</u> | <u>7,984,158</u> | <u>(1,185,428)</u> | <u>122,916,410</u> |
| Total capital assets, being depreciated, net | <u>172,950,012</u> | <u>7,400,100</u> | <u>-</u> | <u>180,350,112</u> |
| Governmental activities capital assets, net | <u>\$ 195,192,322</u> | <u>15,006,045</u> | <u>(11,586,815)</u> | <u>198,611,552</u> |

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

| | <u>Beginning</u> <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending</u> <u>Balance</u> |
|--|------------------------------------|-------------------|---------------------|---------------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,956,352 | 42,137 | - | 5,998,489 |
| Construction in progress | <u>28,040,816</u> | <u>6,301,719</u> | <u>(26,299,805)</u> | <u>8,042,730</u> |
| Total capital assets, not being depreciated | <u>33,997,168</u> | <u>6,343,856</u> | <u>(26,299,805)</u> | <u>14,041,219</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 71,849,293 | 17,006,883 | - | 88,856,176 |
| Improvements other than buildings | 165,728,011 | 10,178,650 | - | 175,906,661 |
| Machinery and equipment | <u>15,458,943</u> | <u>570,373</u> | <u>(242,776)</u> | <u>15,786,540</u> |
| Total capital assets being depreciated | <u>253,036,247</u> | <u>27,755,906</u> | <u>(242,776)</u> | <u>280,549,377</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 16,130,868 | 1,799,882 | - | 17,930,750 |
| Improvements other than buildings | 56,379,452 | 4,266,859 | - | 60,646,311 |
| Machinery and equipment | <u>10,212,140</u> | <u>1,033,345</u> | <u>(242,776)</u> | <u>11,002,709</u> |
| Total accumulated depreciation | <u>82,722,460</u> | <u>7,100,086</u> | <u>(242,776)</u> | <u>89,579,770</u> |
| Total capital assets, being depreciated, net | <u>170,313,787</u> | <u>20,655,820</u> | <u>-</u> | <u>190,969,607</u> |
| Business-type activities capital assets, net | \$ <u>204,310,955</u> | <u>26,999,676</u> | <u>(26,299,805)</u> | <u>205,010,826</u> |

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

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 7,387 |
| Public safety | 312,758 |
| Public works | 6,595,746 |
| Health | 67 |
| Social services | 486,205 |
| Culture and recreation | 436,511 |
| Tourism | 1,368 |
| Airport | <u>115,777</u> |
| Total governmental funds | 7,955,819 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | <u>28,339</u> |
| Total depreciation expense - governmental activities | \$ <u>7,984,158</u> |
| Business-type activities: | |
| Water & sewer | \$ 5,736,635 |
| Sanitation | 575,541 |
| Parking | 145,798 |
| Storm water | 450,227 |
| Golf course | <u>191,885</u> |
| Total proprietary funds | \$ <u>7,100,086</u> |

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

(9) Defined Benefit Pension Plan

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 South Kansas Avenue, Topeka, KS 66603.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at up to 6% of covered salary. K.S.A. 74-4975 establishes KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute for calendar year 2011 was 6.74%. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$1,719,983, \$1,565,365, and \$1,440,771, respectively, equal to the required contributions for each year. The KP&F participating employer rate established for fiscal years beginning in 2011 is 14.57%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City contributions to KP&F for the years ending December 31, 2011, 2010, and 2009 were \$3,029,809, \$2,616,625, and \$2,690,912, respectively, equal to the required contributions for each year.

(10) Interfund Transactions

Interfund Receivables and Payables

At December 31, 2011, the following funds had interfund receivables and payables to the following funds

| Due From | General Fund |
|-------------------------|-----------------|
| Special Revenue Funds: | |
| Outside Agency Grants | \$ 17,000 |
| Community Development | 195,000 |
| Home | 30,000 |
| Transportation Planning | 20,000 |
| | \$ 262,000 |

The City uses interfund receivables and payables as needed when pooled cash is negative within a fund until investments mature or grant proceeds are received. All payables are cleared in less than one year.

Interfund Transfers

A summary of transfers for the year ended December 31, 2011 follows:

City of Lawrence, Kansas
Notes to Basic Financial Statements
December 31, 2011

| <u>Receiving Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|---------------------|----------------------|
| General | \$ 3,702,879 | 98,000 |
| Special Revenue Funds: | | |
| Library | 97,745 | - |
| Capital Improvement Reserve | 98,000 | 97,745 |
| Equipment Reserve | 1,085,000 | - |
| Sales Tax Reserve | 221,755 | - |
| Law Enforcement Grant | - | 12,845 |
| Outside Agency Fund | - | 100,160 |
| | <u>1,502,500</u> | <u>210,750</u> |
| Debt Service Fund | <u>60,014</u> | <u>-</u> |
| Capital Project Fund | <u>-</u> | <u>281,769</u> |
| Enterprise Funds: | | |
| Water and Sewer | - | 3,021,849 |
| Sanitation | - | 1,246,025 |
| Stormwater | - | 400,000 |
| | <u>-</u> | <u>4,667,874</u> |
| Internal Service - Central Maintenance | <u>-</u> | <u>7,000</u> |
| | <u>\$ 5,265,393</u> | <u>5,265,393</u> |

The City uses interfund transfers both to share administrative costs between funds and to build reserve balances in certain special liability funds.

(11) Commitments and Contingencies

A. Contract Commitments

At December 31, 2011, the City had construction contract commitments totaling approximately \$4,930,971. The City expects to receive the contracted services during fiscal year 2012.

B. Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets errors and omissions; injuries to employees; and natural disasters. Under the City's risk management program, the City retains risk for general liability protection, automobile liability and up to \$300,000 per occurrence (\$1,000,000 in aggregate) for each worker's compensation claim. The City purchases commercial insurance for claims in excess of the maximum under an umbrella

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

policy. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Claims expenditures and liabilities are reported based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That reserve was \$2,542,593 at December 31, 2011. The primary government's claims liability reported in the Statement of Net Assets at December 31, 2011 was \$342,682. The liability reported in the financial statements at December 31, 2011 is based on the requirement that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated.

Employee Health Care: The City has established a program to pay medical claims of covered current and former City employees and additional health insurance premiums. Liabilities are reported when it is probable that claims have been incurred and the amount of the liability can be reasonably estimated. Claim liabilities are calculated by the plan administrator and are expected to be liquidated with expendable available resources. This program is accounted for in an internal service fund.

| | 2011 | 2010 |
|-----------------------------------|-------------------|----------------|
| Unpaid claims, January 1 | \$ 582,356 | 455,113 |
| Incurred claims (including IBNRs) | 6,836,535 | 7,226,577 |
| Claim payments | 7,024,140 | 7,099,334 |
| Unpaid claims, December 31 | \$ <u>394,751</u> | <u>582,356</u> |

(12) Fund Deficit

The Capital Project Fund had a deficit of \$1,748,703 due to projects for which permanent financing has not yet been obtained.

(13) Cost Sharing Arrangements

The City has entered into various cost sharing arrangements with Douglas County, Kansas, (the County) to provide services and facilities. A listing of those arrangements is as follows:

In 1994, the City and the County agreed to combine their emergency communications services with the costs of the combined operations to be shared as follows: City 66% and County 34%. This agreement was modified in 1997 following the combination of the County emergency medical services and the City fire department in 1996 discussed below.

In 1996, the County emergency medical services and the City fire department were combined with the City paying 74.36% and the County paying 25.64% of the operating costs of the combined operations. The County pays all the cost of buildings and equipment of the ambulance service and the City pays all the cost of buildings and equipment of the fire department. As of the effective date of the 1996

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

agreement all buildings, equipment and furniture were transferred to the ownership of the City. This agreement was later modified in 1997, 1998 and 2005.

In 1996, the City and the County agreed to share equally in the cost of construction of a health facility to house the Lawrence-Douglas County Health Department, the Bert Nash Community Mental Health Center and the Douglas County Visiting Nurses Association. The agreement provided that on completion of the building, equipment and furniture would be owned by the City. This health facility was completed and occupied in 1997. A related agreement provides for the City and the County to each pay half of the health facility maintenance and operating expenses.

Also, the County pays 1/6th of the cost of the City's planning department.

(14) Net Assets

The amounts reported on the statement of net assets identified as invested in capital assets, net of related debt as follows:

| | Governmental Activities | Business Type Activities | Total |
|---|------------------------------------|-------------------------------------|--------------------|
| Total net capital assets | \$ 198,611,552 | 205,010,826 | 403,622,378 |
| Less: | | | |
| Current portion of general obligation bonds | (9,307,625) | (1,192,375) | (10,500,000) |
| Current portion of revenue bonds | - | (2,210,000) | (2,210,000) |
| Temporary notes payable | (14,620,813) | - | (14,620,813) |
| Noncurrent portion of general obligation debt | (58,431,150) | (10,213,850) | (68,645,000) |
| Noncurrent portion of revenue bonds payable | - | (48,670,000) | (48,670,000) |
| Noncurrent portion of notes payable | - | (24,902,681) | (24,902,681) |
| Add: | | | |
| Unspent general obligation bonds, revenue bonds and temporary note proceeds | 12,931,444 | 13,089,415 | 26,020,859 |
| Net assets-invested in capital assets, net of related debt | <u>\$ 129,183,408</u> | <u>130,911,335</u> | <u>260,094,743</u> |

(15) Postemployment Healthcare Plan

Plan Description. The City operates a single employer defined benefit healthcare plan administered by Blue Cross of Kansas in 2009. The Employee Benefit Plan (the Plan) provides medical and dental insurance benefits to eligible early retirees and their spouses. KSA 12-5040 requires all local governmental entities in the state that provide a group health care plan to make participation available to all retirees and dependents until the retiree reaches the age of 65 years or becomes eligible for Medicare. No separate financial report is issued for the Plan.

Funding Policy. The contribution requirements of plan participants and the City are established by the City. The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal year ended December 31, 2011, the City contributed \$121,000 to the Plan. (approximately 23% of total contributions). Plan participants contributed \$400,402 to the Plan (approximately 77% of total contributions) through their required contributions of 80% of premiums, ranging from \$256 to \$865 per month for coverage.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) 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 (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the Plan for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the Plan:

| | | |
|--|----|-------------------------|
| Annual required contribution | \$ | 1,605,000 |
| Interest on Net OPEB obligation | | 40,000 |
| Adjustment to annual required contribution | | <u>(37,000)</u> |
| Annual OPEB cost | | 1,608,000 |
| Contributions Made | | <u>(121,000)</u> |
| Increase in Net OPEB obligation | | 1,487,000 |
| Net OPEB obligation - beginning of year | | <u>1,000,000</u> |
| Net OPEB obligation - end of year | \$ | <u><u>2,487,000</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended December 31, 2011 was as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage Of ARC Contributed | OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|------------------------|-------------------------------------|-----------------------------|---------------------------|
| December 31, 2009 | \$ 551,000 | 93% | \$ 510,000 | \$ 101,000 |
| December 31, 2010 | 1,543,000 | 42% | 644,000 | 1,000,000 |
| December 31, 2011 | 1,608,000 | 8% | 121,000 | 2,487,000 |

Funding Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$21,303,407 and the actuarial value of the asset was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,303,407. The covered payroll (annual payroll of active employees covered by the plan) was \$42,671,173, and the ratio of the UAAL to the covered payroll was 49.9%. A Schedule of Funding Progress is shown on page 61 and provides multi-year information about the City's OPEB.

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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 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 statement, will present multiyear trend information about whether the actuarial value of plan assets (if any) are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits when such information is available.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants 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 the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of January 1, 2011, the most recent actuarial valuation date, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return, which is the rate of the employer's own investments as there are no plan assets and initial annual healthcare cost trends of 10% for medical, 10% for drugs and 5% for dental, reduced by decrements to ultimate rates of 5%, 5% and 5% after eight years. Projected salary increases are 4.0% and the projected rate of inflation is 3.25%. Post-retirement benefits are not projected to change. The UAAL is being amortized as a level % over a closed thirty-year period.

(16) Pollution Remediation

On September 29, 2010 the City of Lawrence obtained the former Farmland site out of bankruptcy. The site includes 463.5 acres located in Northeast Lawrence adjacent to Kansas Highway 10. Of this acreage, 263 acres will require minimal action. Farmland used the location to produce nitrogen from 1954 to 2001 and the groundwater, soil, sediments and surface and storm waters contain nitrate and ammonia levels that exceed environmental regulations.

The city entered into a consent order with the Kansas Department of Health and Environment (KDHE) to remediate the pollution and received \$8.5 million from the Farmland Trust Account to pay the estimated cost of between \$11.2 million and \$11.8 million over 30 years. The Kansas Department of Health and Environment and the Environmental Protection Agency (EPA) anticipate it will take 30 years or longer to meet all of the obligations on the entire site. The least expensive remediation option is to pump the groundwater and apply it to land as fertilizer.

The City Commission authorized the acquisition of Farmland to add additional space for industrial and business park expansion in Lawrence. The former Farmland facility is adjacent to the existing East Hills Business Park and BNSF rail service, has contiguous acreage for larger businesses and sites, and has relative close proximity to utilities and infrastructure. City land use plans call for the use of this property as an industrial/business park.

The City is now in the process of demolition of old structures on the property and is continuing to work on the environmental clean-up of the property. In October 2010, the city requested proposals to remove the structures from the Farmland site. In 2011, the contractors for the city demolished over 35 structures and removed over 1,600 tons of scrap metal for recycling from the Farmland property. The city continues to work on the environmental clean-up of the property, which includes remediation efforts to pump ground water from the site which has an overabundance of nitrogen from the fertilizer operation. The city pumps the ground water to local farm fields as part of the remediation efforts.

The (KDHE) and the (EPA) have both estimated the costs for the work over the next 30 years. The KDHE estimate for the remediation over a 30 year time period is \$11.2 million with an additional \$2.1 million contingency. The EPA produced an estimate of \$11.8 million. While all of these estimates are more than the \$8.5 million the City received at closing, the City will benefit from three elements which still make the proposed acquisition attractive to the City:

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

The City estimates that the \$8.5 million will earn approximately \$2.6 million in interest over the 30 year clean up timeframe assuming an average interest rate of 2.0% and level annual expenses. As a result, it is estimated that the city will have approximately \$11.1 million to remediate the pollution.

The proximity of the site and several of the required remediation efforts allow the City to use City resources and personnel for a number of the required remediation efforts thereby reducing costs; including the management of the various groundwater pumping systems, soil excavation, and stormwater management.

The City is receiving the land without paying a purchase price; concurrent with the remediation and infrastructure work the City will seek to sell or lease portions of the property for industrial and business. This will provide additional income to the City for use in the remediation and infrastructure installation on the property. Based upon the average assessed value of undeveloped lots in a similar use business park adjacent to the property the City has estimated a value of \$37,204 per acre for the 463 acres, for a total valuation of \$17,225,000, assuming satisfactory environmental compliance and infrastructure installation.

