

CITY OF LAWRENCE, KANSAS

Comprehensive Annual Financial Report For the Fiscal Year Ended December 31, 2012

**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

Table of Contents

	Page
INTRODUCTORY SECTION (UNAUDITED)	
Transmittal Letter	1
Organizational Chart	8
Principal Officials	9
Certificate of Achievement	10
FINANCIAL SECTION	
Independent Auditors Report on the Basic Financial Statements	11
Management's Discussion and Analysis	13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet –Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	28
Balance Sheet – Proprietary Funds	29
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Assets and Liabilities – All Agency Funds	32
Combining Statement of Net Assets – Discretely Presented Component Units	33
Combining Statement of Activities – Discretely Presented Component Units	34
Notes to Basic Financial Statements	35
Required Supplementary Information: Schedule of Funding Progress and Schedule of Employer Contributions	63
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	68
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Bond and Interest Fund	70
Guest Tax Special Revenue Fund	71
Library Special Revenue Fund	72
Transportation Special Revenue Fund	73
Recreation Special Revenue Fund	74
Special Alcohol Special Revenue Fund	75
Special Gas Tax Special Revenue Fund	76
Special Recreation Special Revenue Fund	77
Combining Balance Sheet – Nonmajor Enterprise Funds	80

CITY OF LAWRENCE, KANSAS

Table of Contents, Continued

Combining Statement of Revenues, Expenses and Changes in Net Assets – Nonmajor Enterprise Funds	81
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	82
Combining Balance Sheet – Internal Service Funds	84
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds	85
Combining Statement of Cash Flows – Internal Service Funds	86
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	88

STATISTICAL SECTION (UNAUDITED)

Net Assets by Component – Last Ten Fiscal Years	93
Changes in Net Assets – Last Ten Fiscal Years	94
General Government Tax Revenues by Source – Last Ten Fiscal Years	97
Fund Balances of Governmental Funds – Last Ten Fiscal Years	98
Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years	99
Assessed and Estimated Actual Value of Property – Last Ten Fiscal Years	100
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years	101
Principal Taxpayers	102
Property Tax Levies and Collections – Last Ten Fiscal Years	103
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	105
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita – Last Ten Fiscal Years	106
Computation of Direct and Overlapping Bonded Debt – General Obligation Bonds	107
Computation of Legal Debt Margin – Last Ten Fiscal Years	108
Revenue Bond Coverage – Water and Sewer Fund – Last Ten Fiscal Years	109
Demographic Statistics – Last Ten Fiscal Years	111
Principal Employers – Current Year and Nine Years Ago	112
Full Time Equivalent Employees by Function – Last Ten Fiscal Years	114
Operating Indicators by Function – Last Ten Fiscal Years	115
Capital Asset Statistics by Function – Last Ten Fiscal Years	116

SINGLE AUDIT SECTION

Independent Auditor’s Report On Internal Control Over Financial Reporting On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With “Government Auditing Standards”	117
Independent Auditor’s Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133	119
Schedule of Expenditures Of Federal Awards	121
Schedule Of Findings And Questioned Costs	122

INTRODUCTORY SECTION

(This page intentionally left blank.)



City of Lawrence

FINANCE

DAVID L. CORLISS
CITY MANAGER

City Offices
PO Box 708 66044-0708
www.lawrenceks.org

6 East 6th St
785-832-3000
FAX 785-832-3405

CITY COMMISSION

MAYOR
ROBERT J. SCHUMM

COMMISSIONERS
MICHAEL DEVER
HUGH CARTER
MIKE AMYX
ARON E. CROMWELL

June 26, 2013

To the Citizens of Lawrence:

The Comprehensive Annual Financial Report (CAFR) of the City of Lawrence for the year ended December 31, 2012 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, 2012 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, 2012, 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 2012 of 93,944.

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 Budget Development Process The annual budget provides a foundation for financial planning and control. Early each year, each department submits a budget request including payroll projections, capital outlay requests, and program improvement decision packages.

A number of study sessions are held throughout the year with city staff and the City Commissioners to discuss various elements of the budget. A goal setting session is held, giving the Commissioners an opportunity to determine priorities for the budget year. Staff in the various departments can then work toward accomplishment of those goals through their daily operations. In 2012, the City Commission goals were economic development, planned growth, community building, environment issues, neighborhood quality, transportation, downtown development, and service delivery.

Local Economy The local economy is varied and diverse, producing a wide variety of products and services. Approximately 42.6% of Lawrence’s employment is in the goods- producing industries, 15.2% in trade, transportation and utilities, 29.2% in service-providing industries, and 13.0% in government. Employment opportunities are provided by over 2000 local employers. Major employers include The University of Kansas, Lawrence Public Schools, Vangent, Lawrence Memorial Hospital, Berry Plastics, Hallmark Cards, Amarr Garage Doors, Douglas County and Kresge.

The average unemployment of the Lawrence MSA in 2012 was 5.3% which is up from 5.1% in 2011. The total civilian labor force was 61,600 in December, 2012. The average annual unemployment rate for 2008, 2009, 2010 and 2011 was, 3.9%, 5.5%, 6.2%, and 5.1% respectively. The number of homes sold in Lawrence during 2012 was 899, a 28% increase from the 703 in 2011. The median selling price for a home was \$198,375 during the year representing a 9.8% increase over the \$180,660 median selling price in 2011.

Annual Average Lawrence MSA Employment by Sector

Sector	2011	2012	12-Month % Change
Civilian Labor Force	61.9	61.6	-4.8%
Production Sectors	21.0	21.6	2.9%
Trade, Transportation, and Utilities	7.7	7.7	0.0%
Service Sectors	15.2	14.8	-2.6%
Government	6.3	6.6	4.8%
Total Non-farm Employment	50.2	50.7	1.0%

Source: U.S Bureau of Labor Statistics, Economy at a Glance
Number of persons, in thousands, not seasonally adjusted

Economic Development The City of Lawrence provides multiple support programs for economic development opportunities designed to enhance the local economy and quality of life. As these programs involve public funding for current and future community assets, projects are viewed as an investment in which the City analyzes the risks and returns, selecting economic projects that best balance the goal of growing the local economy with the required amount of investment.

Currently, the City has the below active economic development programs and projects.

2012 Major Economic Development Support Programs		
Incentive Program	Description	Location
Tax Abatements	Amarr	3800 Greenway circle
	PROSOCO	3741 Greenway circle
	Screen-It Graphics/Grandstand	3840 Greenway Circle
Industrial Revenue Bonds (IRB)	Bowersock (Hydro-Electric Plant)	Kansas River, east of N 2nd Street
	PROSOCO	3741 Greenway circle
	9th & New Hampshire--South Project*	SEC, 9th & New Hampshire
Neighborhood Revitalization Areas (NRA)	8th and Pennsylvania Street District	720 E 9th Street
	1040 Vermont (Treanor Headquarters)	1040 Vermont Street
	810/812 Pennsylvania (Cider Building)	810/812 Pennsylvania Street
	1000 Massachusetts St. (Masonic Temple)**	1000 Massachusetts Street
Tax Increment Financing (TIF)	Downtown 2000 District	9th & New Hampshire area
	Oread Project	1200 Oread Avenue
	9th & New Hampshire TIF District*	SEC & NEC, 9th & New Hampshire
	901 New Hampshire (TIF Refund)	901 New Hampshire
Transportation Development Districts (TDD)	Free State (Bauer Farm)	NEC 6th & Wakarusa
	Oread Project	1200 Oread Avenue
	9th & New Hampshire District*	SEC & NEC, 9th & New Hampshire

Within the first two years of operation, the Bioscience and Technology Business Center (BTBC) on the University of Kansas' West Campus reached 100% capacity. BTBC Phase II: Development of land adjacent to the BTBC is currently planned to become Phase II of the Main Facility, adding 31,000 square feet of tenant space (wet laboratory and office space). In order to raise the necessary capital for the \$10 million project, the City and County took the lead by making a \$1 million commitment each to this expansion. The combined \$2 million was used to leverage additional funding from BTBC stakeholder partners. The City funded its commitment in two installments of \$500,000 each. The first installment was authorized by the City Commission in August 2011 via Ordinance 8658 and the second installment in May 2012 via Ordinance 8727. Construction for Phase II is on schedule to be completed by August of 2014.

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 2012 to promote economic development.

In 2012, 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 2012, the street maintenance program: patched 6,041 potholes, crack sealed 37.0 lane miles (92,390 lbs), patched and micro surfaced 32.6 lane miles (\$1.9 million), milled & overlaid 22.0 lane miles (\$2.9 million), repaired or installed 25,500 linear feet of curbs and guttering, and installed 74 ADA ramps.

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

In the Fall of 2012, Lawrence's local hydroelectric power plant, The Bowersock Mills and Power Company (BMPC), began operations of 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 as part of the same project.

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 an increase in construction activity in 2012 including the construction of more new homes than the previous year. Unemployment has slightly increased, but remains below both the state and national averages.

The City has experienced an increase of three 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 \$29 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.

Relevant Policy Changes The City reviewed and updated all cash handling policies to include procedures on handling credit cards pursuant to Purchasing Card Industry (PCI) security standards.

The City reviewed and discussed implementation of GASB 63 for the 2013 fiscal year's financial reports. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, changes how governments will organize their statements of financial position (such as the current government-wide statement of net assets and

the governmental funds balance sheet). Under these new standards, financial statements will include deferred outflows of resources and deferred inflows of resources (“deferrals”), in addition to assets and liabilities, and will report *net position* instead of net assets.

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, 2012. This was the twenty-first 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 2012 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.

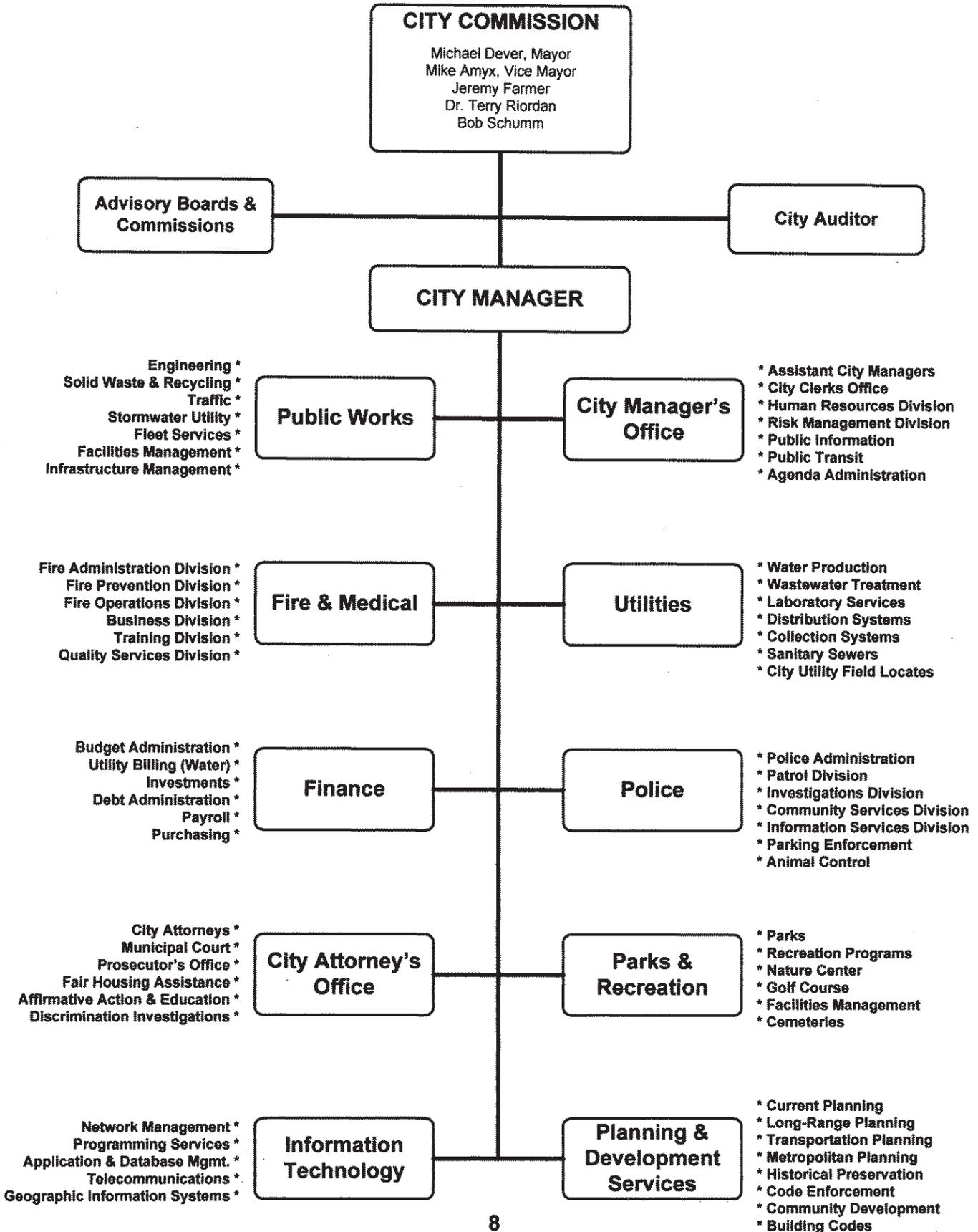
The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Special acknowledgement must be 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,

A handwritten signature in black ink that reads "Ed Mullins". The signature is written in a cursive style with a small dot above the final 's'.

Ed Mullins
Finance Director

CITY OF LAWRENCE, KANSAS



CITY OF LAWRENCE, KANSAS

List of Principal Officials

December 31, 2012

<u>Title</u>	<u>Name</u>
Mayor	Robert Schumm
Vice Mayor	Michael H. Dever
Commission Member	Mike Amyx
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	Tarik Khatib
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, 2011

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.



Christopher P. Movill

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

(This page intentionally left blank.)



INDEPENDENT AUDITOR'S REPORT

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Lawrence Memorial Hospital which statements reflect total assets of \$261,933,369 as of December 31, 2012 and total expenses of \$166,957,839 for the year then ended, and the Lawrence-Douglas County Housing Authority which statements reflect total assets of \$19,901,930 as of December 31, 2012 and total expenses of \$8,540,720 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the "Kansas Municipal Accounting and Audit Guide." These 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

www.mizehouser.com ■ mhco@mizehouser.com

534 S Kansas Ave, Suite 700 ■ Topeka, KS 66603-3465 ■ 785.233.0536 p ■ 785.233.1078 f

534 S Kansas Ave, Suite 400 ■ Topeka, KS 66603-3454 ■ 785.234.5573 p ■ 785.234.1037 f

7101 College Blvd, Suite 900 ■ Overland Park, KS 66210-1984 ■ 913.451.1882 p ■ 913.451.2211 f

211 E Eighth Suite A ■ Lawrence, KS 66044-2771 ■ 785.842.8844 p ■ 785.842.9049 f

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, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 20 and the schedule of funding progress on page 63 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.

Other Information

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 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 basic 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 combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are 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.

Other Reporting Required by Government Auditing Standards

In accordance with "Government Auditing Standards," we have also issued our report dated June 26, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Mike Houser: Company PA

June 26, 2013

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, 2012. 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 2012 by \$366,568,875. Of this amount, \$65,971,738 may be used to meet the government's ongoing obligations.
- An event that helped increase net assets was a \$6.6million increase in total capital assets.
- As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$51,526,329, an increase of \$2,403,803 in comparison with the prior year. The increase occurred as the result of an increase in capital assets and reduction in debt. Approximately 34.3% is not available for spending at the City's discretion.
- At the end of 2012, the City's unassigned general fund balance was \$12,807,728 or 23.3% of total general fund expenditures.
- The City's total long term debt decreased by over \$8.9 million during the year. The city issued \$11.2 million in tax exempt general obligation bonds for refunding past issues and paying the costs of certain street, building, traffic signal and other improvements. The City also issued \$24.2 million of bond anticipation notes for the purpose of temporarily financing the costs of street improvements, and benefit district projects in the Northwest part of 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 of 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 29 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>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and other Assets	\$ 114,244	\$ 128,471	\$ 49,428	\$ 47,042	\$ 163,672	\$ 175,513
Capital Assets	<u>198,612</u>	<u>203,758</u>	<u>205,011</u>	<u>206,493</u>	<u>403,623</u>	<u>410,251</u>
Total	<u>\$ 312,856</u>	<u>\$ 332,229</u>	<u>\$ 254,439</u>	<u>\$ 253,535</u>	<u>\$ 567,295</u>	<u>\$ 585,764</u>
Other Liabilities	\$ 44,534	\$ 56,398	\$ 4,010	\$ 4,419	\$ 48,544	\$ 60,817
Long term Liabilities	<u>75,879</u>	<u>73,480</u>	<u>89,781</u>	<u>84,899</u>	<u>165,660</u>	<u>158,379</u>
Total	<u>\$ 120,413</u>	<u>\$ 129,878</u>	<u>\$ 93,791</u>	<u>\$ 89,318</u>	<u>\$ 214,204</u>	<u>\$ 219,196</u>
Net Assets:						
Capital Assets Net of Debt	\$ 129,183	\$ 138,240	\$ 130,911	\$ 132,286	\$ 260,094	\$ 270,526
Restricted	29,678	30,071	-	-	29,678	30,071
Unrestricted	<u>33,582</u>	<u>34,040</u>	<u>29,738</u>	<u>31,932</u>	<u>63,320</u>	<u>65,972</u>
Total	<u>\$ 192,443</u>	<u>\$ 202,351</u>	<u>\$ 160,649</u>	<u>\$ 164,218</u>	<u>\$ 353,092</u>	<u>\$ 366,569</u>

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 2012, 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 \$24.2 million in bond anticipation notes. The decrease in long term government liabilities was the result of the issuance of \$11.2 million in general obligation bonds payable from property taxes less the retirement of \$14.9 million in general obligation bonds from governmental type sources. A total \$10.2 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 \$2.98 million from operations. The other business-type activities reported combined increases in net assets of slightly more than \$292,000. 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 \$6.6 million in debt.