(17) Prior Year Restatement

The implementation of GASB 54 required the reclassification of the governmental fund balances. The following is the reclassification of fund balance as of December 31, 2011

| Fund Balance Classification | | | |
|------------------------------------|----------------------|-------------------|-------------------|
| As of December 31, 2010 | | | |
| | <u>Unreserved</u> | <u>Reserved</u> | <u>Total</u> |
| Governmental Fund: | | | |
| General Fund | \$ 12,747,754 | 556,401 | 13,304,155 |
| Debt Service Fund | - | 7,907,864 | 7,907,864 |
| Capital Projects Fund | (1,871,354) | - | (1,871,354) |
| Other Governmental Funds | 18,002,435 | 9,707,515 | 27,709,950 |
| Total Governmental Funds | \$ 28,878,835 | 18,171,780 | 47,050,615 |

| Fund Balance Classification | | | | | |
|---|---------------------|-------------------|------------------|-------------------|-------------------|
| As of December 31, 2010, as Reclassified | | | | | |
| | <u>Nonspendable</u> | <u>Restricted</u> | <u>Assigned</u> | <u>Unassigned</u> | <u>Total</u> |
| Governmental Fund: | | | | | |
| General Fund | \$ - | - | 556,401 | 12,747,754 | 13,304,155 |
| Debt Service Fund | - | 7,907,864 | - | - | 7,907,864 |
| Capital Projects Fund | - | - | - | (1,871,354) | (1,871,354) |
| Other Governmental Funds | 468,774 | 8,418,343 | 820,398 | 18,002,435 | 27,709,950 |
| Total Governmental Funds | \$ 468,774 | 16,326,207 | 1,376,799 | 28,878,835 | 47,050,615 |

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2011

In addition, it was determined that the proper classification for two funds, previously categorized as special revenue funds, was internal service funds. The effect on net assets is as follows:

| | Governmental Activities | Business-type Activities |
|---|------------------------------------|-------------------------------------|
| Net assets at December 31, 2010 as reported | \$ 182,475,773 | 158,015,321 |
| Change in fund classification | <u>(990,053)</u> | <u>990,053</u> |
| Net assets at December 31, 2010 as restated | <u>181,485,720</u> | <u>159,005,374</u> |

The effect on the individual funds is as follows:

| | Governmental Nonmajor Funds | | Internal Service Funds | |
|--|------------------------------------|-------------------------------------|-------------------------------|-----------------------------------|
| | Liability Reserve | Workers Comp Reserve | General Liability | Workers Comp Liability |
| Fund Balance/Net assets, beginning | \$ 1,391,653 | 1,507,915 | - | - |
| Change in fund classification | <u>(1,391,653)</u> | <u>(1,507,915)</u> | <u>1,391,653</u> | <u>1,507,915</u> |
| Fund Balance/Net assets, beginning, restated | \$ <u>-</u> | <u>-</u> | <u>1,391,653</u> | <u>1,507,915</u> |

City of Lawrence, Kansas

Other Post-Employment Benefits
Required Supplementary Information
December 31, 2011

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as Percent of Payroll (b-a)/(c) |
|--------------------------|-------------------------------|---------------------------------|------------------------|--------------------|---------------------|--------------------------------------|
| 1/1/2007 | \$ - | \$ 5,521,200 | \$ 5,521,200 | \$ - | \$ 40,195,095 | 13.7% |
| 1/1/2009 | - | 16,186,403 | 16,186,403 | - | 43,646,468 | 37.1% |
| 1/1/2011 | - | 21,303,407 | 21,303,407 | - | 42,671,173 | 49.9% |

Schedule of Employers Contributions

| Fiscal Year Ended | Annual OPEB Cost | Annual Required Contribution (ARC) | Percentage Of ARC Contributed | Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|------------------------------------|-------------------------------|------------------------------|---------------------|
| December 31, 2009 | \$ 549,000 | \$ 551,000 | 93% | \$ 510,000 | \$ 101,000 |
| December 31, 2010 | 1,543,000 | 1,543,000 | 42% | 644,000 | 1,000,000 |
| December 31, 2011 | 1,605,000 | 1,608,000 | 8% | 121,000 | 2,487,000 |

Nonmajor Governmental Funds

Special Revenue Funds Fund Descriptions

BUDGETED FUNDS

Guest Tax Fund – This fund is used to account for the 5% guest tax received on the occupancy of hotels and motels in the City.

Library Fund – This fund is used to account for the tax receipts collected and disbursed to the local public library.

Transportation Fund – This fund is used to account for revenues and expenditures associated with the fixed route bus system and para-transit services of the City.

Recreation Fund – This fund is used to account for user fees derived from recreational and cultural events and the expenditures necessary to carry out the recreation programs at the City's four community recreation centers.

Special Alcohol Fund – This fund is used to account for one-third of the liquor tax received by the City from the State of Kansas. The revenues are used to finance contractual programs for the prevention and treatment of drug and alcohol abuse.

Special Gas Tax Fund – This fund is used to account for the gasoline tax received from the State of Kansas and Douglas County. The expenditures are primarily for repairs of streets and to provide for new traffic signals.

Special Recreation Fund – This fund is used to account for one-third of the liquor tax received from the State of Kansas. These funds are used to provide additional resources for recreational activities and historic tours.

NONBUDGETED FUNDS

Airport Improvement Fund – This fund is used to account for grant proceeds received from the Federal Aviation and Administration and the operations of the airport. Revenues are generated from the fixed based operator and farming income (K.S.A. 79-2925).

Capital Improvement Reserve Fund – This fund is used to account for major capital improvements which are not funded by long-term debt. Transfers from the General Fund provide the resources for these expenditures (K.S.A. 12-1,118).

Equipment Reserve Fund – This fund is used to account for major equipment purchases which are not budgeted in the operating funds of the Governmental Fund Types or financed with general obligation bonds. Transfers from the General Fund provide the resources for these expenditures (K.S.A. 12-1,117).

Guest Tax Reserve Fund – This fund is used to account for funds being reserved for Horizon 2020 (Charter Ordinance No. 30).

Sales Tax Reserve Fund – This fund is used to account for the City's share of a .01 cents sales tax levied by the county designated for recreational and cultural capital projects and a health facility project (K.S.A. 12-1,118).

Special Revenue Funds
Fund Descriptions, Continued

Law Enforcement Grant Fund - This fund is used to account for Local Law Enforcement Block Grant received. These funds are used to reduce crime and improve public safety (K.S.A. 12-1663).

City Parks Memorial Fund – This fund is used to account for donations received from the public to fund special requests for landscaping and flower gardens (K.S.A. 79-2925).

Farmland Remediation – This fund is used to account for escrow funds received and remediation costs for the former Farmland Industries property (K.S.A. 12-1663).

Cemetery Perpetual Care Fund – This fund is used to provide monies for the maintenance of the City Cemetery (K.S.A. 12-1408).

Cemetery Mausoleum Fund – This fund is used to provide monies for the City Mausoleum (K.S.A. 12-1408).

Housing Trust Fund – This fund is used to acquire, construct, and rehabilitate affordable housing (K.S.A. 12-16,114).

Outside Agency Fund - This fund is used to account for grants passed through the outside agencies (K.S.A. 12-1663).

Wee Folks Scholarship Fund – The fund was started with a \$12,000 donation from the St. Patrick's Day Parade organization. The City is to seek matching donations. The fund is to be used to provide scholarships for Lawrence youth for recreational activities (K.S.A. 79-2925).

Fair Housing Assistance Fund – This fund is used to account for federal housing assistance grants received by the City. The monies are used to promote fair housing practices in the City and to assure compliance with federal regulations governing fair housing practices (K.S.A. 12-1663).

CDBG-Recovery Fund – This fund is used to account for additional CDBG funding that was received in accordance with the ARRA stimulus funding. These funds were used to provide assistance to low and moderate income individuals and areas in the City (K.S.A. 12-1663).

Community Development Fund – This fund is used to account for federal block grants received and related program income. These funds are used to provide assistance to low and moderate income individuals and areas in the City (K.S.A. 12-1663).

Rehabilitation Escrow Fund – This fund is used to account for federal grants received to provide assistance to homeowners for improvements to properties in targeted neighborhoods (K.S.A. 12-1663).

Home Program Fund – This fund is used to account for federal funds received to assist low income residents to purchase homes (K.S.A. 12-1663).

Transportation Planning Fund – This fund is used to account for federal grants received for urban transportation planning (K.S.A. 12-1663).

Law Enforcement Trust Fund – This fund is used to account for proceeds from the sale of assets forfeited in a legal proceeding. Receipts in the fund are used to defray the cost of complex investigations, purchase technical equipment or provide matching funds for federal grants (K.S.A. 60-4117).

CITY OF LAWRENCE, KANSAS

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2011**

| Assets | Special Revenue | | | | | | | | | | | | | |
|--|-----------------|------------------|------------------|------------------|-----------------|-----------------|--------------------|---------------------|-----------------------------|-------------------|-------------------|-------------------|-----------------------|---------------------|
| | Guest Tax | Library | Transportation | Recreation | Special Alcohol | Special Gas Tax | Special Recreation | Airport Improvement | Capital Improvement Reserve | Equipment Reserve | Guest Tax Reserve | Sales Tax Reserve | Law Enforcement Grant | City Parks Memorial |
| Cash | 90,333 | 435,636 | 1,931,282 | 1,111,726 | 349,559 | 737,097 | 279,687 | 55,381 | 1,827,147 | 4,492,672 | 477,685 | 2,537,566 | — | 80,136 |
| Investments | — | — | — | — | — | — | — | — | 2,499,435 | 2,499,435 | — | 800,001 | — | — |
| Receivables: | | | | | | | | | | | | | | |
| Taxes | — | 2,712,532 | — | 4,014 | — | — | — | — | — | — | — | — | — | — |
| Intergovernmental | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Accounts | — | — | — | 4,442 | — | — | — | 442 | — | 73,036 | — | — | — | — |
| Loans | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Accrued interest | — | — | — | — | — | — | — | — | 725 | 725 | — | 206 | — | — |
| Restricted assets | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Cash | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Investments | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Total assets | 90,333 | 3,148,188 | 1,931,282 | 1,120,182 | 349,559 | 737,097 | 279,687 | 55,823 | 4,327,307 | 7,065,868 | 477,685 | 3,337,773 | — | 80,136 |
| Liabilities and Fund Balances | | | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | | | |
| Accounts payable | — | — | 36,368 | 50,353 | 359 | 1,055 | 4,756 | — | 640 | 13,480 | 4,862 | 4,154 | — | 750 |
| Accrued payroll | — | — | 1,443 | 88,900 | 8,825 | 59,925 | — | — | — | — | — | — | — | — |
| Due to other funds | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Deferred revenue | — | 2,953,835 | — | 4,443 | — | — | — | 442 | — | 835 | — | — | — | — |
| Total liabilities | — | 2,953,835 | 37,811 | 143,696 | 9,184 | 60,980 | 4,756 | 442 | 640 | 14,315 | 4,862 | 4,154 | — | 750 |
| Fund balances: | | | | | | | | | | | | | | |
| Nonspendable | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Restricted | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Assigned | 90,333 | 194,353 | 1,893,471 | 976,486 | 340,375 | 676,117 | 274,931 | 55,381 | 4,326,667 | 7,051,553 | 472,823 | 3,333,619 | — | 79,386 |
| Unassigned | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Total fund balances | 90,333 | 194,353 | 1,893,471 | 976,486 | 340,375 | 676,117 | 274,931 | 55,381 | 4,326,667 | 7,051,553 | 472,823 | 3,333,619 | — | 79,386 |
| Total liabilities and fund balances | 90,333 | 3,148,188 | 1,931,282 | 1,120,182 | 349,559 | 737,097 | 279,687 | 55,823 | 4,327,307 | 7,065,868 | 477,685 | 3,337,773 | — | 80,136 |

(Continued)

CITY OF LAWRENCE, KANSAS

Combining Balance Sheet
Nonmajor Governmental Funds, Continued
December 31, 2011

| Assets | Cemetery | | Fair | | CDBG Recovery | Community Development | | Rehabilitation Escrow | Home Program | Transportation Planning | Law Enforcement Trust | Total Nonmajor Governmental Funds |
|--|-------------------|--------------|------------------|-----------------------|------------------|--------------------------|------------|--------------------------|-----------------|----------------------------|-----------------------------|--|
| | Perpetual Care | Mausoleum | Housing Trust | Housing Assistance | | Development | Escrow | | | | | |
| Cash | 115,459 | 4,207 | 102,274 | 167,381 | 49 | 797 | 624 | 119 | 198 | 33,585 | 15,006,922 | |
| Investments | — | — | — | — | — | — | — | — | — | — | 5,798,871 | |
| Receivables: | | | | | | | | | | | | |
| Taxes | — | — | — | — | — | — | — | — | — | — | 2,716,546 | |
| Intergovernmental | — | — | — | — | — | 141,132 | — | 102,980 | 46,118 | — | 395,068 | |
| Accounts | — | — | — | — | — | 2,550 | — | — | — | — | 80,470 | |
| Loans | — | — | — | — | — | 440,176 | — | — | — | — | 440,176 | |
| Accrued interest | — | — | — | — | — | — | — | — | — | — | 7,633 | |
| Restricted assets | — | — | — | — | — | — | — | — | — | — | — | |
| Cash | — | — | — | — | — | — | — | — | — | — | 2,208,386 | |
| Investments | — | — | — | — | — | — | — | — | — | — | 6,027,429 | |
| Total assets | 115,459 | 4,207 | 102,274 | 167,381 | 49 | 584,655 | 624 | 103,099 | 46,316 | 33,585 | 32,681,501 | |
| Liabilities and Fund Balances | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | |
| Accounts payable | 2,165 | — | — | — | — | — | 624 | 11,386 | 804 | — | — | 150,451 |
| Accrued payroll | — | — | — | 273 | — | — | — | 1,661 | 5,937 | — | — | 183,689 |
| Due to other funds | — | — | — | — | — | — | — | 30,000 | 20,000 | — | — | 262,000 |
| Deferred revenue | — | — | — | — | — | — | — | — | — | — | — | 2,959,555 |
| Total liabilities | 2,165 | — | — | 273 | — | — | 624 | 43,047 | 26,741 | — | — | 3,555,695 |
| Fund balances: | | | | | | | | | | | | |
| Nonspendable | 22,000 | 1,000 | — | — | — | 440,176 | — | — | — | — | — | 463,176 |
| Restricted | — | — | — | — | — | — | — | — | — | — | — | 8,235,939 |
| Unrestricted | 91,294 | 3,207 | 102,274 | 167,108 | 49 | — | — | 60,052 | 19,575 | 33,585 | 20,498,354 | |
| Unassigned | — | — | — | — | — | (71,663) | — | — | — | — | (71,663) | |
| Total fund balances | 113,294 | 4,207 | 102,274 | 167,108 | 49 | 368,513 | — | 60,052 | 19,575 | 33,585 | 29,125,806 | |
| Total liabilities and fund balances | 115,459 | 4,207 | 102,274 | 167,381 | 49 | 584,655 | 624 | 103,099 | 46,316 | 33,585 | 32,681,501 | |

CITY OF LAWRENCE, KANSAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended December 31, 2011

| | Special Revenue | | | | | | | | | | | | | |
|--|-----------------|-----------|----------------|------------|-----------------|-----------------|--------------------|---------------------|-----------------------------|-------------------|-------------------|-------------------|-----------------------|---------------------|
| | Guest Tax | Library | Transportation | Recreation | Special Alcohol | Special Gas Tax | Special Recreation | Airport Improvement | Capital Improvement Reserve | Equipment Reserve | Guest Tax Reserve | Sales Tax Reserve | Law Enforcement Grant | City Parks Memorial |
| Revenues: | | | | | | | | | | | | | | |
| Taxes | — | 3,034,621 | 2,814,506 | 1,907,289 | — | — | — | — | 2,721,759 | 2,303,627 | — | 2,869,311 | — | — |
| Charges for services | — | — | 274,108 | 1,735,928 | — | — | 10,672 | — | — | — | — | — | — | — |
| Fines, forfeitures and penalties | — | — | — | — | — | — | — | — | — | 113,126 | — | — | — | — |
| Interest | — | — | — | — | — | — | — | — | 9,646 | 9,386 | — | — | — | — |
| Invergovernmental | 700,872 | — | — | — | 645,080 | 2,548,577 | 645,080 | 78,015 | 346,756 | — | 489,332 | 6,120 | — | — |
| Miscellaneous | — | — | 36,503 | 169,375 | 1,909 | 615 | 15,163 | 77,024 | — | — | — | 27,600 | — | 4,015 |
| Total revenues | 700,872 | 3,034,621 | 3,125,117 | 3,812,592 | 646,989 | 2,549,192 | 645,080 | 103,850 | 3,155,185 | 2,426,139 | 489,332 | 2,903,031 | — | 4,015 |
| Expenditures: | | | | | | | | | | | | | | |
| General government | — | 3,070,000 | 2,420,214 | — | — | — | — | — | — | 136,478 | — | — | — | — |
| Public safety | — | — | — | — | 556,483 | — | — | — | — | — | — | — | — | — |
| Public works | — | — | — | — | — | 2,465,123 | — | — | 759,215 | — | — | — | — | — |
| Health | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Social services | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Culture and recreation | — | — | — | 3,756,754 | — | — | — | — | — | — | — | — | — | — |
| Tourism | 860,043 | — | — | — | — | — | 549,009 | — | — | — | — | 146,908 | — | 3,907 |
| Airport | — | — | — | — | — | — | — | 246,439 | — | — | 191,302 | — | — | — |
| Capital outlay | — | — | 91,891 | 16,929 | — | — | 110,397 | — | 2,083,960 | 633,347 | 8,210 | 812,270 | — | — |
| Debt service: | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Principal retirement | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Interest and fiscal charges | — | — | — | — | — | — | — | — | — | — | — | 1,006,624 | — | — |
| Total expenditures | 860,043 | 3,070,000 | 2,512,105 | 3,773,683 | 556,483 | 2,667,067 | 659,406 | 246,439 | 2,843,175 | 769,825 | 199,512 | 2,318,449 | — | 3,907 |
| Excess (deficiency) of revenues over (under) expenditures | (159,171) | (35,379) | 613,012 | 38,909 | 90,506 | (117,875) | (14,326) | (142,589) | 312,010 | 1,656,314 | 289,820 | 584,582 | — | 108 |
| Other financing sources (uses): | | | | | | | | | | | | | | |
| Transfers in | — | 97,745 | — | — | — | — | — | — | 98,000 | 1,085,000 | — | 221,755 | — | — |
| Transfers out | — | — | — | — | — | — | — | — | (97,745) | — | — | — | (12,845) | — |
| Total other financing sources (uses) | — | 97,745 | — | — | — | — | — | — | 255 | 1,085,000 | — | 221,755 | (12,845) | — |
| Net change in fund balances | (159,171) | 62,366 | 613,012 | 38,909 | 90,506 | (117,875) | (14,326) | (142,589) | 312,265 | 2,741,314 | 289,820 | 806,337 | (12,845) | 108 |
| Fund balance, beginning of year | 249,504 | 131,987 | 1,280,459 | 937,577 | 249,869 | 793,992 | 289,257 | 197,970 | 4,014,402 | 4,310,239 | 183,003 | 2,527,282 | 12,845 | 79,278 |
| Fund balance, end of year | 90,333 | 194,353 | 1,893,471 | 976,486 | 340,375 | 676,117 | 274,931 | 55,381 | 4,326,667 | 7,051,553 | 472,823 | 3,333,619 | — | 79,386 |

CITY OF LAWRENCE, KANSAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances --
Nonmajor Governmental Funds, Continued

Year ended December 31, 2011

| | Special Revenue | | | | | | | | | | | | | Total Nonmajor Governmental Funds |
|--|-------------------------|-------------------------------|-----------------------|------------------|-------------------|--------------------------|-------------------------------|------------------|--------------------------|--------------------------|-----------------|----------------------------|-----------------------------|--|
| | Farmland Remediation | Cemetery Perpetual Care | Cemetery Mausoleum | Housing Trust | Outside Agency | Wee Folks Scholarship | Fair Housing Assistance | CDBG Recovery | Community Development | Rehabilitation Escrow | Home Program | Transportation Planning | Law Enforcement Trust | |
| Revenues: | | | | | | | | | | | | | | |
| Taxes | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 15,651,113 |
| Charges for services | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 2,020,708 |
| Fines, forfeitures and penalties | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 113,126 |
| Interest | 62,863 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 69 | -- | 88,084 |
| Intergovernmental | -- | -- | -- | -- | 4,763,053 | -- | 18,480 | 85,789 | 756,297 | -- | 687,907 | 210,061 | -- | 11,975,299 |
| Miscellaneous | 2,626 | -- | -- | -- | 149,651 | -- | -- | -- | 107,137 | -- | 8,747 | -- | 25,787 | 647,822 |
| Total revenues | 65,489 | -- | -- | -- | 4,912,704 | 21,670 | 18,480 | 85,789 | 863,434 | -- | 696,654 | 210,061 | 25,856 | 30,496,152 |
| Expenditures: | | | | | | | | | | | | | | |
| General government | -- | -- | -- | -- | 1,744,155 | -- | -- | -- | -- | -- | -- | 179,706 | -- | 7,550,553 |
| Public safety | -- | -- | -- | -- | 10,356 | -- | -- | -- | -- | -- | -- | -- | 7,505 | 574,344 |
| Public works | 247,893 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3,472,231 |
| Health | -- | -- | -- | -- | 444,244 | -- | -- | -- | -- | -- | -- | -- | -- | 444,244 |
| Social services | -- | -- | -- | -- | -- | -- | 8,711 | 85,789 | 979,186 | -- | 703,624 | -- | -- | 1,777,310 |
| Culture and recreation | -- | 19,602 | -- | -- | -- | 25,777 | -- | -- | -- | -- | -- | -- | -- | 4,501,957 |
| Tourism | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,051,345 |
| Airport | -- | -- | -- | -- | 2,535,836 | -- | -- | -- | -- | -- | -- | -- | -- | 246,439 |
| Capital outlay | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 6,494,784 |
| Debt service: | | | | | | | | | | | | | | |
| Principal retirement | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,006,624 |
| Interest and fiscal charges | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 352,647 |
| Total expenditures | 247,893 | 19,602 | -- | -- | 4,734,591 | 25,777 | 8,711 | 85,789 | 979,186 | -- | 703,624 | 179,706 | 7,505 | 27,472,478 |
| Excess (deficiency) of revenues over (under) expenditures | (182,404) | (19,602) | -- | -- | 178,113 | (4,107) | 9,769 | -- | (115,752) | -- | (6,970) | 30,355 | 18,351 | 3,023,674 |
| Other financing sources (uses): | | | | | | | | | | | | | | |
| Transfers in | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | 1,502,500 |
| Transfers out | -- | -- | -- | -- | (100,160) | -- | -- | -- | -- | -- | -- | -- | -- | (210,750) |
| Total other financing sources (uses) | -- | -- | -- | -- | (100,160) | -- | -- | -- | -- | -- | -- | -- | -- | 1,291,750 |
| Net change in fund balances | (182,404) | (19,602) | -- | -- | 77,953 | (4,107) | 9,769 | -- | (115,752) | -- | (6,970) | 30,355 | 18,351 | 4,315,424 |
| Fund balance, beginning of year | 8,418,343 | 132,896 | 4,207 | 102,274 | 2,133 | 179,736 | 157,359 | 49 | 484,265 | -- | 67,022 | (10,780) | 15,234 | 24,810,382 |
| Fund balance, end of year | 8,235,939 | 113,294 | 4,207 | 102,274 | 80,086 | 175,629 | 167,108 | 49 | 368,513 | -- | 60,052 | 19,575 | 33,585 | 29,125,806 |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Bond and Interest Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

Year Ended December 31, 2011
(With Comparative Actual Amounts for 2010)

| | 2011 | | | | |
|--|----------------------------|-------------------------|---------------------|---|------------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> | <u>2010 Actual</u> |
| Revenues: | | | | | |
| Taxes | \$ 6,346,434 | 6,346,434 | 6,518,555 | 172,121 | 6,458,531 |
| Special assessments | 2,500,000 | 2,500,000 | 3,763,111 | 1,263,111 | 2,736,562 |
| Interest | 150,000 | 150,000 | 18,731 | (131,269) | 195,715 |
| Intergovernmental | — | — | — | — | 78,131 |
| Miscellaneous | 105,000 | 105,000 | 205,279 | 100,279 | 206,069 |
| Total revenues | <u>9,101,434</u> | <u>9,101,434</u> | <u>10,505,676</u> | <u>1,404,242</u> | <u>9,675,008</u> |
| Expenditures: | | | | | |
| Principal retirement | 9,409,010 | 9,409,010 | 7,712,386 | 1,696,624 | 15,717,896 |
| Interest and fiscal charges | 4,518,324 | 4,518,324 | 2,269,579 | 2,248,745 | 2,477,910 |
| Total expenditures | <u>13,927,334</u> | <u>13,927,334</u> | <u>9,981,965</u> | <u>3,945,369</u> | <u>18,195,806</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(4,825,900)</u> | <u>(4,825,900)</u> | <u>523,711</u> | <u>5,349,611</u> | <u>(8,520,798)</u> |
| Other financing sources: | | | | | |
| Transfers in | — | — | 60,014 | 60,014 | — |
| Excess (deficiency) of revenues and other sources over (under) expenditures and other uses | <u>\$ (4,825,900)</u> | <u>(4,825,900)</u> | <u>583,725</u> | <u>5,409,625</u> | <u>(8,520,798)</u> |
| Fund balance, beginning of year | | | <u>7,907,864</u> | | <u>16,428,662</u> |
| Fund balance, end of year | | | <u>\$ 8,491,589</u> | | <u>7,907,864</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Guest Tax Special Revenue Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual

Year Ended December 31, 2011
 (With Comparative Actual Amounts for 2010)

| | 2011 | | | | |
|---|--------------------|-------------------|-----------|------------------------------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance Positive (Negative) | 2010 Actual |
| Revenues – intergovernmental | \$ 935,000 | 935,000 | 700,872 | (234,128) | 941,099 |
| Expenditures: | | | | | |
| Tourism – contractual services | 757,500 | 757,500 | 838,912 | (81,412) | 777,898 |
| Excess (deficiency) of revenues over (under) expenditures | 177,500 | 177,500 | (138,040) | (315,540) | 163,201 |
| Other financing sources (uses) transfers out | (400,000) | (400,000) | — | 400,000 | (255,250) |
| Excess (deficiency) of revenues over (under) expenditures and other uses | \$ (222,500) | (222,500) | (138,040) | 84,460 | (92,049) |
| Fund balance, beginning of year | | | 249,504 | | 320,422 |
| Net change in reserve for encumbrances | | | (21,131) | | 21,131 |
| Fund balance, end of year | | | \$ 90,333 | | 249,504 |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Library Special Revenue Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual

Year Ended December 31, 2011
 (With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | <u>Variance</u> | |
|--|---------------------|------------------|-------------------|-------------------|------------------|
| | <u>Original</u> | <u>Revised</u> | <u>Actual</u> | <u>Positive</u> | <u>2010</u> |
| | <u>Budget</u> | <u>Budget</u> | | <u>(Negative)</u> | <u>Actual</u> |
| Revenues – taxes | \$ <u>2,959,473</u> | <u>2,959,473</u> | <u>3,034,621</u> | <u>75,148</u> | <u>3,003,636</u> |
| Expenditures: | | | | | |
| General government - contractual services | <u>3,070,000</u> | <u>3,070,000</u> | <u>3,070,000</u> | <u>—</u> | <u>3,060,000</u> |
| Total expenditures | <u>3,070,000</u> | <u>3,070,000</u> | <u>3,070,000</u> | <u>—</u> | <u>3,060,000</u> |
| Excess (deficiency) of revenues over (under) expenditures | (110,527) | (110,527) | (35,379) | 75,148 | (56,364) |
| Other financing sources – transfers in | <u>97,000</u> | <u>97,000</u> | <u>97,745</u> | <u>745</u> | <u>80,000</u> |
| Excess (deficiency) of revenues over (under) expenditures and other uses \$ | <u>(13,527)</u> | <u>(13,527)</u> | 62,366 | <u>75,893</u> | 23,636 |
| Fund balance, beginning of year | | | <u>131,987</u> | | <u>108,351</u> |
| Fund balance, end of year | | | \$ <u>194,353</u> | | <u>131,987</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Transportation Special Revenue Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual

Year Ended December 31, 2011
 (With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | <u>Variance</u> | |
|---|---------------------|------------------|---------------------|-------------------|------------------|
| | <u>Original</u> | <u>Revised</u> | <u>Actual</u> | <u>Positive</u> | <u>2010</u> |
| | <u>Budget</u> | <u>Budget</u> | | <u>(Negative)</u> | <u>Actual</u> |
| Revenues: | | | | | |
| Taxes | \$ — | — | — | — | 4,383 |
| Charges for services | 248,047 | 248,047 | 274,108 | 26,061 | 255,166 |
| Miscellaneous | — | — | 36,503 | 36,503 | 40,382 |
| | <u>248,047</u> | <u>248,047</u> | <u>310,611</u> | <u>62,564</u> | <u>299,931</u> |
| Total revenues | | | | | |
| Expenditures: | | | | | |
| General government | | | | | |
| Personal services | 71,881 | 71,881 | 66,328 | 5,553 | 64,574 |
| Contractual service | 1,896,914 | 1,896,914 | 1,877,910 | 19,004 | 1,635,640 |
| Commodities | 568,720 | 568,720 | 493,801 | 74,919 | 357,259 |
| Capital outlay | — | — | — | — | 398,772 |
| Other | 400,000 | 400,000 | — | 400,000 | — |
| | <u>2,937,515</u> | <u>2,937,515</u> | <u>2,438,039</u> | <u>499,476</u> | <u>2,456,245</u> |
| Total expenditures | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | (2,689,468) | (2,689,468) | (2,127,428) | 562,040 | (2,156,314) |
| Other financing sources (uses) | | | | | |
| Transfers in | 2,652,500 | 2,652,500 | 2,814,506 | 162,006 | 2,666,233 |
| Transfers out | (375,000) | (375,000) | — | 375,000 | — |
| Total other financing sources (uses) | <u>2,277,500</u> | <u>2,277,500</u> | <u>2,814,506</u> | <u>537,006</u> | <u>2,666,233</u> |
| Excess (deficiency) of revenues over (under) expenditures and other uses | \$ <u>(411,968)</u> | <u>(411,968)</u> | 687,078 | <u>1,099,046</u> | 509,919 |
| Fund balance, beginning of year | | | 1,280,459 | | 389,292 |
| Net change in reserve for encumbrances | | | <u>(74,066)</u> | | <u>381,248</u> |
| Fund balance, end of year | | | \$ <u>1,893,471</u> | | <u>1,280,459</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Recreation Special Revenue Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual

Year Ended December 31, 2011
 (With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | <u>Variance</u> | |
|---|---------------------|------------------|-------------------|-------------------|------------------|
| | <u>Original</u> | <u>Revised</u> | <u>Actual</u> | <u>Positive</u> | <u>2010</u> |
| | <u>Budget</u> | <u>Budget</u> | <u>Actual</u> | <u>(Negative)</u> | <u>Actual</u> |
| Revenues: | | | | | |
| Taxes | \$ 222,446 | 222,446 | 227,941 | 5,495 | 243,391 |
| Charges for services | 1,618,405 | 1,618,405 | 1,735,928 | 117,523 | 1,673,809 |
| Miscellaneous | <u>135,699</u> | <u>135,699</u> | <u>169,375</u> | <u>33,676</u> | <u>121,775</u> |
| Total revenues | <u>1,976,550</u> | <u>1,976,550</u> | <u>2,133,244</u> | <u>156,694</u> | <u>2,038,975</u> |
| Expenditures: | | | | | |
| Culture and recreation: | | | | | |
| Personal services | 3,125,064 | 3,090,017 | 3,008,925 | 81,092 | 2,935,907 |
| Contractual service | 492,386 | 496,622 | 444,628 | 51,994 | 379,793 |
| Commodities | 298,242 | 325,271 | 324,535 | 736 | 284,398 |
| Capital outlay | 25,000 | 28,782 | 16,929 | 11,853 | — |
| Other | <u>250,080</u> | <u>250,080</u> | <u>—</u> | <u>250,080</u> | <u>—</u> |
| Total expenditures | <u>4,190,772</u> | <u>4,190,772</u> | <u>3,795,017</u> | <u>395,755</u> | <u>3,600,098</u> |
| Excess (deficiency) of revenues over (under) expenditures | (2,214,222) | (2,214,222) | (1,661,773) | 552,449 | (1,561,123) |
| Other financing sources – transfers in | <u>1,679,348</u> | <u>1,679,348</u> | <u>1,679,348</u> | <u>—</u> | <u>1,646,420</u> |
| Excess (deficiency) of revenues over (under) expenditures and other uses | <u>\$ (534,874)</u> | <u>(534,874)</u> | 17,575 | <u>552,449</u> | 85,297 |
| Fund balance, beginning of year | | | 937,577 | | 903,138 |
| Net change in reserve for encumbrances | | | <u>21,334</u> | | <u>(50,858)</u> |
| Fund balance, end of year | | | <u>\$ 976,486</u> | | <u>937,577</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Special Alcohol Special Revenue Fund
 Schedule of Revenues, Expenditures and Changes
 in Fund Balance - Budget and Actual