Overall, the City's net assets increased by \$13,477,309 during 2012 as a result of higher water and sewer revenue due to the hot, dry summer and increased sales tax proceeds. The City has been using internally generated cash to fund a portion of the water and sewer capital improvements. The Water and Sewer is responsible for retiring \$7.1 million in general obligation debt. The Storm Water Utility is responsible for retiring \$3.1 million in general obligation debt. A more complete analysis of the changes in the City's net assets is shown below.

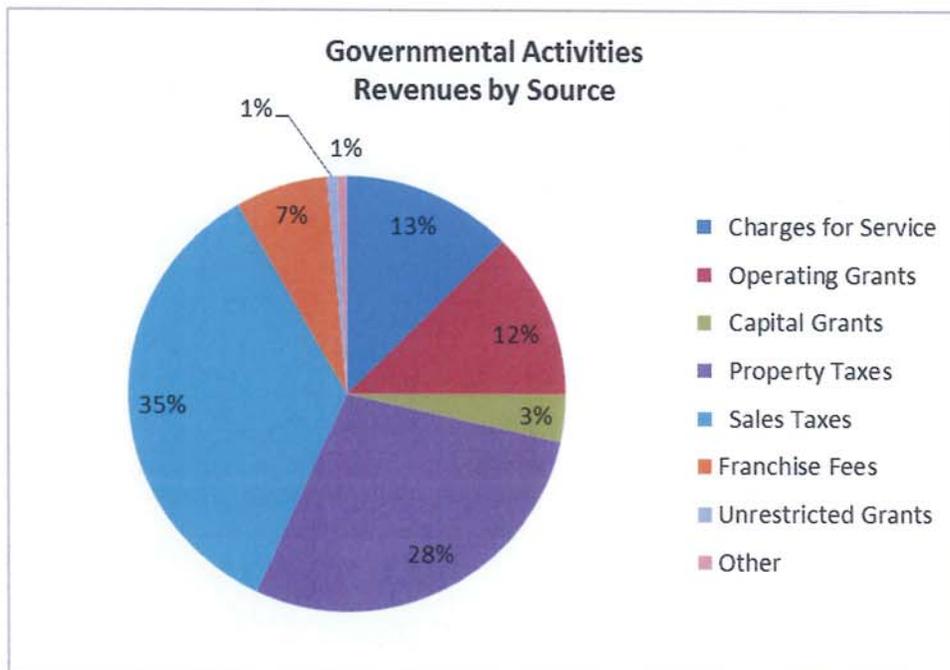
City of Lawrence's Changes in Net Assets
(000's)

	Governmental		Business-type		Total	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Revenues:						
Program Revenues:						
Charges for Service	\$ 11,175	\$ 11,798	\$ 46,571	\$ 50,111	\$ 57,746	\$ 61,909
Operating Grants	11,610	11,526	-	-	11,610	11,526
Capital Grants	3,236	3,295	-	-	3,236	3,295
General Revenues:						
Property Taxes	25,240	26,479	-	-	25,240	26,479
Sales Taxes	30,835	32,409	-	-	30,835	32,409
Franchise Fees	6,409	6,482	-	-	6,409	6,482
Unrestricted Grants	645	692	3	-	648	692
Other	<u>320</u>	<u>634</u>	<u>726</u>	<u>761</u>	<u>1,046</u>	<u>1,395</u>
Total	89,470	93,315	47,300	50,872	136,770	144,187
Expenses						
General Government	22,478	25,726	-	-	22,478	25,726
Public Safety	29,036	30,675	-	-	29,036	30,675
Public Works	16,173	16,166	-	-	16,173	16,166
Social Services	2,264	2,198	-	-	2,264	2,198
Recreation	9,160	9,442	-	-	9,160	9,442
Health	1,438	1,380	-	-	1,438	1,380
Interest on Debt	2,635	2,313	-	-	2,635	2,313
Water and Sewer	-	-	26,971	28,611	26,971	28,611
Sanitation	-	-	9,945	9,763	9,945	9,763
Public Parking	-	-	1,330	1,341	1,330	1,341
Storm Water	-	-	1,822	2,151	1,822	2,151
Golf	-	-	917	944	917	944
Total expenses	<u>83,184</u>	<u>87,900</u>	<u>40,985</u>	<u>42,810</u>	<u>124,169</u>	<u>130,710</u>
Excess [deficiency]	6,286	5,415	6,315	8,062	12,601	13,477
Transfers	<u>4,671</u>	<u>4,493</u>	<u>[4,671]</u>	<u>[4,493]</u>	<u>-</u>	<u>-</u>
Change in Net Assets	10,957	9,908	1,644	3,569	12,601	13,477
Beginning Net Assets	<u>181,486</u>	<u>192,443</u>	<u>159,005</u>	<u>160,649</u>	<u>340,491</u>	<u>353,092</u>
Ending Net Assets	<u>\$ 192,443</u>	<u>\$ 202,351</u>	<u>\$ 160,649</u>	<u>\$ 164,218</u>	<u>\$ 353,092</u>	<u>\$ 366,569</u>

Governmental activities. Governmental activities increased the City's net assets by \$9,908 during the year. Key elements of governmental activities during the year are as follows.

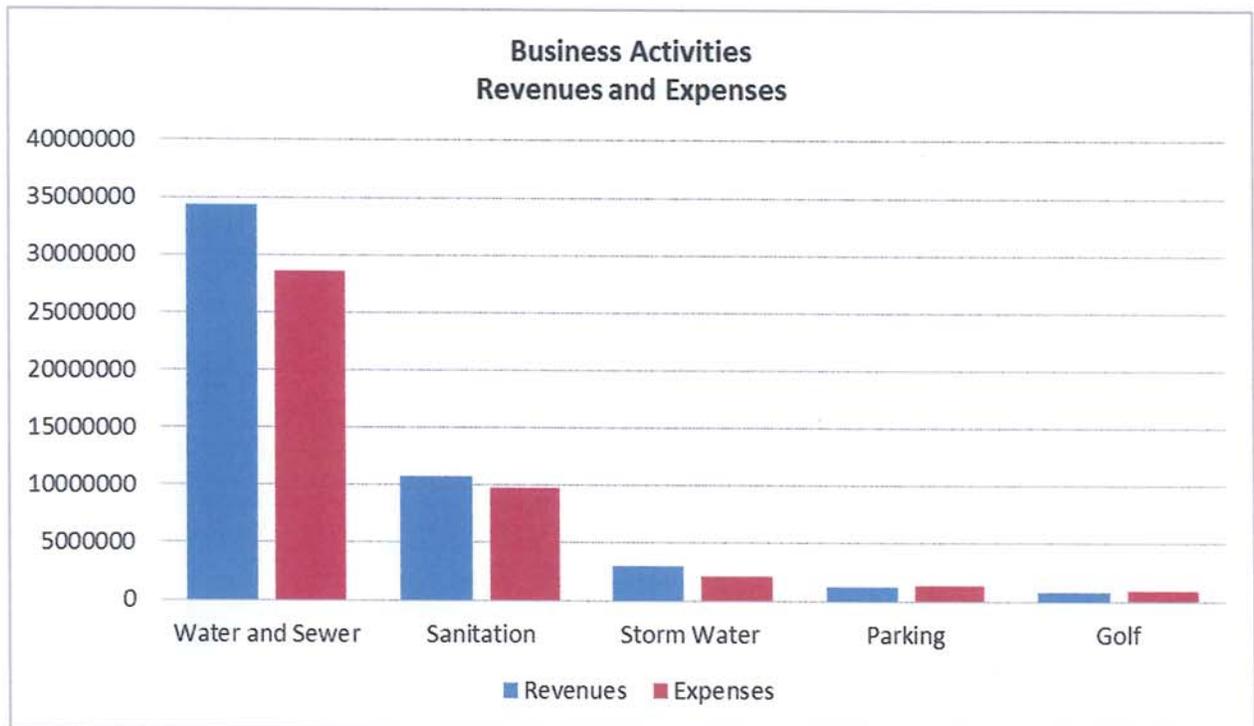
Total governmental revenues increased by 4.3% in 2012. Charges for services increased primarily because of a \$287,000 increase in transit fares and a \$254,000 increase in emergency medical services. Operating grants decreased because of a 55% reduction in Emergency Shelter Grants. Property tax revenue increased by \$1.2 million because of a 0.5% increase in assessed valuation and increases in the General Fund mill levy of .43 mills to pay for additional public safety employees and a 1.5 mill increase in the Debt Service Fund to retire the debt incurred for the new library. Sales tax revenue increased because of growing consumer confidence driving increased retail sales. Franchise fees increased by only 1.14% because of an increase in electricity rates that were offset by reduced natural gas revenues from unseasonably warm winter weather.

Expenses for governmental purposes increased 5.67%. General government expenses increased because of an increase in equipment reserve to fund \$1.5 million for a City-wide radio network and the hiring of 5 new public safety employees. Employees were eligible for merit increases funded by a 1.2% merit pool. There was also an increase in the employer contribution for health care. The 2012 budget included the addition of 6 positions in the governmental funds and 1 in the business type funds. Public safety expenses increased 5.64% because of additional hiring of 5 police personnel. Public Works expenses decreased primarily to reduce expenses to match revenues. Expenses for social services decreased because of lower 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 \$3,568,900. The Water and Sewer Fund, Sanitation, and Storm Water Fund experienced positive changes in net assets while the Public Parking and Golf Course Fund experienced a reduction. The key elements of the changes in net assets are as follows:

- Positive change in net assets in the Water and Sewer Fund equaling \$2,984,546 with a 3% increase in sewer rates and a 5% increase in water rates for 2012.
- Positive net income in the Storm Water Fund equaling \$413,597. Storm water fees were not changed in 2012.
- Program revenue increased 7.6% primarily due to an increase in the Water and Sewer Fund from a hot dry summer creating a higher demand for water.
- Business-type operating expenses were 4.45% more than 2011 business-type operating expenses and were constrained in order to balance revenues and expenses. Water and Sewer Fund expenses increased \$1,639,000 because of increasing treatment chemical costs due to high water demand.



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, 2012, the City of Lawrence's governmental funds reported combined ending fund balances of \$51,526,329, an increase of \$2,403,803 from the prior year. Approximately 34.3% 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 2012, unassigned general fund balance totaled \$12,807,728, while total general fund balance was \$13,265,744. Unassigned general fund balance represents 23.3% 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 2.8% in general fund expenditures, driven by compensation increases for public safety employees and additional personnel.
- A 4.91% increase in property taxes due to an increase in the mill levy and in the percent of current taxes collected and greater delinquent tax collections.
- A 1.14% increase in franchise revenue due to increases in electricity rates and usage.

The debt service fund has a total fund balance of \$9,303,767, 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 \$23,280,189 at the end of 2012. The unrestricted net assets of the Sanitation Fund amounted to \$2,139,392 at the end of 2012. The change in net assets for the Water and Sewer Fund was \$2,984,546. The Sanitation Fund had an increase in net assets of \$175,826. The

hot dry summer had an impact on the water and sewer fund. Due to the higher demand for water, water revenue was \$3,432,243 more than budgeted.

General Fund Budgetary Highlights

The City of Lawrence adopts its budget on a fund basis. The 2012 adopted General Fund budget was not amended by the City Commission during the year. On the revenue side, nearly every revenue category was more than the budgeted amount with the exception of interest and fines, forfeitures, and penalties. Expenditure adjustments between programs and line items were significant since departments were directed to reduce spending. The more significant operational changes to the 2012 budget from prior year budgets are listed below:

- A total of 5 additional positions were budgeted.
- A 1.2% merit pool was budgeted for non-represented employees.
- Departments and outside agencies were requested to continue to look for ways to reduce their non-personnel operating budgets 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, 2012, amounts to \$410,251,160 (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 1.64%. (For additional information on the city's capital assets please read Note 8)

Major capital asset additions during the year included the following:

- Six Mass Transit Buses \$2,310,366
- Construction of a Pump Station \$1,830,516
- Construction of Anaerobic Digester Improvements \$1,818,195
- Waterline Improvements \$1,477,781
- 2012 KLINK 6th from Iowa to Massachusetts \$1,098,441

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

	Governmental		Business-type		Total	
	2011	2012	2011	2012	2011	2012
Land	\$ 15,255	\$ 15,519	\$ 5,998	\$ 6,008	\$ 21,253	\$ 21,527
Buildings	31,121	29,618	70,925	68,945	102,046	98,563
Improvements	17,021	16,594	115,260	116,218	132,281	132,812
Equipment	9,468	11,838	4,784	4,676	14,252	16,514
Infrastructure	122,741	123,717	-	-	122,741	123,717
Construction in Progress	3,006	6,472	8,043	10,646	11,049	17,118
Total	\$ 198,612	\$ 203,758	\$ 205,010	\$ 206,493	\$ 403,622	\$ 410,251

Long-term debt. At the end of 2012, the City of Lawrence had total bonded debt outstanding of \$146,066,590. Of this amount, \$74,619,633 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 \$22,776,957 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)

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

	Governmental		Business-type		Total	
	2011	2012	2011	2012	2011	2012
General Obligation	\$ 67,739	\$ 64,406	\$ 11,406	\$ 10,214	\$ 79,145	\$ 74,620
Revenue	-	-	50,880	48,670	50,880	48,670
SRF	-	-	24,903	22,777	24,903	22,777
Total	\$ 67,739	\$ 64,406	\$ 87,189	\$ 81,661	\$ 154,928	\$ 146,067

The City's total outstanding debt decreased \$8.9 million during the year. In governmental activities, \$11.2 million in general obligation bonds was issued while \$14.9 million was retired. The majority of the general obligation bonds issued was to perform a current refunding of three outstanding general obligation bonds. The refundings were undertaken to achieve interest cost savings. In business-type activities, \$5.5 million in debt was retired with storm water revenue and water and sewer revenue. No new debt was issued to fund business-type activities.

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, 2012 the debt limitation for the City of Lawrence was \$277,486,123, which is significantly in excess of the \$98,430,000 in general obligation debt the City had outstanding as of December 31, 2012.

Economic Factors and 2013 Budget

The average unemployment rate for Lawrence MSA in 2012 was 5.3%, an increase of 0.2% from the previous year. This is below the 2012 State average of 5.5%. The City experienced a decrease of 0.5% in its assessed valuation in 2012. The 2012 assessed valuation is used to fund the 2013 budget. The City continued to work on the environmental clean-up of the Farmland property through expenditures of \$366,326.

It is expected that projected revenues will exceed projected expenditures by approximately \$124,706 in the General Fund in 2013. Revenues are projected to be \$1,000,000 above budget. Because of signs of increased retail activity during the time the 2013 budget was being developed, the budget incorporated a 3.5% increase in sales tax. Other major revenue sources had smaller increases. Funding for infrastructure maintenance was maintained in the 2013 budget in order to continue to address infrastructure needs. The 2013 budget includes a property tax increase of 0.92 mills for general operating expenses. A commitment to fund \$250,000 for OPEB (Other Post-Employment Benefits) was included in the 2013 budget. A total of 3 positions were added in the Police Department and a 1.00% merit pool was provided for non-represented employees.

The City Commission approved a 4.0% increase in the rate charged for water and wastewater. There was no increase in sanitation rates. A study committee has been formed to review sanitation operations and make recommendations on future service delivery, including curbside recycling.