Year Ended December 31, 2011
 (With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | <u>Variance</u> | |
|---|---------------------|---------------------|-------------------|-------------------|----------------|
| | <u>Original</u> | <u>Revised</u> | <u>Actual</u> | <u>Positive</u> | <u>2010</u> |
| | <u>Budget</u> | <u>Budget</u> | <u>Actual</u> | <u>(Negative)</u> | <u>Actual</u> |
| Revenues: | | | | | |
| Intergovernmental | \$ 650,000 | 650,000 | 645,080 | (4,920) | 638,928 |
| Other | — | — | 1,909 | 1,909 | — |
| Total revenues | <u>650,000</u> | <u>650,000</u> | <u>646,989</u> | <u>(3,011)</u> | <u>638,928</u> |
| Expenditures: | | | | | |
| Health: | | | | | |
| Personal services | 250,000 | 250,000 | 241,095 | 8,905 | 233,515 |
| Contractual service | 312,150 | 312,150 | 309,148 | 3,002 | 316,800 |
| Commodities | — | — | 36,240 | (36,240) | 4,297 |
| Other | 10,500 | 10,500 | — | 10,500 | — |
| Total expenditures | <u>572,650</u> | <u>572,650</u> | <u>586,483</u> | <u>(13,833)</u> | <u>554,612</u> |
| Excess (deficiency) of revenues over (under) expenditures | 77,350 | 77,350 | 60,506 | (16,844) | 84,316 |
| Other financing uses – transfers out | <u>(270,000)</u> | <u>(270,000)</u> | — | 270,000 | — |
| Excess (deficiency) of revenues over (under) expenditures and other uses | \$ <u>(192,650)</u> | \$ <u>(192,650)</u> | 60,506 | <u>253,156</u> | 84,316 |
| Fund balance, beginning of year | | | 249,869 | | 165,553 |
| Net change in reserve for encumbrances | | | <u>30,000</u> | | — |
| Fund balance, end of year | | | \$ <u>340,375</u> | | <u>249,869</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Special Gas Tax Special Revenue Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

Year Ended December 31, 2011
(With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | Variance Positive (Negative) | 2010 Actual |
|---|----------------------------|---------------------------|-------------------|---|------------------------|
| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Actual</u> | | |
| Revenues | | | | | |
| Intergovernmental | \$ 2,699,130 | 2,699,130 | 2,548,577 | (150,553) | 2,660,491 |
| Miscellaneous | <u>—</u> | <u>—</u> | 615 | 615 | <u>1,997</u> |
| Total revenues | <u>2,699,130</u> | <u>2,699,130</u> | <u>2,549,192</u> | <u>(149,938)</u> | <u>2,662,488</u> |
| Expenditures: | | | | | |
| Public works: | | | | | |
| Personal services | 1,798,026 | 1,799,226 | 1,808,403 | (9,177) | 1,801,916 |
| Contractual service | 500 | 30,863 | 27,176 | 3,687 | 48,082 |
| Commodities | 931,485 | 899,922 | 602,268 | 297,654 | 582,825 |
| Capital outlay | 200,000 | 200,000 | 179,336 | 20,664 | 188,575 |
| Other | <u>96,118</u> | <u>96,118</u> | <u>—</u> | <u>96,118</u> | <u>—</u> |
| Total expenditures | <u>3,026,129</u> | <u>3,026,129</u> | <u>2,617,183</u> | <u>408,946</u> | <u>2,621,398</u> |
| Excess (deficiency) of revenues over (under) expenditures | (326,999) | (326,999) | (67,991) | 259,008 | 41,090 |
| Other financing uses – transfers out | <u>(175,000)</u> | <u>(175,000)</u> | <u>—</u> | <u>175,000</u> | <u>—</u> |
| Excess (deficiency) of revenues over (under) expenditures and other uses | <u>\$ (501,999)</u> | <u>(501,999)</u> | (67,991) | <u>434,008</u> | 41,090 |
| Fund balance, beginning of year | | | 793,992 | | 726,516 |
| Net change in reserve for encumbrances | | | <u>(49,884)</u> | | <u>26,386</u> |
| Fund balance, end of year | | | <u>\$ 676,117</u> | | <u>793,992</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Special Recreation Special Revenue Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

Year Ended December 31, 2011
(With Comparative Actual Amounts for 2010)

| | <u>2011</u> | | | | |
|--|----------------------------|---------------------------|--------------------------|---|------------------------|
| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> | <u>2010 Actual</u> |
| Revenues – intergovernmental | \$ 650,000 | 650,000 | 645,080 | (4,920) | 638,928 |
| Expenditures: | | | | | |
| Culture and recreation: | | | | | |
| Personal services | 48,528 | 41,882 | 41,882 | — | 46,180 |
| Contractual service | 305,500 | 434,825 | 454,026 | (19,201) | 336,054 |
| Commodities | 76,000 | 85,760 | 93,279 | (7,519) | 114,526 |
| Capital outlay | 157,000 | 111,081 | 67,434 | 43,647 | 121,158 |
| Other | 100,000 | 13,480 | — | 13,480 | — |
| Total expenditures | <u>687,028</u> | <u>687,028</u> | <u>656,621</u> | <u>30,407</u> | <u>617,918</u> |
| Excess (deficiency) of revenues over (under) expenditures | (37,028) | (37,028) | (11,541) | 25,487 | 21,010 |
| Other financing uses – transfers out | <u>(35,000)</u> | <u>(35,000)</u> | <u>—</u> | <u>35,000</u> | <u>—</u> |
| Excess (deficiency) of revenues over (under) expenditures | \$ <u><u>(72,028)</u></u> | <u><u>(72,028)</u></u> | (11,541) | <u><u>60,487</u></u> | 21,010 |
| Fund balance, beginning of year | | | 289,257 | | 203,349 |
| Net change in reserve for encumbrances | | | <u>(2,785)</u> | | <u>64,898</u> |
| Fund balance, end of year | | | \$ <u><u>274,931</u></u> | | <u><u>289,257</u></u> |

See independent auditor's report on the basic financial statements.

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NONMAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Public Parking Fund – This fund is used to account for the operation of all parking facilities owned by the City.

Golf Course Fund – This fund is used to record the activities of Eagle Bend Golf Course, a publicly owned facility.

CITY OF LAWRENCE, KANSAS

Combining Balance Sheet
Nonmajor Enterprise Funds
December 31, 2011

| | Public Parking | Golf Course | Total Nonmajor Enterprise Funds |
|---|---------------------------|------------------------|--|
| Assets | | | |
| Current assets: | | | |
| Cash | \$ 369,567 | 273,088 | 642,655 |
| Receivables: | | | |
| Accounts | 8,538 | 194 | 8,732 |
| Inventories | — | 4,663 | 4,663 |
| Total current assets | <u>378,105</u> | <u>277,945</u> | <u>656,050</u> |
| Capital assets | | | |
| Land | 479,055 | — | 479,055 |
| Buildings and improvements | 4,084,602 | 3,616,125 | 7,700,727 |
| Equipment | 392,981 | 176,816 | 569,797 |
| Accumulated depreciation | <u>(3,321,862)</u> | <u>(2,496,848)</u> | <u>(5,818,710)</u> |
| Total capital assets | <u>1,634,776</u> | <u>1,296,093</u> | <u>2,930,869</u> |
| Total assets | <u>\$ 2,012,881</u> | <u>1,574,038</u> | <u>3,586,919</u> |
| Liabilities and Net Assets | | | |
| Liabilities: | | | |
| Current liabilities | | | |
| Accounts payable | \$ 11,576 | 16,864 | 28,440 |
| Accrued payroll | 30,310 | 12,082 | 42,392 |
| Accrued vacation and sick pay | 47,972 | 23,977 | 71,949 |
| Total current liabilities | <u>89,858</u> | <u>52,923</u> | <u>142,781</u> |
| Noncurrent liabilities | | | |
| Compensated absences | 69,154 | 22,546 | 91,700 |
| Net OPEB obligation | 56,413 | 2,044 | 58,457 |
| Total noncurrent liabilities | <u>125,567</u> | <u>24,590</u> | <u>150,157</u> |
| Total liabilities | <u>215,425</u> | <u>77,513</u> | <u>292,938</u> |
| Net assets: | | | |
| Invested in capital assets, net of debt | 1,634,776 | 1,296,093 | 2,930,869 |
| Unrestricted | <u>162,680</u> | <u>200,432</u> | <u>363,112</u> |
| Total net assets | <u>1,797,456</u> | <u>1,496,525</u> | <u>3,293,981</u> |
| Total liabilities and net assets | <u>\$ 2,012,881</u> | <u>1,574,038</u> | <u>3,586,919</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Combining Statement of Revenues, Expenses and Changes in
Net Assets - Nonmajor Enterprise Funds

For the Year Ended December 31, 2011

| | <u>Public Parking</u> | <u>Golf Course</u> | <u>Total Nonmajor Enterprise Funds</u> |
|---|----------------------------|-------------------------|--|
| Operating revenues - charges for services | \$ 1,264,390 | 718,419 | <u>1,982,809</u> |
| Operating expenses: | | | |
| Continuing operations | 1,202,400 | 733,458 | 1,935,858 |
| Depreciation and amortization | <u>145,798</u> | <u>191,885</u> | <u>337,683</u> |
| Total operating expenses | <u>1,348,198</u> | <u>925,343</u> | <u>2,273,541</u> |
| Operating income (loss) | <u>(83,808)</u> | <u>(206,924)</u> | <u>(290,732)</u> |
| Nonoperating revenues (expenses) | | | |
| Interest income | 600 | 609 | 1,209 |
| Other | <u>—</u> | <u>(3,380)</u> | <u>(3,380)</u> |
| Total nonoperating revenues (expenses) | <u>600</u> | <u>(2,771)</u> | <u>(2,171)</u> |
| Change in net assets | (83,208) | (209,695) | (292,903) |
| Net assets, beginning of year | <u>1,880,664</u> | <u>1,706,220</u> | <u>3,586,884</u> |
| Net assets, end of year | \$ <u><u>1,797,456</u></u> | <u><u>1,496,525</u></u> | <u><u>3,293,981</u></u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2011

| | <u>Public Parking</u> | <u>Golf Course</u> | <u>Total Nonmajor Enterprise Funds</u> |
|--|---------------------------|------------------------|--|
| Cash flows from operating activities: | | | |
| Receipts from customers and users | \$ 1,272,172 | 715,011 | 1,987,183 |
| Payments to suppliers | (219,340) | (286,667) | (506,007) |
| Payments to employees | (951,578) | (435,995) | (1,387,573) |
| | <u>101,254</u> | <u>(7,651)</u> | <u>93,603</u> |
| Net cash provided by (used in) operating activities | | | |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | — | (52,733) | (52,733) |
| Cash flows from investing activities: | | | |
| Receipt of interest and dividends | 600 | 609 | 1,209 |
| | <u>101,854</u> | <u>(59,775)</u> | <u>42,079</u> |
| Net increase (decrease) in cash | | | |
| Cash and cash equivalents, beginning of year | 267,713 | 332,863 | 600,576 |
| Cash and cash equivalents, end of year | \$ <u>369,567</u> | <u>273,088</u> | <u>642,655</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ (83,808) | (206,924) | (290,732) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization expense | 145,798 | 191,885 | 337,683 |
| Other income | — | (3,380) | (3,380) |
| Change in: | | | |
| Accounts receivable | 7,782 | (28) | 7,754 |
| Inventories of supplies | — | 7,648 | 7,648 |
| Accounts payable | 2,316 | 2,817 | 5,133 |
| Accrued payroll | (663) | 179 | (484) |
| Accrued vacation and sick pay | (3,901) | (1,075) | (4,976) |
| Net OPEB obligation | 33,730 | 1,227 | 34,957 |
| | <u>185,062</u> | <u>199,273</u> | <u>384,335</u> |
| Total adjustments | | | |
| Net cash provided by (used in) operating activities | \$ <u>101,254</u> | <u>(7,651)</u> | <u>93,603</u> |

See independent auditor's report on the basic financial statements.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

General Liability Fund – This fund accounts for payments for auto and general liability claims.

Workers' Comp Liability Fund - This fund accounts for payments for workers' compensation claims.

Central Maintenance Fund – This fund accounts for the repairs and maintenance expenses of the City's fleet of vehicles and equipment.

Stores Fund – This fund accounts for the purchase of office supplies.

Health Insurance Fund – This fund accounts for the payment of health insurance claims.

CITY OF LAWRENCE, KANSAS

Combining Balance Sheet
Internal Service Funds
December 31, 2011

| Assets | <u>General Liability</u> | <u>Workers Comp Liability</u> | <u>Central Maintenance</u> | <u>Stores</u> | <u>Health Insurance</u> | <u>Total</u> |
|---|------------------------------|-----------------------------------|--------------------------------|---------------|-----------------------------|-------------------|
| Current assets: | | | | | | |
| Cash | \$ 782,375 | 760,592 | 186,336 | 28,828 | 6,246,801 | 8,004,932 |
| Investments | 600,004 | 500,007 | — | — | 3,209,221 | 4,309,232 |
| Receivables: | | | | | | |
| Accounts | — | — | 344,143 | — | 47,659 | 391,802 |
| Accrued interest | 39 | 20 | — | — | 874 | 933 |
| Inventories | — | — | 339,295 | 4,311 | — | 343,606 |
| Total current assets | <u>1,382,418</u> | <u>1,260,619</u> | <u>869,774</u> | <u>33,139</u> | <u>9,504,555</u> | <u>13,050,505</u> |
| Capital assets | | | | | | |
| Buildings and improvements | — | — | 674,819 | — | — | 674,819 |
| Equipment | — | — | 319,123 | — | — | 319,123 |
| Accumulated depreciation | — | — | (720,420) | — | — | (720,420) |
| Total capital assets | <u>—</u> | <u>—</u> | <u>273,522</u> | <u>—</u> | <u>—</u> | <u>273,522</u> |
| Total assets | <u>\$ 1,382,418</u> | <u>1,260,619</u> | <u>1,143,296</u> | <u>33,139</u> | <u>9,504,555</u> | <u>13,324,027</u> |
| Liabilities and Net Assets | | | | | | |
| Liabilities: | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | \$ 16,531 | 83,913 | 105,310 | — | 376,141 | 581,895 |
| Claims payable | — | — | — | — | 394,751 | 394,751 |
| Accrued payroll | — | — | 38,522 | — | — | 38,522 |
| Accrued vacation and sick pay | — | — | 71,666 | — | — | 71,666 |
| Total current liabilities | <u>16,531</u> | <u>83,913</u> | <u>215,498</u> | <u>—</u> | <u>770,892</u> | <u>1,086,834</u> |
| Noncurrent liabilities - compensated absences | — | — | 94,888 | — | — | 94,888 |
| Total liabilities | <u>16,531</u> | <u>83,913</u> | <u>310,386</u> | <u>—</u> | <u>770,892</u> | <u>1,181,722</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | — | — | 273,522 | — | — | 273,522 |
| Unrestricted | 1,365,887 | 1,176,706 | 559,388 | 33,139 | 8,733,663 | 11,868,783 |
| Total net assets | <u>1,365,887</u> | <u>1,176,706</u> | <u>832,910</u> | <u>33,139</u> | <u>8,733,663</u> | <u>12,142,305</u> |
| Total liabilities and net assets | <u>\$ 1,382,418</u> | <u>1,260,619</u> | <u>1,143,296</u> | <u>33,139</u> | <u>9,504,555</u> | <u>13,324,027</u> |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Combining Statement of Revenues, Expenses and Changes in
Net Assets - Internal Service Funds

For the Year Ended December 31, 2011

| | <u>General Liability</u> | <u>Workers Comp Liability</u> | <u>Central Maintenance</u> | <u>Stores</u> | <u>Health Insurance</u> | <u>Total</u> |
|--|------------------------------|-----------------------------------|--------------------------------|---------------|-----------------------------|--------------|
| Operating revenues - charges for services | \$ 62,821 | 600,000 | 3,609,923 | 7,920 | 9,313,562 | 13,594,226 |
| Operating expenses: | | | | | | |
| Continuing operations | 91,566 | 932,245 | 3,696,083 | 7,478 | — | 4,727,372 |
| General administration | — | — | — | — | 60,843 | 60,843 |
| Health insurance claims | — | — | — | — | 8,202,471 | 8,202,471 |
| Depreciation and amortization | — | — | 28,338 | — | — | 28,338 |
| Total operating expenses | 91,566 | 932,245 | 3,724,421 | 7,478 | 8,263,314 | 13,019,024 |
| Operating income (loss) | (28,745) | (332,245) | (114,498) | 442 | 1,050,248 | 575,202 |
| Nonoperating revenues (expenses) | | | | | | |
| Interest income | 2,979 | 1,036 | 528 | — | 16,714 | 21,257 |
| Federal grants | — | — | — | — | — | — |
| Gain (loss) on sale of capital assets | — | — | 702 | — | — | 702 |
| Other | — | — | 3,000 | — | — | 3,000 |
| Total nonoperating revenues (expenses) | 2,979 | 1,036 | 4,230 | — | 16,714 | 24,959 |
| Income (loss) before transfers | (25,766) | (331,209) | (110,268) | 442 | 1,066,962 | 600,161 |
| Transfers out | — | — | (7,000) | — | — | (7,000) |
| Change in net assets | (25,766) | (331,209) | (117,268) | 442 | 1,066,962 | 593,161 |
| Net assets (deficit), beginning of year, as restated | 1,391,653 | 1,507,915 | 950,178 | 32,697 | 7,666,701 | 11,549,144 |
| Net assets (deficit), end of year | \$ 1,365,887 | 1,176,706 | 832,910 | 33,139 | 8,733,663 | 12,142,305 |

See independent auditor's report on the basic financial statements.

CITY OF LAWRENCE, KANSAS

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2011

| | <u>General Liability</u> | <u>Workers Comp Liability</u> | <u>Central Maintenance</u> | <u>Stores</u> | <u>Health Insurance</u> | <u>Total</u> |
|--|------------------------------|-----------------------------------|--------------------------------|---------------|-----------------------------|------------------|
| Cash flows from operating activities: | | | | | | |
| Receipts from customers and users | \$ 62,821 | 600,000 | 3,558,259 | 7,920 | 9,311,387 | 13,540,387 |
| Payments to suppliers | (77,389) | (1,005,044) | (2,508,663) | (4,859) | (8,371,939) | (11,967,894) |
| Payments to employees | — | — | (1,149,921) | — | — | (1,149,921) |
| Net cash provided by (used in) operating activities | <u>(14,568)</u> | <u>(405,044)</u> | <u>(100,325)</u> | <u>3,061</u> | <u>939,448</u> | <u>422,572</u> |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers out | — | — | (7,000) | — | — | (7,000) |
| Cash flows from capital and related financing activities: | | | | | | |
| Acquisition and construction of capital assets | — | — | (6,199) | — | — | (6,199) |
| Proceeds from sales of capital assets | — | — | 702 | — | — | 702 |
| Net cash provided by (used in) capital and related financing activities | <u>—</u> | <u>—</u> | <u>(5,497)</u> | <u>—</u> | <u>—</u> | <u>(5,497)</u> |
| Cash flows from investing activities: | | | | | | |
| Receipt of interest and dividends | 3,161 | 1,873 | 528 | — | 18,869 | 24,431 |
| Purchases of investments | (1,502,582) | (1,201,726) | — | — | (7,716,755) | (10,421,063) |
| Sales of investments | 1,402,955 | 1,701,764 | — | — | 9,508,284 | 12,613,003 |
| Net cash provided by (used in) investing activities | <u>(96,466)</u> | <u>501,911</u> | <u>528</u> | <u>—</u> | <u>1,810,398</u> | <u>2,216,371</u> |
| Net increase (decrease) in cash | (111,034) | 96,867 | (112,294) | 3,061 | 2,749,846 | 2,626,446 |
| Cash and cash equivalents, beginning of year, as restated | 893,409 | 663,725 | 298,630 | 25,767 | 3,496,955 | 5,378,486 |
| Cash and cash equivalents, end of year | \$ <u>782,375</u> | <u>760,592</u> | <u>186,336</u> | <u>28,828</u> | <u>6,246,801</u> | <u>8,004,932</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | \$ (28,745) | (332,245) | (114,498) | 442 | 1,050,248 | 575,202 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Depreciation and amortization expense | — | — | 28,338 | — | — | 28,338 |
| Other income | — | — | 3,000 | — | — | 3,000 |
| Change in: | | | | | | |
| Accounts receivable | — | — | (54,664) | — | (2,175) | (56,839) |
| Inventories of supplies | — | — | (38,654) | 2,619 | — | (36,035) |
| Accounts payable | 14,177 | (72,799) | 66,243 | — | 78,980 | 86,601 |
| Claims payable | — | — | — | — | (187,605) | (187,605) |
| Accrued payroll | — | — | 3,678 | — | — | 3,678 |
| Accrued vacation and sick pay | — | — | 6,232 | — | — | 6,232 |
| Total adjustments | <u>14,177</u> | <u>(72,799)</u> | <u>14,173</u> | <u>2,619</u> | <u>(110,800)</u> | <u>(152,630)</u> |
| Net cash provided by (used in) operating activities | \$ <u>(14,568)</u> | <u>(405,044)</u> | <u>(100,325)</u> | <u>3,061</u> | <u>939,448</u> | <u>422,572</u> |

See independent auditor's report on the basic financial statements.

AGENCY FUNDS

Agency Funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

Payroll Clearing Fund – This fund is used to account for withholdings from payroll pending payment to outside agencies.

Municipal Court Fund – This fund is used to account for cash bonds paid by defendants.

KPRF Fund – This fund is used by the Parks and Recreation Department to purchase tickets, pay travel agents and pay for other reimbursable expenses.

Fire Insurance Proceeds Fund – This fund accounts for insurance proceeds received and held by the City until the affected property is demolished.

CITY OF LAWRENCE, KANSAS

Combining Statement of Changes in Assets and Liabilities –
All Agency Funds

Year Ended December 31, 2011

| | <u>Balance January 1, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31, 2011</u> |
|---------------------------------------|--|-------------------|-------------------|--|
| Payroll Clearing | | | | |
| Assets: | | | | |
| Cash | \$ 117,993 | 21,603,965 | 21,605,956 | 116,002 |
| Accounts receivable | <u>277</u> | <u>—</u> | <u>277</u> | <u>—</u> |
| | <u>\$ 118,270</u> | <u>21,603,965</u> | <u>21,606,233</u> | <u>116,002</u> |
| Liabilities: | | | | |
| Accounts payable | \$ <u>118,270</u> | <u>21,603,965</u> | <u>21,606,233</u> | <u>116,002</u> |
| Municipal Court | | | | |
| Assets: | | | | |
| Cash | \$ 354,662 | 924,646 | 1,039,201 | 240,107 |
| Restricted assets - court receivables | <u>131,401</u> | <u>—</u> | <u>—</u> | <u>131,401</u> |
| | <u>\$ 486,063</u> | <u>924,646</u> | <u>1,039,201</u> | <u>371,508</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 354,662 | 924,646 | 1,039,201 | 240,107 |
| Payable from restricted assets | <u>131,401</u> | <u>—</u> | <u>—</u> | <u>131,401</u> |
| | <u>\$ 486,063</u> | <u>924,646</u> | <u>1,039,201</u> | <u>371,508</u> |
| KPRF | | | | |
| Assets: | | | | |
| Cash | \$ <u>291</u> | <u>—</u> | <u>—</u> | <u>291</u> |
| Liabilities: | | | | |
| Accounts payable | \$ <u>291</u> | <u>—</u> | <u>—</u> | <u>291</u> |

(Continued)

CITY OF LAWRENCE, KANSAS

Combining Statement of Changes in Assets and Liabilities –
All Agency Funds, Continued

Year Ended December 31, 2011

| | <u>Balance</u> <u>January 1,</u> <u>2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>December 31,</u> <u>2011</u> |
|---------------------------------------|--|-------------------|-------------------|--|
| Fire Insurance Proceeds Fund | | | | |
| Assets: | | | | |
| Cash | \$ — | 64,466 | 22,451 | 42,015 |
| Liabilities: | | | | |
| Accounts payable | \$ — | 64,466 | 22,451 | 42,015 |
| Totals - All Agency Funds | | | | |
| Assets: | | | | |
| Cash | \$ 472,946 | 22,593,077 | 22,667,608 | 398,415 |
| Accounts receivable | 277 | — | 277 | — |
| Restricted assets - court receivables | 131,401 | — | — | 131,401 |
| Total assets | \$ <u>604,624</u> | <u>22,593,077</u> | <u>22,667,885</u> | <u>529,816</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 473,223 | 22,593,077 | 22,667,885 | 398,415 |
| Court bonds payable | 131,401 | — | — | 131,401 |
| Total liabilities | \$ <u>604,624</u> | <u>22,593,077</u> | <u>22,667,885</u> | <u>529,816</u> |

See independent auditor's report on the basic financial statements.

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STATISTICAL SECTION

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Statistical Section

The Statistical Section provides additional information to aid in the understanding of the financial statements, note disclosures, and supplementary information for the City of Lawrence.

Contents

Financial Trends

These schedules help the reader understand how the city's financial performance has changed over time.

Revenue Capacity

These schedules help the reader assess the status of the city's property tax.

Debt Capacity

These schedules help the reader assess the city's current levels of outstanding debt and the city's ability to issue additional debt.

Economic and Demographic Information

These schedules help the reader understand the economic environment within which the city's financial activities take place.

Operating Information

These schedules help the reader understand how the information in the city's financial report relates to the services the city provides.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

The objective of financial trends information is to assist the reader in understanding how the City of Lawrence's financial position has changed over time. As a result, two tables are presented. Table 1 shows Net Assets for the last nine years. Table 2 shows the Changes in Net Assets for the last nine years.

CITY OF LAWRENCE, KANSAS

Net Assets by Component

Last Nine Fiscal Years
(accrual basis of accounting)

Unaudited

| | Fiscal Year | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Governmental activities | | | | | | | | | |
| Invested in capital assets, net of related debt \$ | 95,987,404 | 96,155,168 | 88,244,646 | 93,600,687 | 94,219,394 | 98,756,330 | 102,317,087 | 120,684,461 | 129,183,408 |
| Restricted | 14,384,175 | 15,400,474 | 16,818,165 | 17,954,391 | 22,969,523 | 31,135,946 | 30,181,056 | 31,067,667 | 29,677,058 |
| Unrestricted | 23,957,026 | 29,880,265 | 42,743,594 | 36,620,613 | 38,700,080 | 30,196,881 | 31,166,420 | 30,723,645 | 33,582,269 |
| Total governmental activities net assets \$ | 134,328,605 | 141,435,907 | 147,806,405 | 148,175,691 | 155,888,997 | 160,089,157 | 163,664,563 | 182,475,773 | 192,442,735 |
| Business-type activities | | | | | | | | | |
| Invested in capital assets, net of related debt \$ | 86,737,639 | 87,256,373 | 74,845,227 | 91,982,752 | 100,856,193 | 130,121,705 | 131,255,940 | 131,412,998 | 130,911,335 |
| Restricted | 5,909,170 | 6,906,197 | 17,732,915 | 16,877,071 | 27,230,548 | 19,865,967 | - | - | - |
| Unrestricted | 34,841,198 | 39,199,131 | 47,994,157 | 42,242,043 | 26,203,996 | 4,813,863 | 24,874,340 | 26,602,323 | 29,737,496 |
| Total business-type activities net assets \$ | 127,488,007 | 133,361,701 | 140,572,299 | 151,101,866 | 154,290,737 | 154,801,535 | 156,130,280 | 158,015,321 | 160,648,831 |
| Primary government | | | | | | | | | |
| Invested in capital assets, net of related debt \$ | 182,725,043 | 183,411,541 | 163,089,873 | 185,583,439 | 195,075,587 | 228,878,035 | 233,573,027 | 252,097,459 | 260,094,743 |
| Restricted | 20,293,345 | 22,306,671 | 34,551,080 | 34,831,462 | 50,200,071 | 51,001,913 | 30,181,056 | 31,067,667 | 29,677,058 |
| Unrestricted | 58,798,224 | 69,079,396 | 90,737,751 | 78,862,656 | 64,904,076 | 35,010,744 | 56,040,760 | 57,325,968 | 63,319,765 |
| Total primary government net assets \$ | 261,816,612 | 274,797,608 | 288,378,704 | 299,277,557 | 310,179,734 | 314,890,692 | 319,794,843 | 340,491,094 | 353,091,566 |

Note: Data became available with the inception of GASB 34 during fiscal year 2003, therefore 10 years of data is unavailable.

CITY OF LAWRENCE, KANSAS

Changes in Net Assets

Last Nine Fiscal Years
(accrual basis of accounting)

Unaudited

| | Fiscal Year | | | | | | | | |
|--|---------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Expenses | | | | | | | | | |
| Governmental activities | | | | | | | | | |
| General government | \$ 13,529,468 | 14,403,955 | 15,787,385 | 17,850,454 | 19,365,613 | 19,330,700 | 20,602,910 | 23,127,748 | 22,477,809 |
| Public safety | 21,444,143 | 22,024,175 | 23,958,869 | 26,850,570 | 28,091,852 | 28,450,607 | 29,739,788 | 28,650,139 | 29,036,287 |
| Public works | 10,389,739 | 12,755,790 | 13,152,884 | 16,608,613 | 14,467,570 | 15,402,053 | 17,343,296 | 16,549,924 | 15,679,396 |
| Health | 1,382,529 | 888,333 | 897,509 | 976,258 | 992,789 | 1,039,965 | 1,075,320 | 1,919,306 | 1,438,414 |
| Social services | 2,882,748 | 2,678,321 | 3,330,734 | 2,651,489 | 1,917,240 | 1,841,798 | 2,448,630 | 1,915,284 | 2,264,240 |
| Culture and recreation | 6,543,285 | 6,211,637 | 7,145,971 | 8,205,079 | 7,834,774 | 8,058,955 | 8,080,566 | 8,125,600 | 8,106,806 |
| Tourism | 490,053 | 663,943 | 680,490 | 675,797 | 779,687 | 818,561 | 771,534 | 885,555 | 1,052,713 |
| Airport | 191,661 | 192,485 | 188,284 | 201,034 | 212,253 | 248,014 | 242,517 | 318,403 | 494,077 |
| Interest on long-term debt | 3,842,917 | 3,164,980 | 2,838,234 | 3,175,178 | 2,655,108 | 3,232,294 | 3,231,513 | 2,813,274 | 2,634,868 |
| Total governmental activities expenses | 60,696,543 | 62,983,619 | 67,980,360 | 77,194,472 | 76,316,886 | 78,422,947 | 83,536,074 | 84,305,233 | 83,184,610 |
| Business-type activities: | | | | | | | | | |
| Water & sewer | 16,561,112 | 17,079,804 | 18,439,977 | 21,182,353 | 23,578,051 | 25,644,004 | 25,862,716 | 26,269,408 | 26,971,544 |
| Sanitation | 7,218,375 | 7,817,606 | 8,395,807 | 9,146,491 | 9,593,230 | 10,048,229 | 9,689,799 | 9,202,456 | 9,945,012 |
| Parking | 912,248 | 935,905 | 962,303 | 934,309 | 1,110,029 | 1,259,311 | 1,299,618 | 1,329,347 | 1,330,036 |
| Stormwater | 1,121,598 | 1,209,570 | 1,527,637 | 1,710,016 | 1,778,006 | 1,776,832 | 1,867,219 | 1,695,136 | 1,822,001 |
| Golf course | 1,049,496 | 1,094,435 | 992,548 | 817,710 | 925,676 | 999,551 | 1,016,011 | 998,557 | 917,860 |
| Total business-type activities expenses | 26,862,829 | 28,137,320 | 30,318,272 | 33,790,879 | 36,984,992 | 39,727,927 | 39,735,363 | 39,494,904 | 40,986,453 |
| Total primary government expenses | \$ 87,559,372 | 91,120,939 | 98,298,632 | 110,985,351 | 113,301,878 | 118,150,874 | 123,271,437 | 123,800,137 | 124,171,063 |
| Program Revenues | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| General government | \$ 719,087 | 886,557 | 1,164,158 | 1,151,175 | 1,213,241 | 1,244,723 | 1,457,934 | 8,518,656 | 8,293,905 |
| Public safety | 5,597,535 | 6,403,610 | 6,523,480 | 6,745,201 | 6,390,357 | 7,371,902 | 6,746,080 | 398,548 | 453,968 |
| Culture and recreation | 1,563,897 | 1,408,227 | 1,554,583 | 1,642,377 | 1,764,266 | 1,911,786 | 1,952,858 | 2,379,992 | 1,955,406 |
| Other activities | 530,016 | 608,024 | 598,888 | 693,927 | 550,054 | 382,777 | 442,116 | 547,979 | 471,492 |
| Operating grants and contributions | 8,690,675 | 8,068,395 | 8,645,939 | 8,296,784 | 8,107,569 | 7,049,610 | 8,614,974 | 10,417,284 | 11,609,950 |
| Capital grants and contributions | 4,703,593 | 4,476,161 | 4,298,427 | 7,464,153 | 6,982,954 | 3,502,047 | 3,912,656 | 14,676,844 | 3,235,965 |
| Total governmental activities program revenues | 21,804,803 | 21,850,974 | 22,785,475 | 25,993,617 | 25,008,441 | 21,462,845 | 23,126,618 | 36,939,303 | 26,020,686 |
| Business-type activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| Water & sewer | \$ 22,731,523 | 21,980,918 | 24,666,589 | 27,625,934 | 27,702,909 | 27,953,735 | 29,099,969 | 30,362,409 | 31,089,678 |
| Sanitation | 7,859,391 | 8,069,691 | 8,350,141 | 8,738,585 | 8,980,990 | 9,281,014 | 9,658,845 | 10,002,337 | 10,546,148 |
| Parking | 896,694 | 831,787 | 871,504 | 954,766 | 876,578 | 1,018,472 | 1,013,596 | 1,162,143 | 1,264,390 |
| Stormwater | 2,677,414 | 2,728,541 | 2,767,975 | 2,794,985 | 2,836,484 | 2,890,385 | 2,919,032 | 2,948,627 | 2,952,788 |
| Golf course | 896,158 | 912,526 | 935,964 | 971,712 | 923,375 | 916,239 | 919,416 | 780,840 | 718,419 |