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.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

CITY OF LAWRENCE, KANSAS

Statement of Net Assets
December 31, 2012

Assets	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash	\$ 55,849,556	25,765,666	81,615,222	15,298,541
Investments	35,325,312	11,698,567	47,023,879	109,457,175
Receivables (net of allowance of \$126,771)	41,355,157	3,190,819	44,545,976	25,644,033
Internal balances	(4,357,545)	4,357,545	—	—
Inventories	298,652	1,698,769	1,997,421	2,997,938
Prepaid items	—	330,515	330,515	4,419,234
Deferred costs	—	—	—	585,514
Other assets	—	—	—	691,349
Capital assets (Net)				
Land and construction in progress	21,990,928	16,654,525	38,645,453	4,729,230
Other capital assets, net of depreciation	181,766,756	189,838,951	371,605,707	121,833,074
Total assets	\$ 332,228,816	253,535,357	585,764,173	285,656,088
Liabilities				
Accounts payable and accrued expenses	\$ 6,354,353	4,419,093	10,773,446	20,222,545
Unearned revenue	25,286,686	—	25,286,686	40,480
Temporary notes payable	24,352,212	—	24,352,212	—
Long-term liabilities				
Due within one year	12,490,279	6,678,626	19,168,905	2,325,000
Due in more than one year	61,394,142	78,219,907	139,614,049	65,914,891
Total liabilities	\$ 129,877,672	89,317,626	219,195,298	88,502,916
Net Assets				
Invested in capital assets, net of debt	\$ 138,239,587	132,286,325	270,525,912	61,674,847
Restricted for:				
Debt service	21,715,476	—	21,715,476	1,343,867
Improvements	7,894,603	—	7,894,603	—
Other purposes	461,146	—	461,146	—
Unrestricted	34,040,332	31,931,406	65,971,738	134,134,458
Total net assets	\$ 202,351,144	164,217,731	366,568,875	197,153,172

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, 2012

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	\$ 25,726,334	8,745,433	4,333,578	—	(12,647,323)	—	(12,647,323)	—
Public safety	30,675,333	403,121	74,781	99,715	(30,097,716)	—	(30,097,716)	—
Public works	15,939,222	39,890	2,683,445	227,466	(12,988,421)	—	(12,988,421)	—
Health	1,379,859	158,740	—	—	(1,221,119)	—	(1,221,119)	—
Social services	2,198,039	147,204	2,557,406	—	506,571	—	506,571	—
Culture and recreation	8,473,244	2,278,274	691,768	34,226	(5,468,976)	—	(5,468,976)	—
Tourism	969,229	—	1,184,887	—	215,658	—	215,658	—
Airport	226,568	24,998	—	83,443	(118,127)	—	(118,127)	—
Interest on long-term debt	2,312,471	—	—	2,850,178	537,707	—	537,707	—
Total governmental activities	<u>87,900,299</u>	<u>11,797,660</u>	<u>11,525,865</u>	<u>3,295,028</u>	<u>(61,281,746)</u>	<u>—</u>	<u>(61,281,746)</u>	<u>—</u>
Business-type activities:								
Water & sewer	28,610,906	34,345,233	—	—	—	5,734,327	5,734,327	—
Sanitation	9,762,916	10,749,061	—	—	—	986,145	986,145	—
Parking	1,340,421	1,225,464	—	—	—	(114,957)	(114,957)	—
Stormwater	2,151,249	2,970,639	—	—	—	819,390	819,390	—
Golf course	944,149	820,444	—	—	—	(123,705)	(123,705)	—
Total business-type activities	<u>42,809,641</u>	<u>50,110,841</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,301,200</u>	<u>7,301,200</u>	<u>—</u>
Total primary government	<u>\$ 130,709,940</u>	<u>61,908,501</u>	<u>11,525,865</u>	<u>3,295,028</u>	<u>(61,281,746)</u>	<u>7,301,200</u>	<u>(53,980,546)</u>	<u>—</u>
Component units:								
Lawrence Housing Authority	\$ 8,540,720	8,785,325	—	282,445	—	—	—	527,050
Lawrence Memorial Hospital	166,957,839	175,070,284	—	823,244	—	—	—	8,935,689
Lawrence Public Library	3,594,048	185,204	3,316,546	—	—	—	—	(92,298)
Total component units	<u>\$ 179,092,607</u>	<u>184,040,813</u>	<u>3,316,546</u>	<u>1,105,689</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,370,441</u>
General Revenues								
Taxes								
Property taxes, levied for general purposes					18,712,364	—	18,712,364	—
Property taxes, levied for debt service					7,766,668	—	7,766,668	—
Franchise taxes					6,482,183	—	6,482,183	—
Sales taxes					32,409,308	—	32,409,308	—
Grants and contributions not restricted to specific programs					691,768	—	691,768	—
Unrestricted investment earnings					210,102	121,636	331,738	4,167,078
Miscellaneous					425,033	638,793	1,063,826	89,958
Transfers					4,492,729	(4,492,729)	—	—
Total general revenues and transfers					<u>71,190,155</u>	<u>(3,732,300)</u>	<u>67,457,855</u>	<u>4,257,036</u>
Change in net assets					9,908,409	3,568,900	13,477,309	13,627,477
Net assets—beginning, as restated					192,442,735	160,648,831	353,091,566	183,525,695
Net assets—ending					<u>\$ 202,351,144</u>	<u>164,217,731</u>	<u>366,568,875</u>	<u>197,153,172</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, 2012**

Assets	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	\$ 6,705,292	8,909,946	17,240,343	14,581,927	47,437,508
Investments	7,010,520	1,000,177	5,999,555	8,498,908	22,509,160
Receivables:					
Taxes	13,764,189	6,656,829	—	2,715,590	23,136,608
Special assessments	—	13,164,585	—	—	13,164,585
Intergovernmental	2,819,038	—	—	313,593	3,132,631
Accounts (net of allowance of \$4,166)	485,989	9,375	—	72,134	567,498
Franchise fees	546,494	—	—	—	546,494
Loans	—	—	—	438,146	438,146
Accrued interest	11,916	338	3,326	15,657	31,237
Due from other funds	318,000	—	—	—	318,000
Restricted assets:					
Cash	—	—	—	989,242	989,242
Investments	—	—	—	7,017,080	7,017,080
Total assets	\$ 31,661,438	29,741,250	23,243,224	34,642,277	119,288,189
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,679,901	—	529,365	572,696	2,781,962
Accrued payroll	1,577,900	—	—	197,467	1,775,367
Due to other funds	—	—	—	318,000	318,000
Unamortized premium	—	—	137,212	—	137,212
Temporary notes payable	—	—	24,215,000	—	24,215,000
Unearned revenue	15,137,893	20,437,483	—	2,958,943	38,534,319
Total liabilities	18,395,694	20,437,483	24,881,577	4,047,106	67,761,860
Fund balances:					
Nonspendable	—	—	—	461,146	461,146
Restricted	—	9,303,767	—	7,894,603	17,198,370
Assigned	458,016	—	—	22,307,990	22,766,006
Unassigned	12,807,728	—	(1,638,353)	(68,568)	11,100,807
Total fund balances	13,265,744	9,303,767	(1,638,353)	30,595,171	51,526,329
Total liabilities and fund balances	\$ 31,661,438	29,741,250	23,243,224	34,642,277	

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.	203,420,369
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	13,247,633
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.	8,649,407
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(74,492,594)</u>
Net assets of governmental activities	\$ 202,351,144

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, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 32,632,476	7,766,668	—	15,569,750	55,968,894
Special assessments	—	3,195,006	—	—	3,195,006
Licenses and permits	968,947	—	—	—	968,947
Charges for services	4,576,574	—	—	2,092,305	6,668,879
Fines, forfeitures and penalties	2,731,108	—	—	92,401	2,823,509
Interest	75,587	25,911	26,633	65,596	193,727
Intergovernmental	10,615,745	—	—	11,548,282	22,164,027
Reimbursements	107,884	—	227,466	—	335,350
Miscellaneous	114,233	195,007	41,447	1,048,331	1,399,018
Total revenues	51,822,554	11,182,592	295,546	30,416,665	93,717,357
Expenditures:					
Current expenditures:					
General government	14,833,403	—	—	10,117,120	24,950,523
Public safety	29,441,581	—	—	894,600	30,336,181
Public works	6,068,958	—	601,051	2,454,544	9,124,553
Health	971,423	—	—	407,681	1,379,104
Social services	—	—	—	1,530,158	1,530,158
Culture and recreation	3,234,241	—	—	4,807,110	8,041,351
Tourism	—	—	—	967,620	967,620
Airport	110,908	—	—	—	110,908
Capital outlay	340,837	—	5,398,865	7,714,636	13,454,338
Debt service:					
Principal retirement	—	8,249,232	5,620,000	1,058,393	14,927,625
Interest and fiscal charges	—	2,121,182	159,913	300,938	2,582,033
Total expenditures	55,001,351	10,370,414	11,779,829	30,252,800	107,404,394
Excess (deficiency) of revenues over (under) expenditures	(3,178,797)	812,178	(11,484,283)	163,865	(13,687,037)
Other financing sources (uses):					
Transfers in	3,656,207	—	—	1,305,500	4,961,707
Transfers (out)	(465,500)	—	—	—	(465,500)
Issuance of general obligation bonds	—	—	11,190,000	—	11,190,000
Premium on general obligation bonds	—	—	404,633	—	404,633
Total other financing sources (uses)	3,190,707	—	11,594,633	1,305,500	16,090,840
Net changes in fund balances	11,910	812,178	110,350	1,469,365	2,403,803
Fund balance, beginning of year, as restated	13,253,834	8,491,589	(1,748,703)	29,125,806	49,122,526
Fund balance, end of year	\$ 13,265,744	9,303,767	(1,638,353)	30,595,171	51,526,329

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, 2012**

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

Net changes in fund balances - total governmental funds	\$ 2,403,803
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.	5,098,972
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(418,626)
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.	3,332,992
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.	(1,081,506)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>572,774</u>
Change in net assets of governmental activities	<u>\$ 9,908,409</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, 2012
(With Comparative Actual Amounts for 2011)

	2012			Variance Positive (Negative)	2011 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 44,018,604	44,018,604	44,987,617	969,013	43,821,329
Licenses and permits	899,447	899,447	968,947	69,500	944,702
Charges for services	4,491,153	4,491,153	4,576,574	85,421	4,382,165
Fines, forfeitures and penalties	3,010,000	3,010,000	2,731,108	(278,892)	2,829,328
Interest	150,000	150,000	75,587	(74,413)	38,499
Intergovernmental	9,396,997	9,396,997	10,615,745	1,218,748	10,037,952
Reimbursements	187,000	187,000	107,884	(79,116)	17,669
Miscellaneous	154,780	154,780	114,233	(40,547)	154,732
Total revenues	<u>62,307,981</u>	<u>62,307,981</u>	<u>64,177,695</u>	<u>1,869,714</u>	<u>62,226,376</u>
Expenditures:					
General government	16,042,863	15,830,486	14,875,847	954,639	14,771,738
Public safety	28,399,190	28,603,474	29,427,434	(823,960)	27,779,899
Public works	6,363,832	6,355,405	6,013,053	342,352	6,327,151
Health	1,017,158	1,017,926	964,885	53,041	998,823
Culture and recreation	3,182,730	3,187,800	3,189,718	(1,918)	3,164,592
Airport	138,037	138,901	110,908	27,993	131,461
Capital outlay	673,585	723,903	388,137	335,766	252,345
Total expenditures	<u>55,817,395</u>	<u>55,857,895</u>	<u>54,969,982</u>	<u>887,913</u>	<u>53,426,009</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,490,586</u>	<u>6,450,086</u>	<u>9,207,713</u>	<u>2,757,627</u>	<u>8,800,367</u>
Other financing sources (uses):					
Transfers in	3,656,751	3,656,751	3,656,207	(544)	3,702,879
Transfers out	(18,065,500)	(18,025,000)	(12,820,641)	5,204,359	(12,486,551)
Total other financing sources (uses)	<u>(14,408,749)</u>	<u>(14,368,249)</u>	<u>(9,164,434)</u>	<u>5,203,815</u>	<u>(8,783,672)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other (uses)	<u>\$ (7,918,163)</u>	<u>(7,918,163)</u>	43,279	<u>7,961,442</u>	16,695
Fund balance, beginning of year			13,253,834		13,304,155
Net change in reserve for encumbrances			(31,369)		(67,016)
Fund balance, end of year			<u>\$ 13,265,744</u>		<u>13,253,834</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, 2012

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	\$ 14,066,842	2,580,917	806,805	713,264	18,167,828	7,422,806
Investments	6,983,500	500,000	1,000,013	—	8,483,513	5,799,072
Receivables:						
Accounts (net of allowance of \$94,554)	2,115,350	842,152	201,241	7,500	3,166,243	333,923
Accrued interest	20,420	1,849	2,307	—	24,576	4,035
Inventories	1,690,597	—	—	8,172	1,698,769	298,652
Prepaid items	330,515	—	—	—	330,515	—
Restricted cash:						
Customer deposits	1,078,001	1,235	—	—	1,079,236	—
Current portion of revenue bonds	764,018	—	—	—	764,018	—
Restricted investments:						
Customer deposits	—	—	—	—	—	—
Current portion of revenue bonds	1,515,982	—	—	—	1,515,982	—
Total current assets	<u>28,565,225</u>	<u>3,926,153</u>	<u>2,010,366</u>	<u>728,936</u>	<u>35,230,680</u>	<u>13,858,488</u>
Noncurrent assets						
Restricted cash	5,754,584	—	—	—	5,754,584	—
Restricted investments	1,699,072	—	—	—	1,699,072	—
Total restricted assets	<u>7,453,656</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,453,656</u>	<u>—</u>
Capital assets						
Land	3,683,851	—	1,845,283	479,055	6,008,189	—
Buildings and improvements	247,898,660	1,555,872	12,973,072	7,729,316	270,156,920	762,567
Equipment	6,628,065	7,248,804	1,784,329	571,700	16,232,898	329,254
Construction in progress	10,413,605	—	232,731	—	10,646,336	—
Accumulated depreciation	(80,059,308)	(6,503,417)	(3,840,633)	(6,147,509)	(96,550,867)	(754,506)
Total capital assets	<u>188,564,873</u>	<u>2,301,259</u>	<u>12,994,782</u>	<u>2,632,562</u>	<u>206,493,476</u>	<u>337,315</u>
Total noncurrent assets	<u>196,018,529</u>	<u>2,301,259</u>	<u>12,994,782</u>	<u>2,632,562</u>	<u>213,947,132</u>	<u>337,315</u>
Total assets	<u>\$ 224,583,754</u>	<u>6,227,412</u>	<u>15,005,148</u>	<u>3,361,498</u>	<u>249,177,812</u>	<u>14,195,803</u>
Liabilities and Net Assets						
Liabilities:						
Current liabilities						
Accounts payable	\$ 1,541,780	427,758	15,390	35,890	2,020,818	580,193
Accrued interest payable	664,346	—	37,412	—	701,758	—
Claims payable	—	—	—	—	—	414,702
Accrued payroll	349,553	191,726	28,341	47,661	617,281	39,879
Accrued vacation and sick pay	525,192	335,144	45,569	76,310	982,215	69,229
Current portion of general obligation bonds	605,000	—	611,933	—	1,216,933	—
Current portion of notes payable	2,199,478	—	—	—	2,199,478	—
Total unrestricted current liabilities	<u>5,885,349</u>	<u>954,628</u>	<u>738,645</u>	<u>159,861</u>	<u>7,738,483</u>	<u>1,104,003</u>
Current liabilities payable from restricted assets:						
Customer deposits	1,078,001	1,235	—	—	1,079,236	—
Current portion of revenue bonds	2,280,000	—	—	—	2,280,000	—
Total current liabilities payable from restricted assets	<u>3,358,001</u>	<u>1,235</u>	<u>—</u>	<u>—</u>	<u>3,359,236</u>	<u>—</u>
Total current liabilities	<u>9,243,350</u>	<u>955,863</u>	<u>738,645</u>	<u>159,861</u>	<u>11,097,719</u>	<u>1,104,003</u>
Noncurrent liabilities						
Compensated absences	551,280	368,013	49,470	99,600	1,068,363	84,848
General obligation bonds payable	6,500,000	—	2,496,917	—	8,996,917	—
Revenue bonds payable	46,390,000	—	—	—	46,390,000	—
Notes payable	20,577,479	—	—	—	20,577,479	—
Net OPEB obligation	574,884	462,885	44,381	104,998	1,187,148	—
Total noncurrent liabilities	<u>74,593,643</u>	<u>830,898</u>	<u>2,590,768</u>	<u>204,598</u>	<u>78,219,907</u>	<u>84,848</u>
Total liabilities	<u>83,836,993</u>	<u>1,786,761</u>	<u>3,329,413</u>	<u>364,459</u>	<u>89,317,626</u>	<u>1,188,851</u>
Net assets:						
Invested in capital assets, net of debt	117,466,572	2,301,259	9,885,932	2,632,562	132,286,325	337,315
Unrestricted	23,280,189	2,139,392	1,789,803	364,477	27,573,861	12,669,637
Total net assets	<u>140,746,761</u>	<u>4,440,651</u>	<u>11,675,735</u>	<u>2,997,039</u>	<u>159,860,186</u>	<u>13,006,952</u>
Total liabilities and net assets	<u>\$ 224,583,754</u>	<u>6,227,412</u>	<u>15,005,148</u>	<u>3,361,498</u>	<u>249,177,812</u>	<u>14,195,803</u>
Total net assets					159,860,186	
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					4,357,545	
Net assets of business-type activities					\$ 164,217,731	

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, 2012

	Business-type Activities-Enterprise Funds				Total	Governmental
	Water and Sewer	Sanitation	Storm Water Utility	Nonmajor Enterprise Funds		Activities-Internal Service Funds
Operating revenues:						
Charges for services	\$ 34,095,197	10,530,351	2,970,639	2,045,908	49,642,095	13,699,413
Other sales	250,036	218,710	—	—	468,746	—
Total operating revenues	34,345,233	10,749,061	2,970,639	2,045,908	50,110,841	13,699,413
Operating expenses:						
Continuing operations	—	9,320,442	1,613,358	1,969,966	12,903,766	4,396,007
Transmission and distribution	14,918,277	—	—	—	14,918,277	—
General administration	4,705,841	—	—	—	4,705,841	247,908
Health insurance claims	—	—	—	—	—	8,185,242
Depreciation and amortization	6,046,970	554,755	422,561	334,149	7,358,435	34,085
Total operating expenses	25,671,088	9,875,197	2,035,919	2,304,115	39,886,319	12,863,242
Operating income (loss)	8,674,145	873,864	934,720	(258,207)	10,224,522	836,171
Nonoperating revenues (expenses)						
Interest income	93,366	8,461	4,439	1,265	107,531	30,312
Interest expense and fiscal charges	(3,077,997)	—	(125,562)	—	(3,203,559)	—
Gain (loss) on sale of capital assets	24,972	—	—	—	24,972	2,095
Other	354,956	257,812	—	—	612,768	3,069
Total nonoperating revenues (expenses)	(2,604,703)	266,273	(121,123)	1,265	(2,458,288)	35,476
Income (loss) before transfers	6,069,442	1,140,137	813,597	(256,942)	7,766,234	871,647
Transfers (out)	(3,084,896)	(964,311)	(400,000)	(40,000)	(4,489,207)	(7,000)
Change in net assets	2,984,546	175,826	413,597	(296,942)	3,277,027	864,647
Net assets, beginning of year	137,762,215	4,264,825	11,262,138	3,293,981		12,142,305
Net assets, end of year	\$ 140,746,761	4,440,651	11,675,735	2,997,039		13,006,952
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds					291,873	
Change in net assets of business-type activities					\$ 3,568,900	

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, 2012

	Business-type Activities-Enterprise Funds				Total	Governmental Activities- Internal Service Funds
	Water and Sewer	Sanitation	Storm Water Utility	Nonmajor Enterprise Funds		
Cash flows from operating activities:						
Receipts from customers and users	\$ 34,709,022	10,964,226	2,956,454	2,047,140	50,676,842	13,760,361
Payments to suppliers	(9,327,579)	(3,233,929)	(817,523)	(467,601)	(13,846,632)	(11,778,345)
Payments to employees	(9,647,061)	(5,767,789)	(768,906)	(1,434,353)	(17,618,109)	(998,729)
Net cash provided by (used in) operating activities	15,734,382	1,962,508	1,370,025	145,186	19,212,101	983,287
Cash flows from noncapital financing activities:						
Transfers out	(3,084,896)	(964,311)	(400,000)	(40,000)	(4,489,207)	(7,000)
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(7,999,209)	(563,605)	(242,431)	(35,842)	(8,841,087)	(97,878)
Proceeds from sales of capital assets	24,972	—	—	—	24,972	2,095
Principal payments on debt	(4,935,724)	—	(592,375)	—	(5,528,099)	—
Interest payments on debt	(3,116,976)	—	(132,225)	—	(3,249,201)	—
Net cash used in capital and related financing activities	(16,026,937)	(563,605)	(967,031)	(35,842)	(17,593,415)	(95,783)
Cash flows from investing activities:						
Receipt of interest and dividends	78,009	6,679	2,176	1,265	88,129	27,210
Purchases of investments	(18,578,766)	—	(1,158,500)	—	(19,737,266)	(6,299,072)
Sales of investments	15,379,657	500,007	658,487	—	16,538,151	4,809,232
Net cash provided by (used in) investing activities	(3,121,100)	506,686	(497,837)	1,265	(3,110,986)	(1,462,630)
Net increase (decrease) in cash	(6,498,551)	941,278	(494,843)	70,609	(5,981,507)	(582,126)
Cash and cash equivalents, beginning of year	28,161,996	1,640,874	1,301,648	642,655	31,747,173	8,004,932
Cash and cash equivalents, end of year	\$ 21,663,445	2,582,152	806,805	713,264	25,765,666	7,422,806
Components of cash and cash equivalents at end of year:						
Cash	\$ 14,066,842	2,580,917	806,805	713,264	18,167,828	7,422,806
Restricted cash - customer deposits	1,078,001	1,235	—	—	1,079,236	—
Restricted cash - revenue bonds	764,018	—	—	—	764,018	—
Restricted cash - noncurrent	5,754,584	—	—	—	5,754,584	—
	\$ 21,663,445	2,582,152	806,805	713,264	25,765,666	7,422,806
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 8,674,145	873,864	934,720	(258,207)	10,224,522	836,171
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	6,046,970	554,755	422,561	334,149	7,358,435	34,085
Other income	354,956	257,812	—	—	612,768	3,069
Change in:						
Accounts receivable	8,833	(42,647)	(14,185)	1,232	(46,767)	57,879
Inventories of supplies	(29,114)	—	—	(3,509)	(32,623)	44,954
Prepaid items	(5,129)	—	—	—	(5,129)	—
Accounts payable	308,370	67,576	5,962	7,450	389,358	(1,702)
Claims payable	—	—	—	—	—	19,951
Accrued payroll	42,125	12,102	3,708	5,269	63,204	1,357
Customer deposits	2,345	(765)	—	—	1,580	—
Accrued vacation and sick pay	75,983	34,589	(2,424)	12,261	120,409	(12,477)
Net OPEB obligation	254,898	205,222	19,683	46,541	526,344	—
Total adjustments	7,060,237	1,088,644	435,305	403,393	8,987,579	147,116
Net cash provided by (used in) operating activities	\$ 15,734,382	1,962,508	1,370,025	145,186	19,212,101	983,287

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, 2012

Assets		
Cash	\$	310,686
Restricted assets - court receivables		<u>131,401</u>
Total assets	\$	<u><u>442,087</u></u>
Liabilities		
Accounts payable	\$	310,686
Court bonds payable		<u>131,401</u>
Total liabilities	\$	<u><u>442,087</u></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, 2012**

Assets	Lawrence Housing Authority	Lawrence Memorial Hospital	Lawrence Public Library	Total Component Units
Current assets:				
Cash	\$ 2,194,281	12,071,736	1,032,524	15,298,541
Investments	3,503,263	105,953,912	—	109,457,175
Receivables (net)	364,054	25,279,979	—	25,644,033
Inventories	59,598	2,938,340	—	2,997,938
Prepaid items	81,103	4,338,131	—	4,419,234
Deferred costs	—	585,514	—	585,514
Other assets	16,141	675,208	—	691,349
Capital assets (net)				
Land and construction in progress	1,523,616	3,205,614	—	4,729,230
Other capital assets, net of depreciation	12,159,874	106,884,935	2,788,265	121,833,074
Total assets	\$ 19,901,930	261,933,369	3,820,789	285,656,088
Liabilities				
Accounts payable and accrued expenses	\$ 407,917	19,644,756	169,872	20,222,545
Unearned revenue	—	40,480	—	40,480
Long-term liabilities				
Due within one year	—	2,325,000	—	2,325,000
Due in more than one year	122,883	65,790,910	1,098	65,914,891
Total liabilities	\$ 530,800	87,801,146	170,970	88,502,916
Net Assets				
Invested in capital assets, net of debt	\$ 13,683,490	45,203,092	2,788,265	61,674,847
Restricted for:				
Debt service	—	1,343,867	—	1,343,867
Unrestricted	5,687,640	127,585,264	861,554	134,134,458
Total net assets	\$ 19,371,130	174,132,223	3,649,819	197,153,172

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, 2012

	<u>Lawrence Housing Authority</u>	<u>Lawrence Memorial Hospital</u>	<u>Lawrence Public Library</u>	<u>Total Component Units</u>
Expenses	\$ 8,540,720	166,957,839	3,594,048	179,092,607
Program revenues:				
Charges for services	8,785,325	175,070,284	185,204	184,040,813
Operating grants and contributions	—	—	3,316,546	3,316,546
Capital grants and contributions	282,445	823,244	—	1,105,689
Net (expense) revenue	<u>527,050</u>	<u>8,935,689</u>	<u>(92,298)</u>	<u>9,370,441</u>
General Revenues				
Unrestricted investment earnings	16,568	4,150,276	234	4,167,078
Miscellaneous	—	89,688	270	89,958
Total general revenues and transfers	<u>16,568</u>	<u>4,239,964</u>	<u>504</u>	<u>4,257,036</u>
Change in net assets	543,618	13,175,653	(91,794)	13,627,477
Net assets-beginning, restated	<u>18,827,512</u>	<u>160,956,570</u>	<u>3,741,613</u>	<u>183,525,695</u>
Net assets-ending	<u>\$ 19,371,130</u>	<u>174,132,223</u>	<u>3,649,819</u>	<u>197,153,172</u>

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, 2012

(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, 2012

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.

Debt service expenditures as well as expenditures related to certain compensated absences and claims and judgments are recognized when due and payable rather than when expected to be liquidated with expendable resources.

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, 2012

- *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
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, 2012

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 2012 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, 2012

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 2013. 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, 2012

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 2012.

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

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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.

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. Any modification of the commitment requires the same type of action. Assigned fund balances include amounts that are constrained by the City Manager's or governing body'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				Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
Fund Balances:					
Nonspendable for:					
Donor restriction	\$ -	-	-	23,000	23,000
Loans	-	-	-	438,146	438,146
Restricted for:					
Capital outlay	-	-	-	7,894,603	7,894,603
Debt service	-	9,303,767	-	-	9,303,767
Assigned for:					
General government	78,130	-	-	3,173,035	3,251,165
Public Safety	196,066	-	-	366,497	562,563
Public Works	138,488	-	-	945,478	1,083,966
Social services	-	-	-	361,262	361,262
Culture and recreation	45,332	-	-	4,921,427	4,966,759
Tourism	-	-	-	766,999	766,999
Airport	-	-	-	163,903	163,903
Capital outlay	-	-	-	11,609,389	11,609,389
Unassigned	12,807,228	-	(1,638,353)	(68,568)	11,100,807
	<u>\$ 13,265,744</u>	<u>9,303,767</u>	<u>(1,638,353)</u>	<u>30,595,171</u>	<u>51,526,329</u>

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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

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 \$74,492,594 difference are as follows:

Bonds payable	\$	64,405,783
Accrued interest payable		762,251
Claims and judgments payable		50,539
Compensated absences		5,993,169
Net OPEB obligation		<u>3,280,852</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$	<u><u>74,492,594</u></u>

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 \$5,098,972 difference are as follows:

Capital outlay	\$	13,454,338
Depreciation expense		<u>(8,355,366)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$	<u><u>5,098,972</u></u>

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,

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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 \$3,332,992 difference are as follows:

Debt issued:	
Issuance of general obligation bonds	\$ (11,594,633)
Principal repayments:	
General obligation debt	14,927,625
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$ 3,332,992

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 \$1,081,506 difference are as follows:

Compensated absences	\$ (188,555)
Claims and judgments	292,143
Accrued interest	269,562
Net OPEB obligation	(1,454,656)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	\$ (1,081,506)

(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.

(5) Deposits and Investments

Deposits – At December 31, 2012, the City held the following investments:

Investment Type	Fair Value	Rating	Maturity Less Than 5 years
Certificate of Deposit	\$ 32,000,000	n/a	32,000,000
FHLMC	3,509,391	AAA	3,509,391
FHLB	7,994,801	AAA	7,994,801
FFCB	1,999,647	AAA	1,999,647
FNMA	1,508,049	AAA	1,508,049
Kansas Municipal Investment Pool	11,991	AAA	11,991
	\$ 47,023,879		

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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 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 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.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(6) Tax Revenue

Tax revenue for the year ended December 31, 2012 is as follows:

	Primary Government			Total
	General Fund	Special Revenue Funds	Debt Service Funds	
Property taxes	\$ 14,207,540	2,960,525	7,248,974	24,417,039
Motor vehicle tax	1,193,966	254,085	517,694	1,965,745
Payment in lieu of tax	96,247	-	-	96,247
Utility franchise taxes	6,482,183	-	-	6,482,183
Sales taxes*	10,652,540	12,355,140	-	23,007,680
Tax revenue	\$ 32,632,476	15,569,750	7,766,668	55,968,894

*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, 2012 were as follows:

Fund	Levy
Primary government:	
General	\$ 16.639
Library	3.463
Debt Service	8.510
Total primary government	\$ 28.612

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(7) Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2012:

<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	\$ 67,738,775	11,190,000	14,927,625	64,001,150	9,793,067
Premium on bonds issued	-	404,633	-	404,633	33,719
Estimated claims and judgements payable	342,682	389,244	681,387	50,539	-
Accrued vacation and sick pay	5,971,168	3,367,811	3,191,732	6,147,247	2,663,493
Net OPEB obligation	1,826,196	1,517,224	62,568	3,280,852	-
Total primary government	\$ <u>75,878,821</u>	<u>16,868,912</u>	<u>18,863,312</u>	<u>73,884,421</u>	<u>12,490,279</u>
Business-type activities:					
General obligation bonds	\$ 11,406,225	-	1,192,375	10,213,850	1,216,933
Revenue bonds	50,880,000	-	2,210,000	48,670,000	2,280,000
Long term notes payable	24,902,681	-	2,125,724	22,776,957	2,199,478
Accrued vacation and sick pay	1,930,169	1,152,131	1,031,722	2,050,578	982,215
Net OPEB obligation	660,804	548,984	22,640	1,187,148	-
Total primary government	\$ <u>89,779,879</u>	<u>1,701,115</u>	<u>6,582,461</u>	<u>84,898,533</u>	<u>6,678,626</u>

The following is a summary of temporary note transactions for the year ended December 31, 2012:

<u>Type of Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities	\$ 14,375,000	24,215,000	14,375,000	24,215,000
Premium on temporary notes	245,813	137,212	245,813	137,212
	\$ <u>14,620,813</u>	<u>24,352,212</u>	<u>14,620,813</u>	<u>24,352,212</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. OPEB expenses are paid from the Health Insurance internal services fund.

Debt payable, other than claims and judgments and compensated absences, at December 31, 2012 is composed of the following:

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

<u>Debt Issue</u>	<u>Date Issued</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>
General obligation bonds:						
Internal improvement	2001	2013	3.25-5.15	1,420,000	150,000	150,000
Internal improvement	2002	2013	3.5-4.25	9,070,000	940,000	940,000
Internal improvement	2002	2014	2.8-3.7	920,000	195,000	95,000
Internal improvement	2003	2014	2.25-3.6	2,905,000	555,000	275,000
Internal improvement	2003	2015	2.5-3.8	3,145,000	960,000	305,000
Internal improvement	2004	2015	2.25-4.0	3,520,000	955,000	310,000
Internal improvement	2004	2016	2.5-3.0	10,600,000	3,920,000	930,000
Internal improvement	2004	2016	3.0-4.5	1,600,000	595,000	140,000
Internal improvement	2005	2017	3.2-4.0	11,095,000	5,080,000	950,000
Internal improvement	2006	2018	4.00	17,130,000	9,385,000	1,430,000
Internal improvement	2007	2019	4.0-4.25	11,345,000	7,180,000	915,000
Internal improvement	2008	2020	3.0-3.875	11,890,000	9,370,000	1,035,000
Internal improvement	2009	2021	2.0-3.5	3,250,000	2,515,000	250,000
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	7,545,000	695,000
Internal improvement	2010	2023	1.25-3.0	8,305,000	7,105,000	605,000
Internal improvement	2011	2023	2.0-3.0	3,895,000	3,600,000	300,000
Internal improvement	2012	2024	2.0-3.0	7,710,000	7,710,000	830,000
Internal improvement	2012	2016	1.5-2.0	3,480,000	3,480,000	855,000
					<u>74,215,000</u>	<u>11,010,000</u>
Revenue bonds:						
Water and sewerage improvement	2005	2025	4.0-4.25	25,910,000	16,140,000	\$ 1,680,000
Water and sewerage improvement	2007	2032	3.75-4.65	19,800,000	19,225,000	130,000
Water and sewerage improvement	2008	2028	3.0-4.50	4,270,000	3,645,000	170,000
Water and sewerage improvement	2009	2031	1.85-6.15	10,385,000	9,660,000	300,000
					<u>48,670,000</u>	<u>2,280,000</u>
Long term notes payable:						
Kansas Public Wastewater Loan Fund	2000	2021	3.44	44,522,971	22,776,957	2,199,478
					<u>22,776,957</u>	<u>2,199,478</u>
Total primary government					<u>\$ 145,661,957</u>	<u>15,489,478</u>

In 2012, the City issued \$11,190,000 of general obligation bonds for refunding past issues and paying the costs of certain street, building, traffic signal, and other improvements. The General Obligation Bonds, Series 2012-A are due in annual installments of \$485,000 to \$830,000 with interest due in semiannual installments at an average rate of 1.49% through September 1, 2024. The General Obligation Bonds, Series 2012-B are due in annual installments of \$855,000 to \$885,000 with interest due in semiannual installments at an average rate of .58% through September 1, 2016.