(continued)

SCHEDULES OF REVENUE CAPACITY INFORMATION

The objective of the revenue capacity information is to assist the reader in understanding the factors affecting the City of Lawrence's ability to generate its own-source revenue. As a result, seven tables of data are presented. Most of the tables contain ten years of data. Table 3 shows tax revenues by source. Table 4 shows the fund balances of the governmental funds. Table 5 shows the changes in fund balances. Table 6 provides the assessed and estimated actual property valuations. Table 7 shows the direct and overlapping property tax rates. Table 8 lists the ten largest property tax payers. Table 9 provides a history of property tax collections.

Table 3

CITY OF LAWRENCE, KANSAS

General Government Tax Revenues by Source

Last Ten Fiscal Years
(modified accrual basis of accounting)

Unaudited

| Year | Property Tax | Sales Tax (1) | Franchise Tax | Motor Vehicle Tax | Payment- in-lieu | Total |
|------|-----------------|------------------|------------------|-------------------------|---------------------|------------|
| 2002 | 14,281,439 | 10,957,561 | 3,632,803 | 1,597,396 | 75,349 | 30,544,548 |
| 2003 | 15,814,366 | 11,392,376 | 3,660,488 | 1,665,149 | 125,307 | 32,657,686 |
| 2004 | 18,954,535 | 12,415,985 | 3,684,941 | 1,795,514 | 161,001 | 37,011,976 |
| 2005 | 19,931,493 | 12,765,697 | 3,754,184 | 1,976,016 | 152,204 | 38,579,594 |
| 2006 | 20,342,054 | 13,146,914 | 3,986,982 | 2,029,017 | 154,334 | 39,659,301 |
| 2007 | 21,681,622 | 13,475,013 | 4,784,605 | 1,960,344 | 126,803 | 42,028,387 |
| 2008 | 22,790,512 | 14,027,094 | 5,543,194 | 1,943,132 | 102,866 | 44,406,798 |
| 2009 | 22,616,220 | 18,416,379 | 5,872,925 | 1,951,303 | 106,181 | 48,963,008 |
| 2010 | 22,656,849 | 20,863,865 | 6,300,184 | 1,936,585 | 95,855 | 51,853,338 |
| 2011 | 23,204,001 | 21,953,262 | 6,408,974 | 1,944,512 | 91,697 | 53,602,446 |

(1) Excludes City's share of county-wide sales tax which is reported as intergovernmental revenue

CITY OF LAWRENCE, KANSAS

Fund Balances of Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)

Unaudited

| | Fiscal Year | | | | | | | | | |
|-----------------------------------|---------------|------------|------------|--------------|-------------|------------|-------------|-------------|-------------|-------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| General Fund | | | | | | | | | | |
| Nonspendable | \$ - | - | - | - | - | - | - | - | - | - |
| Restricted | - | - | - | - | - | - | - | - | - | - |
| Assigned | - | - | - | - | - | - | - | - | - | 489,385 |
| Unassigned | - | - | - | - | - | - | - | - | - | 12,764,449 |
| Reserved | 727,909 | 1,014,374 | 905,414 | 854,863 | 850,300 | 807,314 | 919,854 | 266,473 | 556,401 | - |
| Unreserved | 8,919,482 | 8,164,583 | 12,922,924 | 14,472,880 | 11,083,748 | 11,449,526 | 12,224,367 | 12,564,947 | 12,747,754 | - |
| Total General Fund | \$ 9,647,391 | 9,178,957 | 13,828,338 | 15,327,743 | 11,934,048 | 12,256,840 | 13,144,221 | 12,831,420 | 13,304,155 | 13,253,834 |
| All other governmental funds | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | 463,176 |
| Restricted | - | - | - | - | - | - | - | - | - | 16,727,528 |
| Assigned | - | - | - | - | - | - | - | - | - | 20,498,354 |
| Unassigned | - | - | - | - | - | - | - | - | - | (1,820,366) |
| Reserved | 7,720,844 | 8,098,465 | 9,072,450 | 8,596,569 | 7,858,766 | 8,366,671 | 17,918,096 | 17,239,307 | 17,615,379 | - |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 14,759,541 | 14,299,935 | 14,501,703 | 15,253,024 | 15,959,348 | 15,389,830 | 16,938,468 | 18,602,507 | 18,002,435 | - |
| Capital projects funds | (7,091,096) | 5,652,282 | 1,618,585 | (10,419,107) | (6,221,394) | (745,650) | (2,938,975) | (9,271,901) | (1,871,354) | - |
| Total all other governmental fund | \$ 15,389,289 | 28,050,682 | 25,192,738 | 13,430,486 | 17,596,780 | 23,010,851 | 31,917,589 | 26,569,913 | 33,746,460 | 35,868,692 |

CITY OF LAWRENCE, KANSAS
Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)

Unaudited

| | Fiscal Year | | | | | | | | | |
|---|---------------|--------------|--------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Revenues | | | | | | | | | | |
| Taxes | \$ 30,544,548 | 32,657,686 | 37,011,976 | 38,579,594 | 39,659,301 | 42,028,387 | 44,406,798 | 48,963,008 | 51,853,338 | 53,602,446 |
| Special assessments | 1,570,255 | 1,758,046 | 1,333,030 | 1,350,375 | 1,623,980 | 1,955,841 | 3,172,277 | 2,856,257 | 2,736,562 | 3,763,111 |
| Licenses and permits | 785,543 | 1,024,587 | 1,121,828 | 1,082,191 | 1,128,747 | 928,922 | 1,018,198 | 810,916 | 871,264 | 944,702 |
| Charges for services | 4,508,000 | 4,534,620 | 4,743,123 | 5,344,865 | 5,922,240 | 5,762,447 | 6,601,944 | 6,276,057 | 6,506,432 | 6,402,873 |
| Fines, forfeitures and penalties | 1,776,155 | 2,012,187 | 2,321,690 | 2,637,520 | 2,610,627 | 2,650,819 | 2,632,493 | 2,613,613 | 3,101,898 | 2,942,454 |
| Interest | 1,484,538 | 1,107,797 | 955,756 | 1,824,288 | 2,965,144 | 3,083,321 | 1,775,604 | 316,185 | 322,758 | 145,314 |
| Intergovernmental | 17,500,790 | 18,965,245 | 19,144,592 | 18,346,114 | 19,796,516 | 17,396,256 | 19,757,194 | 19,522,422 | 22,662,507 | 22,013,251 |
| Reimbursements | 1,757,694 | 555,980 | 397,638 | 178,665 | 1,321,000 | 70,834 | 196,262 | 375,161 | 138,393 | 449,094 |
| Miscellaneous | 932,545 | 1,926,446 | 1,360,067 | 1,020,492 | 1,465,378 | 640,488 | 1,054,806 | 1,018,877 | 9,514,236 | 1,190,375 |
| Total Revenues | 60,860,068 | 64,542,594 | 68,389,700 | 70,364,104 | 76,492,933 | 74,517,315 | 80,615,576 | 82,752,496 | 97,707,388 | 91,453,620 |
| Expenditures | | | | | | | | | | |
| General government | 12,973,764 | 14,226,198 | 14,713,277 | 16,427,044 | 18,676,882 | 19,512,299 | 18,968,987 | 19,891,053 | 22,358,619 | 22,353,342 |
| Public safety | 19,413,366 | 20,760,197 | 20,620,805 | 23,418,252 | 26,134,660 | 27,193,045 | 27,816,793 | 29,187,921 | 28,074,410 | 28,487,747 |
| Public works | 6,409,537 | 6,554,869 | 6,213,701 | 6,896,815 | 8,360,862 | 7,969,457 | 8,258,922 | 8,778,751 | 8,648,070 | 9,648,859 |
| Health | 1,271,162 | 1,369,492 | 883,005 | 895,344 | 974,790 | 990,668 | 1,074,952 | 1,074,666 | 1,917,525 | 1,436,649 |
| Social services | 2,222,232 | 2,881,262 | 2,399,935 | 2,878,949 | 2,238,416 | 1,519,399 | 1,452,893 | 2,089,963 | 1,533,790 | 1,777,310 |
| Culture and recreation | 5,394,565 | 5,993,346 | 5,869,793 | 6,651,247 | 7,694,559 | 7,289,612 | 7,465,092 | 7,534,689 | 7,658,288 | 7,688,245 |
| Tourism | 463,622 | 486,845 | 660,735 | 677,282 | 674,777 | 779,687 | 818,561 | 771,534 | 885,555 | 1,051,345 |
| Airport | 94,373 | 75,885 | 76,708 | 72,507 | 85,290 | 96,545 | 132,237 | 126,740 | 201,889 | 377,900 |
| Capital outlay | 15,595,097 | 9,424,358 | 9,011,818 | 19,851,587 | 18,680,282 | 7,734,897 | 8,650,245 | 14,155,573 | 15,486,693 | 10,889,382 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 5,450,338 | 10,523,666 | 18,349,028 | 8,121,337 | 7,942,194 | 8,602,024 | 8,729,882 | 9,064,166 | 16,923,114 | 8,719,010 |
| Interest and fiscal charges | 3,228,362 | 3,913,517 | 3,077,458 | 2,719,188 | 3,283,518 | 2,710,971 | 3,274,481 | 3,288,693 | 2,890,327 | 2,622,226 |
| Total expenditures | 72,516,418 | 76,209,635 | 81,876,263 | 88,609,552 | 94,746,230 | 84,398,604 | 86,606,045 | 95,963,749 | 106,578,280 | 95,052,015 |
| Excess of revenues over (under) expenditures | (11,656,350) | (11,667,041) | (13,486,563) | (18,245,448) | (18,253,297) | (9,881,289) | (5,990,469) | (13,211,253) | (8,870,892) | (3,598,395) |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers in | 6,054,100 | 5,999,389 | 5,895,767 | 7,964,846 | 7,926,774 | 9,608,664 | 10,959,158 | 13,469,563 | 17,113,409 | 5,265,393 |
| Transfers out | (4,777,950) | (4,704,389) | (4,450,767) | (6,069,321) | (5,821,112) | (5,335,512) | (7,064,570) | (9,168,787) | (12,488,235) | (590,519) |
| Proceeds of general obligation bonds | 10,324,101 | 22,565,000 | 13,833,000 | 6,087,076 | 16,920,234 | 11,345,000 | 11,890,000 | 3,250,000 | 11,895,000 | 3,895,000 |
| Total other financing sources (uses) | 11,600,251 | 23,860,000 | 15,278,000 | 7,982,601 | 19,025,896 | 15,618,152 | 15,784,588 | 7,550,776 | 16,520,174 | 8,569,874 |
| Net change in fund balances | (56,099) | 12,192,959 | 1,791,437 | (10,262,847) | 772,599 | 5,736,863 | 9,794,119 | (5,660,477) | 7,649,282 | 4,971,479 |
| Debt service as a percentage of noncapital expenditures | 15.2% | 23.4% | 29.1% | 15.8% | 14.2% | 14.6% | 15.2% | 14.7% | 21.4% | 14.0% |

CITY OF LAWRENCE, KANSAS

Assessed and Estimated Actual Value of Property

Last Ten Fiscal Years

Unaudited

| Year | Real Property | | Personal Property (1) | | State Assessed | | Total | | Ratio of Assessed to Estimated Actual Value | Total Direct Tax Rate |
|------|----------------|------------------------|-----------------------|------------------------|----------------|-----------------|----------------|------------------------|---|-----------------------|
| | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Actual Value | Assessed Value | Estimated Value | Assessed Value | Estimated Actual Value | | |
| 2002 | \$ 553,933,830 | \$ 3,978,551,867 | \$ 54,197,260 | \$ 216,789,040 | \$ 20,902,337 | \$ 20,902,337 | \$ 629,033,427 | \$ 4,216,243,244 | 14.9% | 24.77 |
| 2003 | 598,234,485 | 4,296,734,542 | 54,874,350 | 219,497,400 | 21,244,347 | 21,244,347 | 674,353,182 | 4,537,476,289 | 14.9% | 25.56 |
| 2004 | 646,375,889 | 4,642,503,961 | 50,179,040 | 200,716,160 | 21,594,641 | 21,594,641 | 718,149,570 | 4,864,814,762 | 14.8% | 28.10 |
| 2005 | 700,034,125 | 5,027,896,052 | 54,085,190 | 216,340,760 | 22,741,682 | 22,741,682 | 776,860,997 | 5,266,978,494 | 14.7% | 27.86 |
| 2006 | 750,379,180 | 5,389,492,978 | 53,579,845 | 214,319,380 | 20,406,899 | 20,406,899 | 824,365,924 | 5,624,219,257 | 14.7% | 26.36 |
| 2007 | 783,604,390 | 5,628,128,379 | 48,783,695 | 195,134,780 | 21,163,388 | 21,163,388 | 853,551,473 | 5,844,426,547 | 14.6% | 26.79 |
| 2008 | 804,814,245 | 5,780,465,181 | 38,094,360 | 152,377,440 | 19,128,981 | 19,128,981 | 862,037,586 | 5,951,971,602 | 14.5% | 26.65 |
| 2009 | 802,842,525 | 5,766,303,579 | 33,097,400 | 132,389,600 | 17,736,945 | 17,736,945 | 853,676,870 | 5,916,430,124 | 14.4% | 26.69 |
| 2010 | 805,513,584 | 5,785,488,085 | 29,111,051 | 116,444,204 | 17,962,282 | 17,962,282 | 852,586,917 | 5,919,894,571 | 14.4% | 26.70 |
| 2011 | 811,352,189 | 7,057,515,250 | 26,179,943 | 112,965,148 | 19,078,875 | 19,078,875 | 856,611,007 | 7,189,559,273 | 11.9% | 28.61 |

(1) Excludes motor vehicles.