The Series 2012-A Bonds were issued to finance projects and refund the Series 2002-B and Series 2003-A bonds. The transaction was undertaken to achieve interest cost savings. The refunding will reduce total debt service over the next seven years by \$230,435 with an economic gain of \$213,025 or 10.6%. The Series 2012-B bonds were issued to refund the Series 2003-B bonds. The transaction was undertaken to achieve interest savings. The refunding will reduce total debt service the next three years by \$283,613 with an economic gain of \$275,222 or 7.4%.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

In 2012, the City issued \$24,215,000 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 2012-I, bear interest of .22% and mature October 1, 2013.

The City intends to redeem all temporary notes outstanding at December 31, 2012 in 2013 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>
2013	\$ 9,793,067	2,082,376	11,875,443
2014	8,923,482	1,781,735	10,705,217
2015	8,900,721	1,508,796	10,409,517
2016	8,490,819	1,229,544	9,720,363
2017	6,514,579	951,908	7,466,487
2018-2022	17,933,483	2,078,077	20,011,560
2023-2027	2,145,000	531,453	2,676,453
2028-2032	890,000	272,120	1,162,120
2033-2034	409,999	35,340	445,339
Total	\$ <u>64,001,150</u>	<u>10,471,349</u>	<u>74,472,499</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>
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	1,155,421	137,972	1,293,393
2018-2022	3,476,517	364,573	3,841,090
2023-2027	525,001	15,750	540,751
Total	\$ <u>10,213,850</u>	<u>1,411,828</u>	<u>11,625,678</u>

City of Lawrence, Kansas
Notes to Basic Financial Statements
December 31, 2012

Total general obligation bonds:

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Due</u>
2013	\$ 11,010,000	2,350,638	13,360,638
2014	10,170,000	2,021,357	12,191,357
2015	10,180,000	1,718,536	11,898,536
2016	9,805,000	1,405,453	11,210,453
2017	7,670,000	1,089,880	8,759,880
2018-2022	21,410,000	2,442,650	23,852,650
2023-2027	2,670,001	547,203	3,217,204
2028-2032	890,000	272,120	1,162,120
2033-2034	409,999	35,340	445,339
Total \$	<u>74,215,000</u>	<u>11,883,177</u>	<u>86,098,177</u>

Revenue bonds:

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Due</u>
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	2,520,000	1,832,035	4,352,035
2018-2022	13,725,000	7,403,915	21,128,915
2023-2027	12,190,000	4,305,460	16,495,460
2028-2032	9,345,000	1,796,430	11,141,430
2033-2034	1,245,000	117,500	1,362,500
Total \$	<u>48,670,000</u>	<u>23,789,405</u>	<u>72,459,405</u>

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

Long-term notes payable, State Revolving Loan Fund:

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Due</u>
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	2,520,986	411,051	2,932,037
2018-2022	<u>10,989,500</u>	<u>804,460</u>	<u>11,793,960</u>
Total	\$ <u>22,776,957</u>	<u>3,617,779</u>	<u>26,394,736</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, 2012, total outstanding conduit debt was \$58,855,000..

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.

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	\$ 69,777,750	10,080,182	12,262,282	67,595,650	2,325,000
Retirement plan obligation	484,781	78,143	42,664	520,260	-
	\$ <u>70,262,531</u>	<u>10,158,325</u>	<u>12,304,946</u>	<u>68,115,910</u>	<u>2,325,000</u>

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

The City has issued Series 2003, Series 2006 and Series 2012 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 2003	2019	2.5-5.38	17,450,000	\$	9,390,000.00	1,155,000.00
Series 2006	2036	5.0-5.25	51,845,000		47,945,000.00	750,000.00
Series 2012	2021	2.53	10,500,000		<u>10,500,000.00</u>	<u>420,000.00</u>
Total Revenue Bonds					67,835,000.00	2,325,000.00
Unamortized loss on refunding					<u>(239,350.00)</u>	-
				\$	<u><u>67,595,650.00</u></u>	<u><u>2,325,000.00</u></u>

Annual debt service requirements for hospital revenue bonds as of December 31, 2012 are as follows:

<u>Year</u>		<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Due</u>
2013	\$	2,325,000	3,205,282	5,530,282
2014		2,430,000	3,094,329	5,524,329
2015		2,540,000	2,979,605	5,519,605
2016		2,665,000	2,858,370	5,523,370
2017		2,795,000	2,730,714	5,525,714
2018-2022		18,160,000	11,751,107	29,911,107
2023-2027		10,280,000	8,430,795	18,710,795
2028-2032		13,325,000	5,502,344	18,827,344
2033-2036		13,315,000	1,740,895	15,055,895
Total	\$	<u><u>67,835,000</u></u>	<u><u>42,293,441</u></u>	<u><u>110,128,441</u></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 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, 2012.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(8) Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 15,254,632	263,910	-	15,518,542
Construction in progress	<u>3,006,808</u>	<u>9,736,070</u>	<u>(6,270,492)</u>	<u>6,472,386</u>
Total capital assets, not being depreciated	<u>18,261,440</u>	<u>9,999,980</u>	<u>(6,270,492)</u>	<u>21,990,928</u>
Capital assets, being depreciated:				
Buildings	61,784,555	458,429	(87,095)	62,155,889
Improvements other than buildings	29,474,553	744,932	-	30,219,485
Machinery and equipment	28,893,789	4,231,144	(399,183)	32,725,750
Infrastructure	<u>183,113,624</u>	<u>4,388,225</u>	<u>-</u>	<u>187,501,849</u>
Total capital assets being depreciated	<u>303,266,521</u>	<u>9,822,730</u>	<u>(486,278)</u>	<u>312,602,973</u>
Less accumulated depreciation for:				
Buildings	30,663,491	1,946,405	(71,369)	32,538,527
Improvements other than buildings	12,453,417	1,171,915	-	13,625,332
Machinery and equipment	19,426,155	1,859,596	(398,275)	20,887,476
Infrastructure	<u>60,373,346</u>	<u>3,411,536</u>	<u>-</u>	<u>63,784,882</u>
Total accumulated depreciation	<u>122,916,409</u>	<u>8,389,452</u>	<u>(469,644)</u>	<u>130,836,217</u>
Total capital assets, being depreciated, net	<u>180,350,112</u>	<u>1,433,278</u>	<u>(16,634)</u>	<u>181,766,756</u>
Governmental activities capital assets, net	<u>\$ 198,611,552</u>	<u>11,433,258</u>	<u>(6,287,126)</u>	<u>203,757,684</u>

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 5,998,489	9,699	-	6,008,188
Construction in progress	8,042,730	8,458,389	(5,854,782)	10,646,337
Total capital assets, not being depreciated	<u>14,041,219</u>	<u>8,468,088</u>	<u>(5,854,782)</u>	<u>16,654,525</u>
Capital assets, being depreciated:				
Buildings	88,856,174	18,589	-	88,874,763
Improvements other than buildings	175,906,663	5,375,494	-	181,282,157
Machinery and equipment	<u>15,786,539</u>	<u>833,698</u>	<u>(387,340)</u>	<u>16,232,897</u>
Total capital assets being depreciated	<u>280,549,376</u>	<u>6,227,785</u>	<u>(387,340)</u>	<u>286,389,817</u>
Less accumulated depreciation for:				
Buildings	17,930,750	1,998,850	-	19,929,600
Improvements other than buildings	60,646,310	4,418,330	-	65,064,640
Machinery and equipment	<u>11,002,709</u>	<u>941,257</u>	<u>(387,340)</u>	<u>11,556,626</u>
Total accumulated depreciation	<u>89,579,769</u>	<u>7,358,437</u>	<u>(387,340)</u>	<u>96,550,866</u>
Total capital assets, being depreciated, net	<u>190,969,607</u>	<u>(1,130,656)</u>	-	<u>189,838,951</u>
Business-type activities capital assets, net	\$ <u>205,010,826</u>	<u>7,337,432</u>	<u>(5,854,782)</u>	<u>206,493,476</u>

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

Governmental activities:	
General government	\$ 30,817
Public safety	240,043
Public works	6,856,823
Health	-
Social services	667,407
Culture and recreation	442,890
Tourism	1,609
Airport	115,777
Total governmental funds	<u>8,355,366</u>
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>34,086</u>
Total depreciation expense - governmental activities	\$ <u>8,389,452</u>
Business-type activities:	
Water & sewer	\$ 6,046,972
Sanitation	554,755
Parking	144,523
Storm water	422,561
Golf course	189,626
Total proprietary funds	\$ <u>7,358,437</u>

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(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 2012 was 8.34%. The City's employer contributions to KPERS for the years ending December 31, 2012, 2011, and 2010 were \$2,165,501, \$1,719,983, and \$1,565,365, respectively, equal to the required contributions for each year. The KP&F participating employer rate established for fiscal years beginning in 2012 was 16.54%. 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, 2012, 2011, and 2010 were \$3,580,641, \$3,029,809, and \$2,616,625, respectively, equal to the required contributions for each year.

(10) Interfund Transactions

Interfund Receivables and Payables

At December 31, 2012, the following funds had interfund receivables and payables to the following funds

Due From	General Fund
Special Revenue Funds:	
Farmland Remediation	\$ 56,000
Outside Agency Grants	17,000
Community Development	195,000
Home	30,000
Transportation Planning	20,000
	\$ 318,000

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.

City of Lawrence, Kansas
Notes to Basic Financial Statements
December 31, 2012

Interfund Transfers

A summary of transfers for the year ended December 31, 2012 follows:

<u>Receiving Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 3,656,207	465,500
Special Revenue Funds:		
Capital Improvement Reserve	688,000	-
Equipment Reserve	617,500	-
	<u>1,305,500</u>	<u>-</u>
Enterprise Funds:		
Water and Sewer	-	3,084,896
Sanitation	-	964,311
Public Parking	-	40,000
Stormwater	-	400,000
	<u>-</u>	<u>4,489,207</u>
Internal Service - Central Maintenance	-	7,000
	<u>\$ 4,961,707</u>	<u>4,961,707</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, 2012, the City had construction contract commitments totaling approximately \$2,991,722. The City expects to receive the contracted services during fiscal year 2013.

B. Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but, rather, as assigned fund balance. As of December 31, 2012 the City had a total of \$945,277 in encumbrances which were reported as part of the government fund balance sheet as follows:

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

		Assigned
General Fund	\$	458,016
Nonmajor Governmental Funds		487,261
	\$	945,277

C. 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 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 \$2,537,018 at December 31, 2012. The primary government's claims liability reported in the Statement of Net Assets at December 31, 2012 was \$50,539. The liability reported in the financial statements at December 31, 2012 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.

		2012	2011
Unpaid claims, January 1	\$	394,751	582,356
Incurred claims (including IBNRs)		7,082,140	6,836,535
Claim payments		7,062,189	7,024,140
Unpaid claims, December 31	\$	414,702	394,751

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(12) Fund Deficit

The Capital Project Fund had a deficit of \$1,638,353 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 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 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.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

(14) Net Assets

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

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Total net capital assets	\$ 203,757,684	206,493,476	410,251,160
Less:			
Current portion of general obligation bonds	(9,826,786)	(1,216,933)	(11,043,719)
Current portion of notes payable	-	(2,199,478)	(2,199,478)
Current portion of revenue bonds	-	(2,280,000)	(2,280,000)
Temporary notes payable	(24,352,212)	-	(24,352,212)
Noncurrent portion of general obligation debt	(54,578,997)	(8,996,917)	(63,575,914)
Noncurrent portion of revenue bonds payable	-	(46,390,000)	(46,390,000)
Noncurrent portion of notes payable	-	(20,577,479)	(20,577,479)
Add:			
Unspent general obligation bonds, revenue bonds and temporary note proceeds	<u>23,239,898</u>	<u>7,453,656</u>	<u>30,693,554</u>
Net assets-invested in capital assets, net of related debt	<u>\$ 138,239,587</u>	<u>132,286,325</u>	<u>270,525,912</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, 2012, the City contributed \$85,000 to the Plan. (approximately 18% of total contributions). Plan participants contributed \$400,959 to the Plan (approximately 82% of total contributions) through their required contributions of 80% of premiums, ranging from \$256 to \$865 per month for coverage.

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:

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

Annual required contribution	\$ 2,063,000
Interest on Net OPEB obligation	83,000
Adjustment to annual required contribution	<u>(80,000)</u>
Annual OPEB cost	2,066,000
Contributions Made	<u>(85,000)</u>
Increase in Net OPEB obligation	1,981,000
Net OPEB obligation - beginning of year	<u>2,487,000</u>
Net OPEB obligation - end of year	\$ <u><u>4,468,000</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, 2012 was as follows:

Fiscal Year Ended		Annual OPEB Cost	Percentage Of ARC Contributed	OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$	1,543,000	42%	644,000	1,000,000
December 31, 2011		1,608,000	8%	121,000	2,487,000
December 31, 2012		2,066,000	4%	85,000	4,468,000

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 63 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.

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%

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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:

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.

City of Lawrence, Kansas

Notes to Basic Financial Statements

December 31, 2012

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.

City of Lawrence, Kansas

· Notes to Basic Financial Statements

December 31, 2012

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, 2010	\$ 1,543,000	\$ 1,543,000	42%	\$ 644,000	\$ 1,000,000
December 31, 2011	1,608,000	1,605,000	8%	121,000	2,487,000
December 31, 2012	2,066,000	2,063,000	4%	85,000	4,468,000

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, 2012

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	City Parks Memorial
Cash	\$ 140,879	494,305	1,880,851	1,107,532	280,389	1,017,397	355,627	164,023	3,955,503	1,720,887	633,620	1,794,792
Investments	-	-	1,000,000	-	-	-	-	-	2,999,489	2,999,907	-	1,499,512
Receivables:												
Taxes	-	2,715,590	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-
Accounts	-	-	-	282	-	-	-	361	-	66,847	-	-
Loans	-	-	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	3,749	4,710	-	1,221
Restricted assets	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 140,879	3,209,895	2,880,851	1,107,814	280,389	1,017,397	355,627	164,384	6,958,741	4,792,351	633,620	3,295,525
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ 7,500	-	92,509	71,844	321	9,399	12,246	361	43,540	95,043	-	3,989
Accrued payroll	-	-	1,624	97,860	6,755	62,520	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	2,955,421	-	282	-	-	-	120	-	3,120	-	-
Total liabilities	7,500	2,955,421	94,133	169,986	7,076	71,919	12,246	481	43,540	98,163	-	3,989
Fund balances:												
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	133,379	254,474	2,786,718	937,828	273,313	945,478	343,381	163,903	6,915,201	4,694,188	633,620	3,291,536
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	133,379	254,474	2,786,718	937,828	273,313	945,478	343,381	163,903	6,915,201	4,694,188	633,620	3,291,536
Total liabilities and fund balances	\$ 140,879	3,209,895	2,880,851	1,107,814	280,389	1,017,397	355,627	164,384	6,958,741	4,792,351	633,620	3,295,525

(Continued)

CITY OF LAWRENCE, KANSAS

Combining Balance Sheet
Nonmajor Governmental Funds, Continued
December 31, 2012

Assets	Cemetery		Fair			Home			Transportation Planning	Law Enforcement Trust	Total Nonmajor Governmental Funds			
	Farmland Remediation	Perpetual Care	Cemetery Maintenance	Housing Trust	Outside Agency	Wee Folks Scholarship	Housing Assistance	CDBG Recovery				Community Development	Rehabilitation Escrow	Home Program
Cash	529	111,412	4,218	102,462	101,508	176,328	188,357	51	75,269	1,616	84,057	17,407	93,184	14,581,927
Investments	—	—	—	—	—	—	—	—	—	—	—	—	—	8,498,908
Receivables:	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Intergovernmental	—	—	—	—	64,980	—	—	—	148,799	—	53,696	46,118	—	2,715,590
Accounts	—	—	—	—	—	—	—	—	4,644	—	—	—	—	313,593
Loans	—	—	—	—	—	—	—	—	438,146	—	—	—	—	72,134
Accrued interest	5,977	—	—	—	—	—	—	—	—	—	—	—	—	438,146
Restricted assets	—	—	—	—	—	—	—	—	—	—	—	—	—	15,657
Cash	989,242	—	—	—	—	—	—	—	—	—	—	—	—	989,242
Investments	7,017,080	—	—	—	—	—	—	—	—	—	—	—	—	7,017,080
Total assets	\$ 8,012,828	111,412	4,218	102,462	166,488	176,328	188,357	51	666,858	1,616	137,753	63,525	93,184	34,642,277
Liabilities and Fund Balances														
Liabilities:	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Accounts payable	59,656	—	—	—	43,440	—	—	—	92,248	1,614	35,225	3,761	—	572,696
Accrued payroll	2,569	—	—	—	6,967	304	—	—	10,032	—	1,834	7,002	—	197,467
Due to other funds	56,000	—	—	—	17,000	—	—	—	195,000	—	30,000	20,000	—	318,000
Deferred revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	2,958,943
Total liabilities	118,225	—	—	—	67,407	304	—	—	297,280	1,614	67,059	30,763	—	4,047,106
Fund balances:	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Nonspendable	—	22,000	1,000	—	—	—	—	—	438,146	—	—	—	—	461,146
Restricted	7,894,603	—	—	—	—	—	—	—	—	—	—	—	—	7,894,603
Unrestricted	—	89,412	3,218	102,462	99,081	176,328	188,053	51	—	2	70,694	32,762	93,184	22,307,990
Unassigned	—	—	—	—	—	—	—	—	(68,568)	—	—	—	—	(68,568)
Total fund balances	7,894,603	111,412	4,218	102,462	99,081	176,328	188,053	51	369,578	2	70,694	32,762	93,184	30,595,171
Total liabilities and fund balances	\$ 8,012,828	111,412	4,218	102,462	166,488	176,328	188,357	51	666,858	1,616	137,753	63,525	93,184	34,642,277

CITY OF LAWRENCE, KANSAS

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

Year ended December 31, 2012

	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	City Parks Memorial
Revenues:													
Taxes		3,196,121	2,915,993	1,898,646					4,143,990	1,046,498		2,368,502	
Charges for services			308,129	1,772,975				11,201		92,401			
Fines, forfeitures and penalties									13,708	15,734	1,013	7,765	151
Interest					691,768	2,525,368	691,768	83,443			304,887	15,830	
Intergovernmental	880,000												
Miscellaneous			189,432	197,550				13,878	391,904				7,899
Total revenues	880,000	3,196,121	3,413,554	3,869,171	691,768	2,525,368	691,768	108,522	4,549,602	1,154,633	305,900	2,392,097	8,050
Expenditures:													
General government		3,136,000	2,330,915							2,588,905			
Public safety					758,830								
Public works						2,256,007			198,337				
Health													
Social services													
Culture and recreation				3,902,336			534,919					303,923	7,712
Tourism	822,517										145,103		
Capital outlay	14,437		189,392	5,493			88,399		2,450,531	1,540,593		770,926	
Debt service:													
Principal retirement												1,058,393	
Interest and fiscal changes												300,938	
Total expenditures	836,954	3,136,000	2,520,307	3,907,829	758,830	2,256,007	623,318		2,649,068	4,129,498	145,103	2,434,180	7,712
Excess (deficiency) of revenues over (under) expenditures	43,046	60,121	893,247	(38,658)	(67,062)	269,361	68,450	108,522	1,900,534	(2,974,865)	160,797	(42,083)	338
Other financing sources (uses):													
Transfers in									688,000	617,500			
Transfers out													
Total other financing sources (uses)									688,000	617,500			
Net change in fund balances	43,046	60,121	893,247	(38,658)	(67,062)	269,361	68,450	108,522	2,588,534	(2,357,365)	160,797	(42,083)	338
Fund balance, beginning 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
Fund balance, end of year	133,379	254,474	2,786,718	937,828	273,313	945,478	343,381	163,903	6,915,201	4,694,188	633,620	3,291,536	79,724

CITY OF LAWRENCE, KANSAS

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

Year ended December 31, 2012

	Special Revenue													Total
	Farmstead 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	--	--	--	--	--	--	--	--	--	--	--	--	--	15,569,750
Charges for services	--	--	--	--	--	--	--	--	--	--	--	--	--	2,092,305
Fines, forfeitures and penalties	--	--	--	--	--	--	--	--	--	--	--	--	--	92,401
Interest	24,650	223	11	188	62	347	311	2	--	2	--	1,429	--	65,596
Intergovernmental	--	--	--	--	4,742,485	--	31,458	--	838,774	--	546,989	195,512	--	11,548,282
Miscellaneous	340	--	--	--	11,000	24,378	--	--	145,212	--	66	--	66,672	1,046,331
Total revenues	24,990	223	11	188	4,753,547	24,725	31,769	2	983,986	2	547,055	195,512	68,101	30,416,665
Expenditures:														
General government	--	--	--	--	1,878,975	--	--	--	--	--	--	182,325	--	10,117,120
Public safety	--	--	--	--	127,268	--	--	--	--	--	--	--	8,502	894,600
Public works	--	--	--	--	--	--	--	--	--	--	--	--	--	2,454,544
Health	--	--	--	--	407,681	--	--	--	--	--	--	--	--	407,681
Social services	--	--	--	--	--	--	10,824	--	982,921	--	536,413	--	--	1,530,138
Culture and recreation	--	2,105	--	--	32,089	24,026	--	--	--	--	--	--	--	4,807,110
Tourism	--	--	--	--	--	--	--	--	--	--	--	--	--	967,620
Capital outlay	366,326	--	--	--	2,288,539	--	--	--	--	--	--	--	--	7,714,636
Debt service:														
Principal retirement	--	--	--	--	--	--	--	--	--	--	--	--	--	1,058,393
Interest and fiscal charges	--	--	--	--	--	--	--	--	--	--	--	--	--	306,938
Total expenditures	366,326	2,105	--	--	4,734,552	24,026	10,824	--	982,921	--	536,413	182,325	8,502	30,252,800
Excess (deficiency) of revenues over (under) expenditures	(341,336)	(1,882)	11	188	18,995	699	20,945	2	1,065	2	10,642	13,187	59,599	163,865
Other financing sources (uses):														
Transfers in	--	--	--	--	--	--	--	--	--	--	--	--	--	1,305,500
Transfers out	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total other financing sources (uses)	--	--	--	--	--	--	--	--	--	--	--	--	--	1,305,500
Net change in fund balances	(341,336)	(1,882)	11	188	18,995	699	20,945	2	1,065	2	10,642	13,187	59,599	1,469,365
Fund balances, beginning of year	8,235,939	113,294	4,207	102,274	80,086	175,629	167,108	49	348,513	--	60,052	19,575	33,585	29,125,806
Fund balances, end of year	7,894,603	111,412	4,218	102,462	99,081	176,328	188,053	51	349,578	2	70,694	32,762	93,184	30,595,171

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, 2012
(With Comparative Actual Amounts for 2011)

	2012			Variance Positive (Negative)	2011 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 7,615,036	7,615,036	7,766,668	151,632	6,518,555
Special assessments	2,500,000	2,500,000	3,195,006	695,006	3,763,111
Interest	75,000	75,000	25,911	(49,089)	18,731
Intergovernmental	—	—	—	—	—
Miscellaneous	120,000	120,000	195,007	75,007	205,279
Total revenues	10,310,036	10,310,036	11,182,592	872,556	10,505,676
Expenditures:					
Principal retirement	9,572,625	9,572,625	8,249,232	1,323,393	7,712,386
Interest and fiscal charges	3,258,655	3,258,655	2,121,182	1,137,473	2,269,579
Total expenditures	12,831,280	12,831,280	10,370,414	2,460,866	9,981,965
Excess (deficiency) of revenues over (under) expenditures	<u>(2,521,244)</u>	<u>(2,521,244)</u>	<u>812,178</u>	<u>3,333,422</u>	<u>523,711</u>
Other financing sources:					
Transfers in	—	—	—	—	60,014
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	\$ <u>(2,521,244)</u>	<u>(2,521,244)</u>	812,178	<u>3,333,422</u>	583,725
Fund balance, beginning of year			8,491,589		7,907,864
Fund balance, end of year			\$ <u>9,303,767</u>		<u>8,491,589</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, 2012
 (With Comparative Actual Amounts for 2011)

	<u>2012</u>			<u>Variance</u>	
	<u>Original</u>	<u>Revised</u>	<u>Actual</u>	<u>Positive</u>	<u>2011</u>
	<u>Budget</u>	<u>Budget</u>		<u>(Negative)</u>	<u>Actual</u>
Revenues – intergovernmental	\$ <u>880,000</u>	<u>880,000</u>	<u>880,000</u>	<u>—</u>	<u>700,872</u>
Expenditures:					
Tourism – contractual services	<u>827,500</u>	<u>827,500</u>	<u>869,254</u>	<u>(41,754)</u>	<u>838,912</u>
Excess (deficiency) of revenues over (under) expenditures	52,500	52,500	10,746	(41,754)	(138,040)
Other financing sources (uses)					
Transfers out	<u>(210,000)</u>	<u>(210,000)</u>	<u>—</u>	<u>210,000</u>	<u>—</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>\$ (157,500)</u>	<u>(157,500)</u>	10,746	<u>168,246</u>	(138,040)
Fund balance, beginning of year			90,333		249,504
Net change in reserve for encumbrances			<u>32,300</u>		<u>(21,131)</u>
Fund balance, end of year			<u>\$ 133,379</u>		<u>90,333</u>

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, 2012
(With Comparative Actual Amounts for 2011)

	<u>2012</u>				
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
Revenues – taxes	\$ 3,142,040	3,142,040	3,196,121	54,081	3,034,621
Expenditures:					
General government - contractual services	3,136,000	3,136,000	3,136,000	—	3,070,000
Total expenditures	<u>3,136,000</u>	<u>3,136,000</u>	<u>3,136,000</u>	<u>—</u>	<u>3,070,000</u>
Excess (deficiency) of revenues over (under) expenditures	6,040	6,040	60,121	54,081	(35,379)
Other financing sources – transfers in	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>97,745</u>
Excess (deficiency) of revenues over (under) expenditures and other uses \$	<u>6,040</u>	<u>6,040</u>	60,121	<u>54,081</u>	62,366
Fund balance, beginning of year			<u>194,353</u>		<u>131,987</u>
Fund balance, end of year			<u>\$ 254,474</u>		<u>194,353</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, 2012
(With Comparative Actual Amounts for 2011)

	<u>2012</u>				
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
Revenues:					
Charges for services	\$ 255,000	255,000	308,129	53,129	274,108
Miscellaneous	<u>—</u>	<u>—</u>	<u>189,432</u>	<u>189,432</u>	<u>36,503</u>
Total revenues	<u>255,000</u>	<u>255,000</u>	<u>497,561</u>	<u>242,561</u>	<u>310,611</u>
Expenditures:					
General government					
Personal services	73,823	73,823	67,608	6,215	66,328
Contractual service	1,955,359	1,955,359	1,509,025	446,334	1,877,910
Commodities	704,620	704,620	682,726	21,894	493,801
Other	<u>350,000</u>	<u>350,000</u>	<u>—</u>	<u>350,000</u>	<u>—</u>
Total expenditures	<u>3,083,802</u>	<u>3,083,802</u>	<u>2,259,359</u>	<u>824,443</u>	<u>2,438,039</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,828,802)</u>	<u>(2,828,802)</u>	<u>(1,761,798)</u>	<u>1,067,004</u>	<u>(2,127,428)</u>
Other financing sources (uses)					
Transfers in	2,751,053	2,751,053	2,915,993	164,940	2,814,506
Transfers out	<u>(105,000)</u>	<u>(105,000)</u>	<u>—</u>	<u>105,000</u>	<u>—</u>
Total other financing sources (uses)	<u>2,646,053</u>	<u>2,646,053</u>	<u>2,915,993</u>	<u>269,940</u>	<u>2,814,506</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>\$ (182,749)</u>	<u>(182,749)</u>	1,154,195	<u>1,336,944</u>	687,078
Fund balance, beginning of year			1,893,471		1,280,459
Net change in reserve for encumbrances			<u>(260,948)</u>		<u>(74,066)</u>
Fund balance, end of year			<u>\$ 2,786,718</u>		<u>1,893,471</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, 2012
(With Comparative Actual Amounts for 2011)

	<u>2012</u>				
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
Revenues:					
Taxes	\$ 22,494	22,494	18,489	(4,005)	227,941
Charges for services	1,686,000	1,686,000	1,772,975	86,975	1,735,928
Miscellaneous	<u>150,000</u>	<u>150,000</u>	<u>197,550</u>	<u>47,550</u>	<u>169,375</u>
Total revenues	<u>1,858,494</u>	<u>1,858,494</u>	<u>1,989,014</u>	<u>130,520</u>	<u>2,133,244</u>
Expenditures:					
Culture and recreation:					
Personal services	3,223,145	3,147,916	3,071,795	76,121	3,008,925
Contractual service	476,251	512,384	494,699	17,685	444,628
Commodities	303,290	345,259	330,036	15,223	324,535
Capital outlay	25,000	22,127	18,247	3,880	16,929
Other	<u>160,000</u>	<u>160,000</u>	<u>—</u>	<u>160,000</u>	<u>—</u>
Total expenditures	<u>4,187,686</u>	<u>4,187,686</u>	<u>3,914,777</u>	<u>272,909</u>	<u>3,795,017</u>
Excess (deficiency) of revenues over (under) expenditures	(2,329,192)	(2,329,192)	(1,925,763)	403,429	(1,661,773)
Other financing sources – transfers in	<u>1,880,157</u>	<u>1,880,157</u>	<u>1,880,157</u>	<u>—</u>	<u>1,679,348</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>\$ (449,035)</u>	<u>(449,035)</u>	(45,606)	<u>403,429</u>	17,575
Fund balance, beginning of year			976,486		937,577
Net change in reserve for encumbrances			<u>6,948</u>		<u>21,334</u>
Fund balance, end of year			<u>\$ 937,828</u>		<u>976,486</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, 2012
(With Comparative Actual Amounts for 2011)

	<u>2012</u>				
	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2011 Actual</u>
Revenues:					
Intergovernmental	\$ 636,647	636,647	691,768	55,121	645,080
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,909</u>
Total revenues	<u>636,647</u>	<u>636,647</u>	<u>691,768</u>	<u>55,121</u>	<u>646,989</u>
Expenditures:					
Health:					
Personal services	250,662	250,662	209,368	41,294	241,095
Contractual service	315,161	315,161	515,528	(200,367)	309,148
Commodities	—	—	3,934	(3,934)	36,240
Capital outlay	30,000	30,000	—	30,000	—
Other	<u>324,838</u>	<u>324,838</u>	<u>—</u>	<u>324,838</u>	<u>—</u>
Total expenditures	<u>920,661</u>	<u>920,661</u>	<u>728,830</u>	<u>191,831</u>	<u>586,483</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(284,014)</u>	<u>(284,014)</u>	(37,062)	<u>246,952</u>	60,506
Fund balance, beginning of year			340,375		249,869
Net change in reserve for encumbrances			<u>(30,000)</u>		<u>30,000</u>
Fund balance, end of year			<u>\$ 273,313</u>		<u>340,375</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, 2012
 (With Comparative Actual Amounts for 2011)

	<u>2012</u>			<u>Variance</u>	
	<u>Original</u>	<u>Revised</u>	<u>Actual</u>	<u>Positive</u>	<u>2011</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>(Negative)</u>	<u>Actual</u>
Revenues					
Intergovernmental	\$ 2,691,080	2,691,080	2,525,368	(165,712)	2,548,577
Miscellaneous	—	—	—	—	615
Total revenues	<u>2,691,080</u>	<u>2,691,080</u>	<u>2,525,368</u>	<u>(165,712)</u>	<u>2,549,192</u>
Expenditures:					
Public works:					
Personal services	1,831,485	1,831,485	1,732,852	98,633	1,808,403
Contractual service	500	500	39,725	(39,225)	27,176
Commodities	931,485	931,485	480,098	451,387	602,268
Capital outlay	165,000	165,000	94,429	70,571	179,336
Other	40,000	40,000	—	40,000	—
Total expenditures	<u>2,968,470</u>	<u>2,968,470</u>	<u>2,347,104</u>	<u>621,366</u>	<u>2,617,183</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(277,390)</u>	<u>(277,390)</u>	178,264	<u>(787,078)</u>	(67,991)
Fund balance, beginning of year			676,117		793,992
Net change in reserve for encumbrances			<u>91,097</u>		<u>(49,884)</u>
Fund balance, end of year			\$ <u>945,478</u>		<u>676,117</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, 2012
(With Comparative Actual Amounts for 2011)

	<u>2012</u>			<u>Variance</u>	
	<u>Original</u>	<u>Revised</u>	<u>Actual</u>	<u>Positive</u>	<u>2011</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>(Negative)</u>	<u>Actual</u>
Revenues – intergovernmental	\$ 636,647	636,647	691,768	55,121	645,080
Expenditures:					
Culture and recreation:					
Personal services	48,578	41,687	41,687	—	41,882
Contractual service	315,500	314,735	281,572	33,163	454,026
Commodities	76,000	128,277	134,755	(6,478)	93,279
Capital outlay	147,000	102,379	89,302	13,077	67,434
Other	100,000	100,000	—	100,000	—
Total expenditures	<u>687,078</u>	<u>687,078</u>	<u>547,316</u>	<u>139,762</u>	<u>656,621</u>
Excess (deficiency) of revenues over (under) expenditures	(50,431)	(50,431)	144,452	194,883	(11,541)
Other financing uses – transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>—</u>	<u>10,000</u>	<u>—</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(60,431)</u>	<u>(60,431)</u>	144,452	<u>204,883</u>	(11,541)
Fund balance, beginning of year			274,931		289,257
Net change in reserve for encumbrances			<u>(76,002)</u>		<u>(2,785)</u>
Fund balance, end of year			\$ <u>343,381</u>		<u>274,931</u>

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

(This page intentionally left blank.)