Source: Douglas County Appraiser

CITY OF LAWRENCE, KANSAS

Property Tax Rates – Direct and Overlapping Governments

Last Ten Fiscal Years

Unaudited

| Year | City of Lawrence | | | Overlapping Rates | | | | | Total Direct & Overlapping Rates | | |
|------|-------------------|----------------------|--------------------|----------------------------------|-------------------------------------|----------------------|-----------------------------------|--------------------------------------|----------------------------------|-------------------------------|-----------------|
| | Operating Millage | Debt Service Millage | Total City Millage | Douglas County Operating Millage | Douglas County Debt Service Millage | Total County Millage | School District Operating Millage | School District Debt Service Millage | | Total School District Millage | State of Kansas |
| 2002 | 18.43 | 7.13 | 24.77 | 27.82 | 0.00 | 27.89 | 39.03 | 10.81 | 49.84 | 1.50 | 104.00 |
| 2003 | 20.99 | 7.11 | 25.56 | 28.65 | 1.21 | 27.82 | 36.71 | 10.94 | 47.65 | 1.50 | 102.52 |
| 2004 | 20.79 | 7.07 | 28.10 | 29.19 | 0.67 | 29.86 | 39.95 | 6.76 | 46.71 | 1.50 | 106.17 |
| 2005 | 19.32 | 7.04 | 27.86 | 30.05 | 0.05 | 29.86 | 42.05 | 10.03 | 52.08 | 1.50 | 111.30 |
| 2006 | 19.36 | 7.00 | 26.36 | 29.96 | 0.05 | 30.10 | 47.01 | 10.79 | 57.80 | 1.50 | 115.76 |
| 2007 | 19.78 | 7.01 | 26.79 | 29.95 | 0.05 | 30.00 | 48.36 | 9.20 | 57.56 | 1.50 | 115.85 |
| 2008 | 19.56 | 7.09 | 26.65 | 32.77 | 0.05 | 32.82 | 47.59 | 9.81 | 57.40 | 1.50 | 118.37 |
| 2009 | 19.69 | 7.00 | 26.69 | 32.80 | 0.00 | 32.80 | 46.17 | 11.72 | 57.89 | 1.50 | 118.89 |
| 2010 | 19.70 | 7.00 | 26.70 | 35.75 | 0.00 | 35.75 | 47.50 | 12.15 | 59.65 | 1.50 | 123.59 |
| 2011 | 20.10 | 8.51 | 28.61 | 35.77 | 0.00 | 35.77 | 47.74 | 11.70 | 59.44 | 1.50 | 125.32 |

Source: Douglas County Budget Office

CITY OF LAWRENCE, KANSAS

Principal Taxpayers

December 31, 2011

Unaudited

| Taxpayer | Type of Business | 2011 | | Percent of | | 2002 | | Percent of | |
|-------------------------|-----------------------|----------------------|------|--------------------------|----------|----------------------|------|--------------------------|----------|
| | | Assessed Valuation | Rank | Total Assessed Valuation | % | Assessed Valuation | Rank | Total Assessed Valuation | % |
| Westar Energy | Electric Utility | \$ 9,914,274 | 1 | 1.16 | % | \$ 8,523,742 | 2 | 1.36 | % |
| Walmart | Retail Outlet | 5,318,637 | 2 | 0.62 | | - | | - | |
| Inland Western Lawrence | Retail Center | 4,050,902 | 3 | 0.47 | | - | | - | |
| Hallmark Cards | Card Manufacturer | 3,898,215 | 4 | 0.46 | | 5,020,005 | 4 | 0.80 | |
| Southwestern Bell | Telephone Utility | 3,845,387 | 5 | 0.45 | | 8,961,410 | 1 | 1.42 | |
| Black Hills | Gas Utility | 3,619,340 | 6 | 0.42 | | - | | - | |
| Amarr Garage Doors | Door Manufacturer | 3,084,407 | 7 | 0.36 | | - | | - | |
| Fairfield Exchange | Retail Center | 2,977,524 | 8 | 0.35 | | - | | - | |
| Kresge | District Warehouse | 2,903,450 | 9 | 0.34 | | 7,336,285 | 3 | 1.17 | |
| Westgate | Retail Center | 2,639,202 | 10 | 0.31 | | - | | - | |
| Lawrence Paper Company | Paper Manufacturer | - | | - | | 4,394,410 | 5 | 0.70 | |
| Packerware Corp | Plastics Manufacturer | - | | - | | 3,819,000 | 6 | 0.61 | |
| NCS | Computer Services | - | | - | | 3,176,885 | 7 | 0.51 | |
| World Company | Media | - | | - | | 3,119,870 | 8 | 0.50 | |
| Lawrence Technology | Electronics | - | | - | | 2,517,985 | 9 | 0.40 | |
| Star-Kist Foods | Dog Food Manufacturer | - | | - | | 2,224,715 | 10 | 0.35 | |
| Total | | \$ 42,251,338 | | 4.94 | % | \$ 49,094,307 | | 7.82 | % |

Source: Douglas County Clerk.

Table 9

CITY OF LAWRENCE, KANSAS

Property Tax Levies and Collections (1)

Last Ten Fiscal Years

Unaudited

| Year | Total Tax Levy | Current Tax Collections | Percent of Current Taxes Collected | Delinquent Tax Collections | Total Tax Collections | Ratio of Total Tax Collection to Total Tax Levy | Outstanding Delinquent Taxes | Ratio of Delinquent Taxes to Total Tax Levy |
|------|----------------|-------------------------|------------------------------------|----------------------------|-----------------------|---|------------------------------|---|
| 2002 | \$ 14,736,611 | \$ 14,059,563 | 95.41 % | \$ 221,876 | \$ 14,281,439 | 96.91 % | \$ 489,812 | 3.32 % |
| 2003 | 16,086,484 | 15,512,068 | 96.4 | 302,298 | 15,814,366 | 98.31 | 356,155 | 2.21 |
| 2004 | 18,960,069 | 18,537,307 | 97.8 | 417,228 | 18,954,535 | 99.97 | 261,689 | 1.38 |
| 2005 | 20,035,547 | 19,622,524 | 97.94 | 308,969 | 19,931,493 | 99.48 | 265,743 | 1.33 |
| 2006 | 20,523,463 | 19,996,080 | 97.43 | 345,973 | 20,342,053 | 99.12 | 447,153 | 2.18 |
| 2007 | 21,763,984 | 21,381,266 | 98.24 | 300,356 | 21,681,622 | 99.62 | 529,515 | 2.43 |
| 2008 | 22,970,715 | 22,478,666 | 97.86 | 311,846 | 22,790,512 | 99.22 | 709,718 | 3.09 |
| 2009 | 22,999,657 | 22,389,667 | 97.35 | 226,552 | 22,616,219 | 98.33 | 1,093,156 | 4.75 |
| 2010 | 22,816,080 | 22,254,534 | 97.54 | 402,315 | 22,656,849 | 99.30 | 1,252,387 | 5.49 |
| 2011 | 22,786,706 | 22,666,750 | 99.47 | 537,251 | 23,204,001 | 101.83 | 835,092 | 3.66 |

(1) General, Special Revenue and Debt Service Funds; does not include motor vehicle tax.

SCHEDULES OF DEBT CAPACITY INFORMATION

The objective of the debt capacity information is to assist the reader in assessing the City of Lawrence's present debt burden and its ability to issue additional debt in the future. As a result, five tables of data are presented. Most of the tables contain ten years of data. Table 10 shows outstanding debt by type. Table 11 shows ratios of debt to assessed valuation and debt per capita. Table 12 lists direct and overlapping debt. Table 13 provides calculations of the legal debt margin. Table 14 shows the revenue bond coverage.

CITY OF LAWRENCE, KANSAS

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Unaudited

| Year | Governmental Activities | | | Business-Type Activities | | | Total Primary Government | Percentage of Personal Income (1) | Per Capita (1) |
|---------|--------------------------|---------------|----------------|--------------------------|---------------|----------------|--------------------------|-----------------------------------|----------------|
| | General Obligation Bonds | Notes Payable | Capital Leases | General Obligation Bonds | Notes Payable | Capital Leases | | | |
| 2002 \$ | 62,636,388 | 91,499 | - | 6,083,612 | 42,601,580 | 18,797 | 121,941,876 | 4.51 | 1,460.47 |
| 2003 | 72,638,936 | 75,285 | - | 5,486,064 | 49,470,892 | - | 137,146,177 | 4.88 | 1,608.15 |
| 2004 | 68,139,695 | 58,498 | - | 6,745,305 | 49,114,320 | - | 132,992,818 | 4.63 | 1,545.71 |
| 2005 | 66,122,813 | 41,118 | - | 10,957,187 | 46,970,878 | - | 150,001,996 | 4.86 | 1,694.15 |
| 2006 | 75,118,846 | 23,125 | - | 9,951,154 | 44,542,451 | - | 154,495,576 | 4.71 | 1,710.25 |
| 2007 | 80,240,451 | 4,496 | - | 6,534,549 | 42,447,047 | - | 172,691,543 | 4.97 | 1,912.19 |
| 2008 | 83,405,065 | - | - | 5,504,935 | 40,144,404 | - | 175,344,404 | 4.75 | 1,929.70 |
| 2009 | 77,590,899 | - | - | 4,839,101 | 37,758,506 | - | 175,178,506 | 4.69 | 1,921.74 |
| 2010 | 72,562,785 | - | - | 12,582,215 | 26,957,125 | - | 165,127,125 | 4.42 | 1,780.79 |
| 2011 | 67,738,775 | - | - | 11,406,225 | 24,902,681 | - | 154,927,681 | 4.09 | 1,649.45 |

Note 1 - See the Demographic Statistics Table at Table 15 for personal income and population data.

Note 2 - Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Table 11

CITY OF LAWRENCE, KANSAS

Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

Unaudited

| Year | Population (1) | Assessed Value (2) | Gross Bonded Debt (3) | Less Debt Service Fund | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Per Capita |
|------|----------------|--------------------|-----------------------|------------------------|-----------------|--|-----------------------|
| 2002 | 83,495 | \$ 629,033 | \$ 79,230,000 | \$ 7,006,605 | \$ 72,223,395 | 11.48 % | \$ 865.00 |
| 2003 | 85,282 | 674,353 | 87,600,000 | 7,537,669 | 80,062,331 | 11.87 | 938.80 |
| 2004 | 86,040 | 718,150 | 83,820,000 | 8,296,387 | 75,523,613 | 10.52 | 877.77 |
| 2005 | 88,541 | 776,861 | 77,080,000 | 7,774,005 | 69,305,995 | 8.92 | 782.76 |
| 2006 | 90,335 | 824,366 | 85,070,000 | 7,289,502 | 77,780,498 | 9.44 | 861.02 |
| 2007 | 90,311 | 853,551 | 86,775,000 | 7,736,675 | 79,038,325 | 9.26 | 875.18 |
| 2008 | 90,866 | 862,036 | 88,910,000 | 17,270,832 | 71,639,168 | 8.31 | 788.40 |
| 2009 | 91,156 | 853,677 | 82,430,000 | 16,428,662 | 66,001,338 | 7.73 | 724.05 |
| 2010 | 92,727 | 852,587 | 85,145,000 | 7,907,864 | 77,237,136 | 9.06 | 832.95 |
| 2011 | 93,927 | 856,611 | 79,145,000 | 8,491,589 | 70,653,411 | 8.25 | 752.22 |

(1) Planning Department estimates or previous census figure.

(2) Amounts expressed in thousands.

(3) City of Lawrence General Obligation Bonds only - excludes Lawrence Memorial Hospital and bond anticipation notes.

CITY OF LAWRENCE, KANSAS

Computation of Direct and Overlapping Bonded Debt –
General Obligation Bonds

December 31, 2011

Unaudited

| <u>Jurisdiction</u> | <u>Bond Issues Outstanding</u> | <u>Amount Available in Debt Service Fund</u> | <u>Net General Obligation Bonded Debt Outstanding</u> | <u>Percentage Applicable to City</u> | <u>Amount Applicable to City</u> |
|---------------------------------|--------------------------------|--|---|--------------------------------------|----------------------------------|
| Direct – City of Lawrence | \$ <u>79,145,000</u> | \$ <u>8,491,589</u> | \$ <u>70,653,411</u> | 100 % | \$ <u>70,653,411</u> |
| Overlapping: | | | | | |
| Douglas County | 19,626,000 | 453,948 | 19,172,052 | 75 | 14,379,039 |
| Unified School District No. 497 | <u>64,695,000</u> | <u>1,559,463</u> | <u>63,135,537</u> | 88 | <u>55,559,273</u> |
| | <u>84,321,000</u> | <u>2,013,411</u> | <u>82,307,589</u> | | <u>69,938,312</u> |
| | \$ <u>163,466,000</u> | <u>10,505,000</u> | <u>152,961,000</u> | | \$ <u>140,591,723</u> |

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the overlapping debt of those overlapping governments that is borne by the resident and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach was also applied to the other debt of the overlapping governmental units.

Sources: Douglas County Budget Office and the USD 497 School District Finance Office

CITY OF LAWRENCE, KANSAS

Computation of Legal Debt Margin

Last Ten Fiscal Years

Unaudited

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Assessed Valuation of Taxable Property | \$ 696,271,456 | \$ 743,219,623 | \$ 789,003,475 | \$ 848,569,778 | \$ 897,731,218 | \$ 927,782,509 | \$ 935,616,472 | \$ 926,499,469 | \$ 924,998,982 | \$ 928,635,604 |
| Debt Limit Percent of Assessed Value | <u>30.00%</u> |
| Debt Limit | 208,881,437 | 222,965,887 | 236,701,043 | 254,570,933 | 269,319,365 | 278,334,753 | 280,684,942 | 277,949,841 | 277,499,695 | 278,590,681 |
| Total net debt applicable to limit (includes temporary notes) | <u>90,990,000</u> | <u>97,110,000</u> | <u>90,630,000</u> | <u>99,208,000</u> | <u>101,415,000</u> | <u>97,000,000</u> | <u>99,545,000</u> | <u>96,550,000</u> | <u>92,610,000</u> | <u>93,520,000</u> |
| Legal Debt Margin | \$ <u>117,891,437</u> | \$ <u>125,855,887</u> | \$ <u>146,071,043</u> | \$ <u>155,362,933</u> | \$ <u>167,904,365</u> | \$ <u>181,334,753</u> | \$ <u>181,139,942</u> | \$ <u>181,399,841</u> | \$ <u>184,889,695</u> | \$ <u>185,070,681</u> |
| Total Net Debt Applicable To The Limit As A Percentage of Debt Limit | 43.56% | 43.55% | 38.29% | 38.97% | 37.66% | 34.85% | 35.47% | 34.74% | 33.37% | 33.57% |

Note: Under State finance law, the City's outstanding general obligation debt should not exceed 30 percent of the total assessed property value.