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, 2012

Assets	<u>Public Parking</u>	<u>Golf Course</u>	<u>Total Nonmajor Enterprise Funds</u>
Current assets:			
Cash	\$ 394,743	318,521	713,264
Receivables:			
Accounts	7,008	492	7,500
Inventories	—	8,172	8,172
Total current assets	<u>401,751</u>	<u>327,185</u>	<u>728,936</u>
Capital assets			
Land	479,055	—	479,055
Buildings and improvements	4,094,602	3,634,714	7,729,316
Equipment	392,981	178,719	571,700
Accumulated depreciation	<u>(3,466,386)</u>	<u>(2,681,123)</u>	<u>(6,147,509)</u>
Total capital assets	<u>1,500,252</u>	<u>1,132,310</u>	<u>2,632,562</u>
Total assets	<u>\$ 1,902,003</u>	<u>1,459,495</u>	<u>3,361,498</u>
Liabilities and Net Assets			
Liabilities:			
Current liabilities			
Accounts payable	\$ 12,824	23,066	35,890
Accrued payroll	35,206	12,455	47,661
Accrued vacation and sick pay	51,984	24,326	76,310
Total current liabilities	<u>100,014</u>	<u>59,847</u>	<u>159,861</u>
Noncurrent liabilities			
Compensated absences	71,225	28,375	99,600
Net OPEB obligation	101,348	3,650	104,998
Total noncurrent liabilities	<u>172,573</u>	<u>32,025</u>	<u>204,598</u>
Total liabilities	<u>272,587</u>	<u>91,872</u>	<u>364,459</u>
Net assets:			
Invested in capital assets, net of debt	1,500,252	1,132,310	2,632,562
Unrestricted	129,164	235,313	364,477
Total net assets	<u>1,629,416</u>	<u>1,367,623</u>	<u>2,997,039</u>
Total liabilities and net assets	<u>\$ 1,902,003</u>	<u>1,459,495</u>	<u>3,361,498</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, 2012

	<u>Public Parking</u>	<u>Golf Course</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues - charges for services	\$ 1,225,464	820,444	<u>2,045,908</u>
Operating expenses:			
Continuing operations	1,209,694	760,272	1,969,966
Depreciation and amortization	<u>144,523</u>	<u>189,626</u>	<u>334,149</u>
Total operating expenses	<u>1,354,217</u>	<u>949,898</u>	<u>2,304,115</u>
Operating income (loss)	<u>(128,753)</u>	<u>(129,454)</u>	<u>(258,207)</u>
Nonoperating revenues (expenses)			
Interest income	713	552	1,265
Other	<u>—</u>	<u>—</u>	<u>—</u>
Total nonoperating revenues (expenses)	<u>713</u>	<u>552</u>	<u>1,265</u>
Income (loss) before transfers	(128,040)	(128,902)	(256,942)
Transfers (out)	<u>(40,000)</u>	<u>—</u>	<u>(40,000)</u>
Change in net assets	(168,040)	(128,902)	(296,942)
Net assets, beginning of year	<u>1,797,456</u>	<u>1,496,525</u>	<u>3,293,981</u>
Net assets, end of year	\$ <u><u>1,629,416</u></u>	<u><u>1,367,623</u></u>	<u><u>2,997,039</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, 2012

	<u>Public Parking</u>	<u>Golf Course</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,226,994	820,146	2,047,140
Payments to suppliers	(161,801)	(305,800)	(467,601)
Payments to employees	(990,731)	(443,622)	(1,434,353)
Net cash provided by (used in) operating activities	<u>74,462</u>	<u>70,724</u>	<u>145,186</u>
Cash flows from noncapital financing activities:			
Transfers out	<u>(40,000)</u>	—	<u>(40,000)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	<u>(9,999)</u>	<u>(25,843)</u>	<u>(35,842)</u>
Cash flows from investing activities:			
Receipt of interest and dividends	<u>713</u>	<u>552</u>	<u>1,265</u>
Net increase (decrease) in cash	25,176	45,433	70,609
Cash and cash equivalents, beginning of year	<u>369,567</u>	<u>273,088</u>	<u>642,655</u>
Cash and cash equivalents, end of year	\$ <u><u>394,743</u></u>	\$ <u><u>318,521</u></u>	\$ <u><u>713,264</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ <u>(128,753)</u>	<u>(129,454)</u>	<u>(258,207)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	144,523	189,626	334,149
Other income	—	—	—
Change in:			
Accounts receivable	1,530	(298)	1,232
Inventories of supplies	—	(3,509)	(3,509)
Accounts payable	1,248	6,202	7,450
Accrued payroll	4,896	373	5,269
Accrued vacation and sick pay	6,083	6,178	12,261
Net OPEB obligation	44,935	1,606	46,541
Total adjustments	<u>203,215</u>	<u>200,178</u>	<u>403,393</u>
Net cash provided by (used in) operating activities	\$ <u><u>74,462</u></u>	\$ <u><u>70,724</u></u>	\$ <u><u>145,186</u></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, 2012

Assets	General Liability	Workers Comp Liability	Central Maintenance	Stores	Health Insurance	Total
Current assets:						
Cash	\$ 1,096,063	1,249,116	300,067	27,520	4,750,040	7,422,806
Investments	300,000	—	—	—	5,499,072	5,799,072
Receivables:						
Accounts	—	—	297,338	—	36,585	333,923
Accrued interest	1,110	—	—	—	2,925	4,035
Inventories	—	—	293,863	4,789	—	298,652
Total current assets	<u>1,397,173</u>	<u>1,249,116</u>	<u>891,268</u>	<u>32,309</u>	<u>10,288,622</u>	<u>13,858,488</u>
Capital assets						
Buildings and improvements	—	—	762,567	—	—	762,567
Equipment	—	—	329,254	—	—	329,254
Accumulated depreciation	—	—	(754,506)	—	—	(754,506)
Total capital assets	<u>—</u>	<u>—</u>	<u>337,315</u>	<u>—</u>	<u>—</u>	<u>337,315</u>
Total assets	<u>\$ 1,397,173</u>	<u>1,249,116</u>	<u>1,228,583</u>	<u>32,309</u>	<u>10,288,622</u>	<u>14,195,803</u>
Liabilities and Net Assets						
Liabilities:						
Current liabilities						
Accounts payable	\$ 5,820	103,451	130,105	—	340,817	580,193
Claims payable	—	—	—	—	414,702	414,702
Accrued payroll	—	—	39,879	—	—	39,879
Accrued vacation and sick pay	—	—	69,229	—	—	69,229
Total current liabilities	<u>5,820</u>	<u>103,451</u>	<u>239,213</u>	<u>—</u>	<u>755,519</u>	<u>1,104,003</u>
Noncurrent liabilities - compensated absences	—	—	84,848	—	—	84,848
Total liabilities	<u>5,820</u>	<u>103,451</u>	<u>324,061</u>	<u>—</u>	<u>755,519</u>	<u>1,188,851</u>
Net assets:						
Invested in capital assets, net of debt	—	—	337,315	—	—	337,315
Unrestricted	1,391,353	1,145,665	567,207	32,309	9,533,103	12,669,637
Total net assets	<u>1,391,353</u>	<u>1,145,665</u>	<u>904,522</u>	<u>32,309</u>	<u>9,533,103</u>	<u>13,006,952</u>
Total liabilities and net assets	<u>\$ 1,397,173</u>	<u>1,249,116</u>	<u>1,228,583</u>	<u>32,309</u>	<u>10,288,622</u>	<u>14,195,803</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, 2012

	<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	\$ 60,000	646,780	3,779,076	3,600	9,209,957	13,699,413
Operating expenses:						
Continuing operations	38,309	681,387	3,671,876	4,435	—	4,396,007
General administration	—	—	—	—	247,908	247,908
Health insurance claims	—	—	—	—	8,185,242	8,185,242
Depreciation and amortization	—	—	34,085	—	—	34,085
Total operating expenses	38,309	681,387	3,705,961	4,435	8,433,150	12,863,242
Operating income (loss)	21,691	(34,607)	73,115	(835)	776,807	836,171
Nonoperating revenues (expenses)						
Interest income	3,775	3,566	333	5	22,633	30,312
Gain (loss) on sale of capital assets	—	—	2,095	—	—	2,095
Other	—	—	3,069	—	—	3,069
Total nonoperating revenues (expenses)	3,775	3,566	5,497	5	22,633	35,476
Income (loss) before transfers	25,466	(31,041)	78,612	(830)	799,440	871,647
Transfers out	—	—	(7,000)	—	—	(7,000)
Change in net assets	25,466	(31,041)	71,612	(830)	799,440	864,647
Net assets (deficit), beginning of year, as restated	1,365,887	1,176,706	832,910	33,139	8,733,663	12,142,305
Net assets (deficit), end of year	\$ 1,391,353	1,145,665	904,522	32,309	9,533,103	13,006,952

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, 2012

	<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	\$ 60,000	646,780	3,828,950	3,600	9,221,031	13,760,361
Payments to suppliers	(49,020)	(661,849)	(2,614,040)	(4,913)	(8,448,523)	(11,778,345)
Payments to employees	—	—	(998,729)	—	—	(998,729)
Net cash provided by (used in) operating activities	<u>10,980</u>	<u>(15,069)</u>	<u>216,181</u>	<u>(1,313)</u>	<u>772,508</u>	<u>983,287</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	—	—	(97,878)	—	—	(97,878)
Proceeds from sales of capital assets	—	—	2,095	—	—	2,095
Net cash provided by (used in) capital and related financing activities	<u>—</u>	<u>—</u>	<u>(95,783)</u>	<u>—</u>	<u>—</u>	<u>(95,783)</u>
Cash flows from investing activities:						
Receipt of interest and dividends	2,704	3,586	333	5	20,582	27,210
Purchases of investments	(400,000)	(400,000)	—	—	(5,499,072)	(6,299,072)
Sales of investments	700,004	900,007	—	—	3,209,221	4,809,232
Net cash provided by (used in) investing activities	<u>302,708</u>	<u>503,593</u>	<u>333</u>	<u>5</u>	<u>(2,269,269)</u>	<u>(1,462,630)</u>
Net increase (decrease) in cash	313,688	488,524	113,731	(1,308)	(1,496,761)	(582,126)
Cash and cash equivalents, beginning of year, as restated	782,375	760,592	186,336	28,828	6,246,801	8,004,932
Cash and cash equivalents, end of year	\$ <u>1,096,063</u>	<u>1,249,116</u>	<u>300,067</u>	<u>27,520</u>	<u>4,750,040</u>	<u>7,422,806</u>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 21,691	(34,607)	73,115	(835)	776,807	836,171
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	—	—	34,085	—	—	34,085
Other income	—	—	3,069	—	—	3,069
Change in:						
Accounts receivable	—	—	46,805	—	11,074	57,879
Inventories of supplies	—	—	45,432	(478)	—	44,954
Accounts payable	(10,711)	19,538	24,795	—	(35,324)	(1,702)
Claims payable	—	—	—	—	19,951	19,951
Accrued payroll	—	—	1,357	—	—	1,357
Accrued vacation and sick pay	—	—	(12,477)	—	—	(12,477)
Total adjustments	<u>(10,711)</u>	<u>19,538</u>	<u>143,066</u>	<u>(478)</u>	<u>(4,299)</u>	<u>147,116</u>
Net cash provided by (used in) operating activities	\$ <u>10,980</u>	<u>(15,069)</u>	<u>216,181</u>	<u>(1,313)</u>	<u>772,508</u>	<u>983,287</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, 2012

	<u>Balance</u> <u>January 1,</u> <u>2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31,</u> <u>2012</u>
Payroll Clearing				
Assets:				
Cash	\$ 116,002	21,995,801	22,017,104	94,699
Liabilities:				
Accounts payable	\$ 116,002	21,995,801	22,017,104	94,699
Municipal Court				
Assets:				
Cash	\$ 240,107	751,304	775,715	215,696
Restricted assets - court receivables	131,401	—	—	131,401
	\$ 371,508	751,304	775,715	347,097
Liabilities:				
Accounts payable	\$ 240,107	751,304	775,715	215,696
Payable from restricted assets	131,401	—	—	131,401
	\$ 371,508	751,304	775,715	347,097
KPRF				
Assets:				
Cash	\$ 291	—	—	291
Liabilities:				
Accounts payable	\$ 291	—	—	291

(Continued)

CITY OF LAWRENCE, KANSAS

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

Year Ended December 31, 2012

	<u>Balance January 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2012</u>
Fire Insurance Proceeds Fund				
Assets:				
Cash	\$ 42,015	22,451	64,466	—
Liabilities:				
Accounts payable	\$ 42,015	22,451	64,466	—
Totals - All Agency Funds				
Assets:				
Cash	\$ 398,415	22,769,556	22,857,285	310,686
Restricted assets - court receivables	131,401	—	—	131,401
Total assets	\$ 529,816	22,769,556	22,857,285	442,087
Liabilities:				
Accounts payable	\$ 398,415	22,769,556	22,857,285	310,686
Court bonds payable	131,401	—	—	131,401
Total liabilities	\$ 529,816	22,769,556	22,857,285	442,087

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

This page intentionally left blank.

STATISTICAL SECTION

(This page intentionally left blank.)

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 Ten Fiscal Years
(accrual basis of accounting)

Unaudited

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	138,239,587
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	30,071,225
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	34,040,332
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	202,351,144
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	132,286,325
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	31,931,406
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	164,217,731
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	270,525,912
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	30,071,225
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	65,971,738
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	366,568,875

CITY OF LAWRENCE, KANSAS

Changes in Net Assets

Last Ten Fiscal Years
(accrual basis of accounting)

Unaudited

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities										
General government										
Public safety	\$ 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	25,726,334
Public works	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	30,675,333
Health	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	15,939,222
Social services	1,382,529	888,333	897,509	976,258	992,789	1,039,965	1,075,320	1,919,306	1,438,414	1,379,859
Culture and recreation	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	2,198,039
Tourism	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	8,473,244
Airport	490,053	663,943	680,490	675,797	779,687	818,561	771,534	885,555	1,052,713	969,229
Interest on long-term debt	191,661	192,485	188,284	201,034	212,253	248,014	242,517	318,403	494,077	226,568
Total governmental activities expenses	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	2,312,471
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	87,900,299
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	28,610,906
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	9,762,916
Parking	912,248	935,905	962,303	934,309	1,110,029	1,259,311	1,299,618	1,329,347	1,330,036	1,340,421
Stormwater	1,121,598	1,209,570	1,527,637	1,710,016	1,776,006	1,776,832	1,867,219	1,695,136	1,822,001	2,151,249
Golf course	1,049,496	1,094,435	992,548	817,710	925,676	999,551	1,016,011	998,557	917,860	944,149
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	42,809,641
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	130,709,940
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	8,745,433
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	403,121
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	2,278,274
Other activities	530,016	608,024	598,888	693,927	550,054	382,777	442,116	547,979	471,492	370,832
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	11,525,865
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	3,295,028
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	26,618,553
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	34,345,233
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	10,749,061
Parking	896,694	831,787	871,504	954,766	876,576	1,018,472	1,013,596	1,162,143	1,264,390	1,225,464
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	2,970,639
Golf course	896,158	912,526	935,964	971,712	923,375	916,239	919,416	780,840	718,419	820,444
Total business-type activities program revenues	34,861,180	33,765,463	37,438,177	40,887,683	40,247,244	41,858,241	42,607,267	45,242,333	46,572,329	50,131,721

CITY OF LAWRENCE, KANSAS

Changes in Net Assets, Continued

Last Ten Fiscal Years
(accrual basis of accounting)

Unaudited

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating grants and contributions	27,173	33,826			16,844					
Capital grants and contributions			60,944	85,160						
Total business-type activities program revenues	35,090,356	34,559,293	37,655,122	41,173,148	41,337,180	42,059,845	43,610,858	45,256,356	46,571,423	50,110,841
Total primary government program revenues	56,895,159	56,410,267	60,440,597	67,166,765	66,345,621	63,522,690	66,737,476	82,195,659	72,592,109	76,729,394
Net (expense)/revenue										
Governmental activities	(38,891,740)	(41,132,645)	(45,194,885)	(51,200,855)	(51,308,445)	(56,960,102)	(60,409,456)	(47,365,930)	(57,163,924)	(61,281,746)
Business-type activities	8,227,527	6,421,973	7,336,850	7,382,269	4,352,188	2,331,918	3,875,495	5,761,452	5,584,970	7,301,200
Total primary government net expense	(30,664,213)	(34,710,672)	(37,858,035)	(43,818,586)	(46,956,257)	(54,628,184)	(56,533,961)	(41,604,478)	(51,578,954)	(53,980,546)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	17,604,825	20,911,051	22,059,715	22,525,407	23,768,769	24,836,509	24,673,704	24,689,288	25,240,210	26,479,032
Franchise taxes	3,660,489	3,684,941	3,754,184	3,986,982	4,784,605	5,543,194	5,872,925	6,300,184	6,408,974	6,482,183
Sales taxes	18,893,835	20,740,306	21,318,108	21,733,540	22,172,560	23,133,235	27,025,710	29,499,359	30,835,166	32,409,308
Unrestricted grants and contributions	518,024	530,786	530,707	543,415	548,596	740,882	760,511	723,125	645,080	691,768
Investment earnings	1,107,797	980,553	1,912,596	3,144,551	3,290,116	2,890,086	1,177,409	337,284	134,306	210,102
Miscellaneous	86,437	(49,408)	98,035	140,358	187,713	125,372	31,107	6,512	185,909	425,033
Transfers	1,288,000	1,441,718	1,892,038	2,102,194	4,269,392	3,890,984	4,297,080	4,621,388	4,671,294	4,492,729
Total governmental activities	43,159,407	48,239,947	51,565,383	54,176,447	59,021,751	61,160,262	63,838,446	66,177,140	68,120,939	71,190,155
Business-type activities:										
Unrestricted grants and contributions										
Investment earnings	657,587	531,703	1,449,433	2,666,000	2,464,859	1,489,597	6,325	5,148	3,303	
Miscellaneous		363,740	318,358	268,427	641,216	580,267	206,643	44,953	105,578	121,636
Transfers	(1,288,000)	(1,441,718)	(1,892,038)	(2,102,194)	(4,269,392)	(3,890,984)	(4,297,080)	(4,621,388)	(4,671,294)	(4,492,729)
Total business-type activities	(630,413)	(546,275)	(124,247)	832,233	(1,163,317)	(1,821,120)	(3,684,150)	(4,061,967)	(3,941,513)	(3,732,300)
Total primary government	42,528,994	47,693,672	51,441,136	55,008,680	57,858,434	59,339,142	60,154,296	62,115,173	64,179,426	67,457,855
Change in Net Assets										
Governmental activities	4,267,667	7,107,302	6,370,498	2,975,592	7,713,306	4,200,160	3,428,990	18,811,210	10,957,015	9,908,409
Business-type activities	7,597,114	5,875,698	7,212,603	8,214,502	3,188,871	510,798	191,345	1,699,485	1,643,457	3,568,900
Total primary government	11,864,781	12,983,000	13,583,101	11,190,094	10,902,177	4,710,958	3,620,335	20,510,695	12,600,472	13,477,309

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.