Table 14

CITY OF LAWRENCE, KANSAS

Revenue Bond Coverage – Water and Sewer Fund

Last Ten Fiscal Years

Unaudited

| Year | Operating Revenue | Operating Expenses | Net Revenue Available For Debt Service | Principal | Interest | Total | Coverage |
|------|-------------------|--------------------|--|--------------|------------|--------------|----------|
| 2002 | \$ 22,210,827 | \$ 13,372,496 | \$ 8,838,331 | \$ 1,345,000 | \$ 615,325 | \$ 1,960,325 | 4.51 |
| 2003 | 22,726,952 | 14,344,670 | 8,382,282 | 1,035,000 | 545,970 | 1,580,970 | 5.30 |
| 2004 | 21,980,918 | 14,931,102 | 7,049,816 | 540,000 | 494,720 | 1,034,720 | 6.81 |
| 2005 | 24,666,589 | 16,503,951 | 8,162,638 | 570,000 | 468,958 | 1,038,958 | 7.86 |
| 2006 | 27,625,934 | 18,473,120 | 9,152,814 | 1,050,000 | 1,329,563 | 2,379,563 | 3.85 |
| 2007 | 27,702,909 | 20,329,515 | 7,373,394 | 1,195,000 | 1,357,400 | 2,552,400 | 2.89 |
| 2008 | 27,953,735 | 22,377,560 | 5,576,175 | 1,445,000 | 1,862,600 | 3,307,600 | 1.69 |
| 2009 | 29,099,969 | 21,809,300 | 7,290,669 | 1,685,000 | 1,987,298 | 3,672,298 | 1.99 |
| 2010 | 30,362,409 | 22,906,455 | 7,455,954 | 1,965,000 | 2,586,534 | 4,551,534 | 1.64 |
| 2011 | 31,089,678 | 23,839,442 | 7,250,236 | 2,145,000 | 2,382,795 | 4,527,795 | 1.60 |

SCHEDULES OF DEMOGRAPHIC AND ECONOMIC INFORMATION

The objective of the demographic and economic information is to assist the reader in assessing the City of Lawrence's economic environment. As a result, two tables of data are presented. Table 15 shows population, income, school enrollment, and the unemployment rate for the last ten years. Table 16 lists the City's ten largest employers.

CITY OF LAWRENCE, KANSAS

Demographic Statistics

Last Ten Fiscal Years

Unaudited

| <u>Year</u> | <u>Population (1)</u> | <u>Personal Income (2)</u> | <u>Per Capita Income (2)</u> | <u>Median Age (3)</u> | <u>School Enrollment (4)</u> | <u>Unemployment Rate (5)</u> |
|-------------|-----------------------|--------------------------------|----------------------------------|---------------------------|----------------------------------|----------------------------------|
| 2002 | 83,495 | 2,704,107,000 | 25,885 | 25.30 | 10,154 | 4.2 % |
| 2003 | 85,282 | 2,812,689,000 | 26,453 | 25.30 | 9,919 | 4.7 |
| 2004 | 86,040 | 2,870,819,000 | 26,455 | 25.30 | 9,946 | 4.2 |
| 2005 | 88,541 | 3,084,501,000 | 27,659 | 25.30 | 10,003 | 4.0 |
| 2006 | 90,335 | 3,279,665,000 | 29,137 | 25.30 | 10,228 | 3.3 |
| 2007 | 90,311 | 3,472,000,000 | 30,594 | 25.30 | 10,303 | 3.6 |
| 2008 | 90,866 | 3,691,791,296 | 31,721 | 25.30 | 10,700 | 3.9 |
| 2009 | 91,156 | 3,732,401,000 | 32,070 | 25.30 | 11,007 | 5.5 |
| 2010 | 92,727 | 3,791,714,000 | 34,305 | 26.70 | 11,158 | 6.2 |
| 2011 | 93,927 | 3,791,714,000 | 34,305 | 26.70 | 11,250 | 5.2 |

Data Sources:

- (1) Planning Department estimates
- (2) 2002-2003 data from 2000 census, 2004-2009 data from BEA. 2011 information was not yet available at the report date.
- (3) From U.S. Census Bureau 2000 census
- (4) Headcount Enrollment, Kansas Public Schools, Kansas State Department of Education.
- (5) Kansas Department of Human Resources: Research and Analysis.

CITY OF LAWRENCE, KANSAS

Principal Employers

Current Year and Nine Years Ago

Unaudited

| Employer | 2011 | | | 2002 |
|----------------------------|------------------|-------------|--|---------------------------|
| | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> | |
| The University of Kansas | 9,870 | 1 | 16.62% | Information Not Available |
| Lawrence Public Schools | 1,830 | 2 | 3.08% | |
| Vangent | 1,500 | 3 | 2.53% | |
| City of Lawrence | 1,425 | 4 | 2.40% | |
| Lawrence Memorial Hospital | 1,250 | 5 | 2.10% | |
| Berry Plastics | 775 | 6 | 1.30% | |
| The World Company | 680 | 7 | 1.14% | |
| Hallmark Card, Inc. | 580 | 8 | 0.98% | |
| Amarr Garage Doors | 490 | 9 | 0.82% | |
| DCCCA Center | 475 | 10 | 0.80% | |
| Total | <u>18,875</u> | | <u>31.78%</u> | |

Sources: Lawrence Chamber of Commerce
 Kansas Department of Human Resources

SCHEDULES OF OPERATING INFORMATION

The objective of the operating information is to provide a context for the City of Lawrence's operations. The data should help in evaluating the city's financial condition. As a result, three tables of data are presented. Table 17 shows the number of employees by function. Table 18 lists some significant operating indicators. Table 19 provides some capital asset information by function.

CITY OF LAWRENCE, KANSAS

Full Time Equivalent Employees by Function

Last Ten Fiscal Years

Unaudited

| <u>Function/Program</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| General Government | 63.93 | 62.63 | 64.63 | 67.63 | 73.76 | 79.63 | 89.75 | 81.08 | 68.84 | 67.84 |
| Public Safety | 308.25 | 323.25 | 328.50 | 329.00 | 341.00 | 342.25 | 321.00 | 321.00 | 319.00 | 319.00 |
| Public Works | 174.50 | 173.00 | 173.00 | 175.50 | 181.00 | 188.00 | 173.75 | 172.75 | 172.75 | 165.75 |
| Culture & Recreation | 75.50 | 75.00 | 74.63 | 75.13 | 75.28 | 75.28 | 76.28 | 71.78 | 70.78 | 68.78 |
| Health | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Social Services | 10.25 | 10.25 | 10.00 | 9.00 | 8.95 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 |
| Water & Sewer | <u>109.00</u> | <u>111.63</u> | <u>111.76</u> | <u>113.26</u> | <u>120.26</u> | <u>133.76</u> | <u>135.26</u> | <u>135.26</u> | <u>128.26</u> | <u>128.26</u> |
| Total | <u>742.43</u> | <u>756.76</u> | <u>763.52</u> | <u>770.52</u> | <u>801.25</u> | <u>828.67</u> | <u>805.79</u> | <u>791.62</u> | <u>769.38</u> | <u>759.38</u> |

Source: City of Lawrence Budget Document

CITY OF LAWRENCE, KANSAS

Operating Indicators by Function

Last Ten Fiscal Years

Unaudited

| | Fiscal Year | | | | | | | | | |
|--|-------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Fire Protection | | | | | | | | | | |
| Number of Firefighters and Officers | 133 | 137 | 137 | 137 | 138 | 138 | 139.5 | 134.5 | 139.5 | 139.5 |
| Number of Fire Calls Answered | 2,160 | 1,896 | 1,953 | 1,953 | 2,154 | 2,005 | 2,045 | 1,864 | 1,982 | 1,958 |
| Number of Medical Calls Answered | 6,380 | 6,225 | 6,700 | 6,700 | 6,810 | 6,858 | 7,592 | 7,539 | 7,763 | 7,743 |
| Number of Medical Transports | 5,679 | 3,924 | 3,924 | 3,924 | 4,434 | 4,649 | 4,789 | 4,587 | 4,726 | 4,808 |
| Number of Inspections Conducted | 8,011 | 5,240 | 5,240 | 5,240 | 5,963 | 7,065 | 7,260 | 6,662 | 4,643 | 3,537 |
| Police Protection | | | | | | | | | | |
| Number of Commissioned Police Officers | 133 | 138 | 138 | 138 | 142 | 142 | 142 | 142 | 142 | 147 |
| Number of Full Time Civilians | 34 | 34 | 33 | 34 | 34 | 34 | 34 | 35 | 33 | 33 |
| Number of Calls for Service | 87,322 | 86,804 | 110,192 | 110,192 | 121,576 | 126,874 | 115,404 | 107,314 | 115,383 | 112,647 |
| Arrests Processed through County Jail | 2,882 | 2,699 | 2,834 | 2,834 | 3,233 | 2,661 | 2,775 | 3,191 | 4,563 | 3,409 |
| Officer Issued Traffic Violations | 16,460 | 18,327 | 24,008 | 24,008 | 39,348 | 40,572 | 35,543 | 34,681 | 39,699 | 13,277 |
| Officer Issued Parking Violations | 15,748 | 13,417 | 14,421 | 14,421 | 96,739 | 94,890 | 92,355 | 99,091 | 85,958 | 29,680 |
| Sewerage System | | | | | | | | | | |
| Number of Service Connections | 28,252 | 28,252 | 29,515 | 29,515 | 31,499 | 32,000 | 32,741 | 33,063 | 32,940 | 33,106 |
| Actual Daily Average of Treatment in Million Gallons D | 9.2 | 9.2 | 12.5 | 12.5 | 10.5 | 10.6 | 11.5 | 10.5 | 10.5 | 8.7 |
| Water System | | | | | | | | | | |
| Number of Service Connections | 29,115 | 28,895 | 29,770 | 29,770 | 32,142 | 32,522 | 32,741 | 33,063 | 32,940 | 33,106 |
| Daily Average Consumption in Million Gallons | 12.6 | 13 | 13 | 13 | 12.2 | 11.4 | 10.4 | 9.5 | 9.9 | 10.7 |
| Maximum Daily Capacity of Plant in Million Gallons | 31.5 | 31.5 | 32.5 | 32.5 | 32.5 | 32.5 | 36.5 | 36.5 | 36.5 | 36.5 |

Sources: Various government departments

Table 19

CITY OF LAWRENCE, KANSAS
Capital Asset Statistics by Function
 Last Ten Fiscal Years
 Unaudited

| | Fiscal Year | | | | | | | | | |
|--|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Public Works | | | | | | | | | | |
| Miles of Streets | 278 | 300 | 300 | 300 | 318 | 318.8 | 319.6 | 319.6 | 321.3 | 323.2 |
| Culture and Recreation | | | | | | | | | | |
| Recreation Centers | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 4 |
| Parks | 50 | 52 | 52 | 52 | 53 | 52 | 52 | 52 | 52 | 54 |
| Park Acreage | 3,275 | 3,270 | 3,275 | 3,275 | 3,497 | 3,497 | 3,535 | 3,535 | 3,535 | 3,535 |
| Tennis Courts | 18 | 20 | 20 | 20 | 20 | 20 | 19 | 19 | 19 | 11 |
| Fire Protection | | | | | | | | | | |
| Number of Stations | 7 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Police Protection | | | | | | | | | | |
| Number of Stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Number of Patrol Units | 24 | 24 | 25 | 25 | 35 | 37 | 35 | 35 | 36 | 30 |
| Sewerage System | | | | | | | | | | |
| Miles of Sanitary Sewers | 425 | 475 | 475 | 475 | 497 | 418 | 425 | 426.4 | 429.7 | 432.9 |
| Number of Treatment Plants | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Lift Stations | 41 | 39 | 39 | 39 | 35 | 36 | 31 | 33 | 34 | 34 |
| Water System | | | | | | | | | | |
| Number of Water Plants | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Miles of Water Mains | 385 | 400 | 400 | 400 | 418 | 420 | 440 | 444 | 452.4 | 455.1 |
| Number of City owned Fire Hydrants | 2,881 | 2,944 | 2,944 | 2,944 | 3,008 | 3,285 | 3,081 | 3,146 | 3,198 | 3,218 |
| Libraries | | | | | | | | | | |
| Public Libraries | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of volumes (approximately) | 254,100 | 267,134 | 267,134 | 297,924 | 320,705 | 264,966 | 230,846 | 227,503 | 224,781 | 229,777 |
| Facilities and Services Not Included in the Reporting Entity: | | | | | | | | | | |
| Education | | | | | | | | | | |
| Number of Public Elementary Schools | 18 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 15 | 14 |
| Number of Public Elementary School Instructors | 386 | 386 | 445 | 445 | 427 | 452 | 480 | 490 | 487 | 429 |
| Number of Public Secondary Schools | 7 | 7 | 7 | 7 | 6 | 6 | 6 | 6 | 6 | 6 |
| Number of Public Secondary School Instructors | 373 | 373 | 433 | 433 | 379 | 374 | 375 | 368 | 362 | 465 |
| Number of Universities | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Hospitals | | | | | | | | | | |
| Number of Hospitals | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Patient Beds | 177 | 177 | 186 | 186 | 173 | 173 | 191 | 191 | 191 | 173 |

Sources: Various government departments

SINGLE AUDIT SECTION

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MIZE & HOUSER
COMPANY P.A.

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

Mayor and City Commissioners
City of Lawrence, Kansas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawrence, Kansas (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2012. 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. Other auditors audited the financial statements of the Lawrence Memorial Hospital and the Lawrence-Douglas County Housing Authority as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Lawrence Public Library were not audited in accordance with "Government Auditing Standards."

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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120 E Ninth ■ Lawrence, KS 66044-2682 ■ 785.842.8844 p ■ 785.842.9049 f
900 Massachusetts, Suite 301 ■ Lawrence, KS 66044-2868 ■ 785.749.5050 p ■ 785.749.5061 f

Compliance and Other Matters

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

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

Mike Houser: Company PA

June 28, 2012



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

Mayor and City Commissioners
City of Lawrence, Kansas

Compliance

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

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

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

Internal Control Over Compliance

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

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900 Massachusetts, Suite 301 ■ Lawrence, KS 66044-2868 ■ 785.749.5050 p ■ 785.749.5061 f

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

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

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

Mike Houser: Company PA

June 28, 2012

CITY OF LAWRENCE, KANSAS

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Expenditures |
|---|---------------------------|---------------------|
| <u>U.S. Department of Transportation</u> | | |
| Airport Improvement Program | 20.106 | \$ 78,015 |
| Federal Transit Formula Grant | 20.507 | 5,055,155 |
| Passed Through Kansas Department of Transportation | | |
| Highway Planning and Construction | 20.205 | 192,525 |
| Metropolitan Transportation Planning | 20.505 | 210,061 |
| State and Community Highway Safety | 20.600 | <u>32,508</u> |
| Total U.S. Department of Transportation | | <u>5,568,264</u> |
| <u>U.S. Department of Housing and Urban Development</u> | | |
| Community Development Block Grant | 14.218 | 756,297 |
| Community Development Block Grant - ARRA | 14.218R | 85,879 |
| Emergency Shelter Grants Program | 14.231 | 15,783 |
| HOME Investments Partnership Program | 14.239 | 687,907 |
| HOME Prevention and Rapid Re-Housing Program | 14.262 | 205,112 |
| Fair Housing Initiatives Program | 14.420 | 18,480 |
| Passed Through Kansas Department of Commerce | | |
| Community Development Block Grant | 14.228 | <u>87,162</u> |
| Total U.S. Department of Housing and Urban Development | | <u>1,856,620</u> |
| <u>U.S. Department of Interior</u> | | |
| Save America's Treasurer | 15.929 | 4,112 |
| Passed Through Kansas Historical Society | | |
| Historic Preservation Fund Grants | 15.904 | <u>15,958</u> |
| Total U.S. Department of Interior | | <u>20,070</u> |
| <u>U.S. Department of Justice</u> | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 60,503 |
| Passed Through Kansas Governor's Office | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | <u>52,167</u> |
| Total U.S. Department of Justice | | <u>112,670</u> |
| <u>U.S. Department of Homeland Security</u> | | |
| Homeland Security Grant Program | 97.067 | <u>6,400</u> |
| Total U.S. Department of Homeland Security | | <u>6,400</u> |
| <u>U.S. Department of Energy</u> | | |
| Energy Efficiency and Conservation Block Grant Program - ARRA | 81.128 | <u>324,591</u> |
| Total U.S. Department of Energy | | <u>324,591</u> |
| Total Expenditures of Federal Awards | | <u>\$ 7,888,615</u> |

See independent auditor's report on the financial statements and notes to the schedule of expenditures of federal awards.

CITY OF LAWRENCE, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)

20.507

Name of Federal Program or Cluster

Federal Transit Formula Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

CITY OF LAWRENCE, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
Year Ended December 31, 2011

Section II - Financial Statement Findings

None Noted

Section III - Federal Award Findings and Questioned Costs

Current Year Finding

None Noted

Prior Year Finding

None Noted