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
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
2012	24,417,039	23,007,680	6,482,183	1,965,745	96,247	55,968,894

(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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	\$ -	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	489,385	458,016
Unassigned	-	-	-	-	-	-	-	-	12,764,449	12,807,728
Reserved	1,014,374	905,414	854,863	850,300	807,314	919,854	266,473	556,401	-	-
Unreserved	8,164,583	12,922,924	14,472,880	11,093,748	11,449,526	12,224,367	12,564,947	12,747,754	-	-
Total General Fund	\$ 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	13,265,744
All other governmental funds										
Nonspendable	-	-	-	-	-	-	-	-	463,176	461,146
Restricted	-	-	-	-	-	-	-	-	16,727,528	17,198,370
Assigned	-	-	-	-	-	-	-	-	20,498,354	22,307,990
Unassigned	-	-	-	-	-	-	-	-	(1,820,366)	(1,706,921)
Reserved	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	14,299,935	14,501,703	15,253,024	15,959,348	15,389,830	16,938,468	18,602,507	18,002,435	-	-
Capital projects funds	5,652,282	1,618,585	(10,419,107)	(6,221,334)	(745,650)	(2,938,975)	(9,271,901)	(1,871,354)	-	-
Total all other governmental fund	\$ 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	38,260,585

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

Last Ten Fiscal Years
(modified accrual basis of accounting)

Unaudited

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 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	55,968,894
Special assessments	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	3,195,006
Licenses and permits	1,024,587	1,121,828	1,082,191	1,128,747	928,922	1,018,198	810,916	871,264	944,702	968,947
Charges for services	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	6,668,879
Fines, forfeitures and penalties	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	2,823,509
Interest	1,107,797	955,756	1,824,288	2,965,144	3,083,321	1,775,604	316,185	322,758	145,314	193,727
Intergovernmental	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	22,164,027
Reimbursements	555,980	397,638	178,665	1,321,000	70,834	196,262	375,161	138,393	449,094	335,350
Miscellaneous	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	1,399,018
Total Revenues	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	93,717,357
Expenditures										
General government	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	24,950,523
Public safety	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	30,336,181
Public works	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	9,124,553
Health	1,369,492	883,005	895,344	974,790	990,668	1,037,952	1,074,666	1,917,525	1,436,649	1,379,104
Social services	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	1,530,158
Culture and recreation	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	8,041,351
Tourism	486,845	660,735	677,282	674,777	779,687	818,561	771,534	885,555	1,051,345	967,620
Airport	75,885	76,708	72,507	85,290	96,545	132,237	126,740	201,889	377,900	110,908
Capital outlay	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	13,454,338
Debt service:										
Principal retirement	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	14,927,625
Interest and fiscal charges	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	2,582,033
Total expenditures	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	107,404,394
Excess of revenues over (under) expenditures	(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)	(13,687,037)
Other financing sources (uses)										
Transfers in	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	4,961,707
Transfers out	(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)	(465,500)
Proceeds of general obligation bonds	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	11,190,000
Premium on general obligation bonds										404,633
Total other financing sources (uses)	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	16,090,840
Net change in fund balances	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	2,403,803
Debt service as a percentage of non-capital expenditures	23.4%	29.1%	15.8%	14.2%	14.6%	15.2%	14.7%	21.4%	14.0%	18.6%

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		
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
2012	807,364,770	7,065,536,665	23,044,106	100,766,596	21,914,351	66,426,085	852,323,227	7,232,729,346	11.8%	28.58

(1) Excludes motor vehicles.

Source: Douglas County Appraiser

Table 7

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 City Millage	Operating Millage	Debt Service County Millage	Operating Millage	Debt Service School District Millage		State of Kansas			
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	19.37	7.00	26.37	35.75	0.00	35.75	47.50	12.15	59.65	1.50	123.26
2011	20.10	8.51	28.61	35.77	0.00	35.77	47.74	11.70	59.44	1.50	125.32
2012	21.02	8.51	29.53	35.77	0.00	35.77	47.43	10.58	58.01	1.50	124.81

Source: Douglas County Budget Office

CITY OF LAWRENCE, KANSAS

Principal Taxpayers

December 31, 2012

Unaudited

Taxpayer	Type of Business	2012		Percent of		2003		Percent of	
		Assessed Valuation	Rank	Total Assessed Valuation	%	Assessed Valuation	Rank	Total Assessed Valuation	%
Westar Energy	Electric Utility	\$ 12,504,517	1	1.47	%	\$ 9,451,488	1	1.40	%
Walmart	Retail Outlet	5,195,191	2	0.61		-		-	
Black Hills	Gas Utility	4,217,023	3	0.49		-		-	
Hallmark Cards	Card Manufacturer	3,969,885	4	0.47		5,294,715	4	0.79	
Inland Western Lawrence	Retail Center	3,836,202	5	0.45		-		-	
Southwestern Bell	Telephone Utility	3,350,465	6	0.39		8,451,366	3	1.25	
Fairfield Exchange	Retail Center	2,970,997	7	0.35		-		-	
Kresge	District Warehouse	2,934,375	8	0.34		8,874,825	2	1.32	
Amarr Garage Doors	Door Manufacturer	2,857,326	9	0.34		-		-	
Westgate	Retail Center	2,689,902	10	0.32		-		-	
Lawrence Paper Company	Paper Manufacturer	-		-		4,889,440	5	0.72	
Packerware Corp	Plastics Manufacturer	-		-		3,819,000	6	0.60	
NCS	Computer Services	-		-		3,145,640	9	0.47	
World Company	Media	-		-		3,702,030	7	0.55	
Lawrence Technology	Electronics	-		-		2,826,370	10	0.42	
Star-Kist Foods	Dog Food Manufacturer	-		-		3,442,830	8	0.51	
Total		\$ 44,525,883		5.22	%	\$ 53,897,704		8.03	%

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
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
2012	24,406,107	24,011,362	98.38	405,677	24,417,039	100.04	824,160	3.38

(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			
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
2012	64,001,150	-	-	10,213,850	22,776,957	-	145,661,957	3.89	1,550.52

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
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
2012	93,944	852,323	74,215,000	9,303,767	64,911,233	7.62	690.96

(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, 2012

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	\$ 74,215,000	\$ 9,303,767	\$ 64,911,233	100 %	\$ 64,911,233
Overlapping:					
Douglas County	19,626,000	3,691,942	15,934,058	75	11,950,544
Unified School District No. 497	57,115,000	2,790,507	54,324,493	88	47,805,554
	<u>76,741,000</u>	<u>6,482,449</u>	<u>70,258,551</u>		<u>59,756,098</u>
	\$ <u>150,956,000</u>	<u>15,786,216</u>	<u>135,169,784</u>		\$ <u>124,667,331</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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Assessed Valuation of Taxable Property	\$ 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	\$ 924,953,742
Debt Limit Percent of Assessed Value	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Debt Limit	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	277,486,123
Total net debt applicable to limit (includes temporary notes)	97,110,000	90,630,000	99,208,000	101,415,000	97,000,000	99,545,000	96,550,000	92,610,000	93,520,000	98,430,000
Legal Debt Margin	\$ 125,855,887	\$ 146,071,043	\$ 155,362,933	\$ 167,904,365	\$ 181,334,753	\$ 181,139,942	\$ 181,399,841	\$ 184,889,695	\$ 185,070,681	\$ 179,056,123
Total Net Debt Applicable To The Limit As A Percentage of Debt Limit	43.55%	38.29%	38.97%	37.66%	34.85%	35.47%	34.74%	33.37%	33.57%	35.47%

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
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
2012	34,345,233	25,671,088	8,674,145	2,210,000	2,304,105	4,514,105	1.92

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>
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	3,745,526,000	33,379	26.70	11,250	5.1
2012	93,944	3,745,526,000	33,379	26.70	11,458	5.3

Data Sources:

- (1) Planning Department estimates
- (2) 2003 data from 2000 census, 2004-2011 data from BEA. 2012 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	2012			2003
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	
The University of Kansas	9,881	1	16.93%	Information Not Available
Lawrence Public Schools	1,650	2	2.83%	
Vangent	1,500	3	2.57%	
City of Lawrence	1,455	4	2.49%	
Lawrence Memorial Hospital	1,322	5	2.27%	
Berry Plastics	739	6	1.27%	
Hallmark Card, Inc.	525	8	0.90%	
Amarr Garage Doors	461	9	0.79%	
Douglas County	435	9	0.75%	
Kresge	320	10	0.55%	
Total	<u>18,288</u>		<u>31.33%</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>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>	<u>2012</u>
General Government	62.63	64.63	67.63	73.76	79.63	89.75	81.08	68.84	67.84	73.09
Public Safety	323.25	328.50	329.00	341.00	342.25	321.00	321.00	319.00	319.00	335.00
Public Works	173.00	173.00	175.50	181.00	188.00	173.75	172.75	172.75	165.75	166.75
Culture & Recreation	75.00	74.63	75.13	75.28	75.28	76.28	71.78	70.78	68.78	66.78
Health	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-
Social Services	10.25	10.00	9.00	8.95	8.75	8.75	8.75	8.75	8.75	5.55
Water & Sewer	<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>	<u>131.26</u>
Total	<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>	<u>778.43</u>

Source: City of Lawrence Budget Document

CITY OF LAWRENCE, KANSAS

Operating Indicators by Function

Last Ten Fiscal Years

Unaudited

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fire Protection										
Number of Firefighters and Officers	137	137	137	138	138	139.5	134.5	139.5	139.5	143
Number of Fire Calls Answered	1,896	1,953	1,953	2,154	2,005	2,045	1,864	1,982	1,958	1,970
Number of Medical Calls Answered	6,225	6,700	6,700	6,810	6,858	7,592	7,539	7,763	7,743	8,211
Number of Medical Transports	3,924	3,924	3,924	4,434	4,649	4,789	4,587	4,726	4,808	5,139
Number of Inspections Conducted	5,240	5,240	5,240	5,963	7,065	7,260	6,662	4,643	3,537	5,522
Police Protection										
Number of Commissioned Police Officers	138	138	138	142	142	142	142	142	147	147
Number of Full Time Civilians	34	33	34	34	34	34	35	33	33	30
Number of Calls for Service	86,804	110,192	110,192	121,576	126,874	115,404	107,314	115,383	112,647	112,464
Arrests Processed through County Jail	2,699	2,834	2,834	3,233	2,661	2,775	3,191	4,563	3,409	3,847
Officer Issued Traffic Violations	18,327	24,008	24,008	39,348	40,572	35,543	34,681	39,699	13,277	13,150
Officer Issued Parking Violations	13,417	14,421	14,421	96,739	94,890	92,355	99,091	85,958	29,680	11,882
Sewerage System										
Number of Service Connections	28,252	29,515	29,515	31,499	32,000	32,741	33,063	32,940	33,106	32,915
Actual Daily Average of Treatment in Million Gallons D	9.2	12.5	12.5	10.5	10.6	11.5	10.5	10.5	8.7	9.5
Water System										
Number of Service Connections	28,895	29,770	29,770	32,142	32,522	32,741	33,063	32,940	33,106	32,915
Daily Average Consumption in Million Gallons	13	13	13	12.2	11.4	10.4	9.5	9.9	10.7	10.7
Maximum Daily Capacity of Plant in Million Gallons	31.5	32.5	32.5	32.5	32.5	36.5	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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Works	300	300	300	318	318.8	319.6	319.6	321.3	323.2	323.2
Miles of Streets	5	5	5	5	5	5	5	5	4	4
Culture and Recreation	52	52	52	53	52	52	52	52	54	54
Recreation Centers	3,270	3,275	3,275	3,497	3,497	3,535	3,535	3,535	3,535	3,535
Parks	20	20	20	20	20	19	19	19	11	11
Park Acreage										
Tennis Courts										
Fire Protection	5	5	5	5	5	5	5	5	5	6
Number of Stations										
Police Protection	2	2	2	2	2	2	2	2	2	2
Number of Stations	24	25	25	35	37	35	35	36	30	30
Number of Patrol Units										
Sewerage System	475	475	475	497	418	425	426.4	429.7	432.9	432.9
Miles of Sanitary Sewers	1	1	1	1	1	1	1	1	1	1
Number of Treatment Plants	39	39	39	35	36	31	33	34	34	34
Number of Lift Stations										
Water System	2	2	2	2	2	2	2	2	2	2
Number of Water Plants	400	400	400	418	420	440	444	452.4	455.1	455.1
Miles of Water Mains	2,944	2,944	2,944	3,008	3,285	3,081	3,146	3,198	3,218	3,218
Number of City owned Fire Hydrants										
Libraries	1	1	1	1	1	1	1	1	1	1
Public Libraries	267,134	267,134	297,924	320,705	264,966	230,846	227,503	224,781	229,777	229,777
Number of volumes (approximately)										
Facilities and Services Not Included in the Reporting Entity:										
Education										
Number of Public Elementary Schools	16	16	16	16	16	16	16	15	14	14
Number of Public Elementary School Instructors	386	445	445	427	452	480	490	487	429	429
Number of Public Secondary Schools	7	7	7	6	6	6	6	6	6	6
Number of Public Secondary School Instructors	373	433	433	379	374	375	368	362	465	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	186	186	173	173	191	191	191	173	173

Sources: Various government departments

SINGLE AUDIT SECTION

(This page intentionally left blank.)



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, in accordance with the 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2013. Our report includes a reference to other auditors who 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 of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

However, we noted certain other matters that we reported to management of the City in a separate letter dated June 26, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mike Houser: Company PA

June 26, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mayor and City Commissioners
City of Lawrence, Kansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of City of Lawrence, KS (the City) with the types of compliance requirements described in the *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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance 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, 2012.

Report on Internal Control Over Compliance

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

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mike Houser: Company PA

June 26, 2013

CITY OF LAWRENCE, KANSAS

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Transportation</u>		
Airport Improvement Program	20.106	\$ 110,046
Federal Transit Formula Grant	20.507	3,959,229
Passed Through Kansas Department of Transportation		
Highway Planning and Construction	20.205	240,381
Metropolitan Transportation Planning	20.505	196,987
State and Community Highway Safety	20.600	<u>22,704</u>
Total U.S. Department of Transportation		<u>4,529,347</u>
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.218	990,573
Emergency Solutions Grants Program	14.231	66,753
HOME Investments Partnership Program	14.239	535,322
HOME Prevention and Rapid Re-Housing Program	14.262	50,055
Fair Housing Initiatives Program	14.420	31,458
Passed Through Kansas Department of Commerce		
Community Development Block Grant	14.228	<u>220,687</u>
Total U.S. Department of Housing and Urban Development		<u>1,894,848</u>
<u>U.S. Department of Energy</u>		
Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	<u>500</u>
Total U.S. Department of Energy		<u>500</u>
<u>U.S. Department of Justice</u>		
Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	<u>93,563</u>
Total U.S. Department of Justice		<u>93,563</u>
Total Expenditures of Federal Awards		<u>\$ 6,518,258</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, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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)

Name of Federal Program or Cluster

14.218
14.239
14.228

Community Development Block Grant
HOME Investments Partnership Program
Community Development Block 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, 2012

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