CITY OF VERMILLION, KANSAS

FINANCIAL STATEMENT

December 31, 2025

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

CITY OF VERMILLION, KANSAS
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August 27, 2026

VARNEY
& ASSOCIATES, CPAs, LLC

Mayor and Council Members
City of Vermillion, Kansas

Independent Auditor's Report

Adverse and Unmodified Opinions
We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of City of Vermillion, Kansas (the City), as of and for the year ended December 31, 2025 and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2025, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting
In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2025, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* (KMAAG) described in Note 1.

Basis for Adverse and Unmodified Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), KMAAG, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Matter Giving Rise to the Adverse Opinion on U.S. Generally Accepted Accounting Principles
As discussed in Note 1 of the financial statement, the financial statement is prepared by the City on the basis of the financial reporting provisions of the KMAAG, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statement
Management is responsible for the preparation and fair presentation of the financial statement in accordance with KMAAG as described in Note 1; this includes determining regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement; however, are required to be presented under the provisions of the KMAAG. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprises the City's basic financial statement. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's 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.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF VERMILLION, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2025

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Cash Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds						
General Fund	$ 71,184	$ 86,296	$ 76,753	$ 80,727	$ -	$ 80,727
Special Purpose Funds						
Library	209	2,527	2,527	209	-	209
Special Highway	5,003	2,095	3,000	4,098	-	4,098
Capital Project Funds						
Capital Improvements	38,667	44,051	59,198	23,520	-	23,520
Business Funds						
Electric	51,529	119,290	123,596	47,223	-	47,223
Water	17,059	2,522,075	3,076,735	(537,601)	586,352	48,751
Sewer	15,673	18,202	21,478	12,397	-	12,397
Water Reserve	5,000	-	-	5,000	-	5,000
Total Reporting Entity	$ 204,324	$ 2,794,536	$ 3,363,287	$ (364,427)	$ 586,352	$ 221,925

Composition of Cash:	
Checking Accounts	$ 120,412
Certificates of Deposit	101,513
Total Reporting Entity	$ 221,925

The accompanying notes are an integral part of this financial statement.
See Independent Auditor's Report.

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

The City of Vermillion, Kansas, (the City), is a municipal corporation governed by an elected five-member council plus a mayor. This regulatory financial statement presents the City of Vermillion, Kansas, the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statement referred to above does not include the component units of the City.

Regulatory Basis Fund Types

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, receipts and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statement in this report, the various funds are grouped into generic fund types and broad fund categories as follows:

General Fund - The general fund is the chief operating fund of the City. It is used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds - Special purpose funds are used to account for the proceeds of specific tax levies and other specific revenue sources intended for specified use.

Capital Projects Fund - Capital projects fund is used to account for capital projects.

Business Funds - Business funds are used to account for funds financed in whole or part by fees charged to the users of the goods or services.

Basis of Accounting and Presentation

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

Reimbursed Expenditures

The City records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under KMAAG regulatory basis accounting.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

Note 1: Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

If the City is holding a revenue neutral hearing, the budget timeline for the public hearing is adjusted to no sooner than August 20th and no later than September 20th, but at least ten days after all statutory notification and publication requirements have been met. Municipal budgets requiring a hearing to exceed the revenue neutral rate should be adopted on or before October 1st but may not be adopted prior to the revenue neutral rate hearing. The City did not hold a revenue neutral rate hearing for this 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. There were no such budget amendments for this year.

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

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose fund: capital improvement fund.

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 governing body.

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. Effective January 1, 2026, K.S.A. 9-1402 authorizes financial institutions to secure deposits of public moneys of governmental units through the Kansas Collateral Pool (public moneys pooled method as defined by 2025 Senate Substitute for House Bill 2152). The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when coverage is 50%. The City does not utilize "peak periods".

As of December 31, 2025, the City's carrying amount of the deposits was $221,925 and the bank balance was $230,593. The bank balance was held by one bank, in checking and certificates of deposit. As of December 31, 2025, the bank balances were covered by the $250,000 FDIC insurance.

Note 3: Stewardship, Compliance and Accountability

Budget Violation

K.S.A. 79-2935 states that expenditures, including encumbrances, in any lawfully budgeted fund shall not exceed the adopted budget of expenditures plus any reimbursements (budget credits) of current year expenditures for such fund for that budget year. The Water Fund exceeded the adopted budget.

Note 4: Property Taxes

Municipal Financial Reporting Entity

In accordance with governing State statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar-year basis and are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half of the full amounts of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes levied and collected in the year prior to January 1st of the ensuing year.

Note 5: Capital Projects

Capital project authorizations with approved change orders compared with expenditures from inception are as follows:

Project Name	Project Authorization	Expended To Date
Public Water Supply System Improvements - Phase II	$ 4,161,400	$ 3,116,200

Note 6: Long-Term Debt

The City has issued Series 2021 General Obligation Bonds in the amount of $272,000, for the purpose of financing the Public Water Supply System Improvements project.

The City has issued Series 2022 General Obligation Bonds in the amount of $143,000, for the purpose of financing the Public Water Supply System Improvements project.

On June 9, 2021, the City entered into a finance lease for $30,500, in order to purchase a Sewer Lift Station within the City. The lease has annual payments, which started in June 2022, with a final payment due June 9, 2026, at an interest rate of 3.00%.

The City has issued Series 2025 General Obligation Bonds in the amount of $35,000, for the purpose of financing the Public Water Supply System Improvements Phase II project.

Note 7: Changes in Long-Term Debt

ISSUE	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Series 2021	1.25%	10/28/2021	$ 272,000	10/28/2061	$ 255,955	$ -	$ 5,486	$ (5,486)	$ 250,469	$ 3,199
Series 2022	1.50%	8/2/2022	143,000	8/2/2061	137,688	-	2,716	(2,716)	134,972	2,065
Series 2025	2.13%	7/28/2025	35,000	7/28/2065	-	35,000	-	35,000	35,000	-
Finance Lease										
Sewer Lift Station	3.00%	6/9/2021	30,500	6/9/2026	1,178	-	1,178	(1,178)	-	4
KDHE										
Public Water Supply Loan	2.13%	4/23/2023	3,000,000	8/31/2026	30,950	1,783,223	1,814,173	(30,950)	-	1,897
TOTAL LONG-TERM DEBT					$ 425,771	$ 1,818,223	$ 1,823,553	$ (5,330)	$ 420,441	$ 7,165

Note 8: Maturity of Long-Term Debt

PRINCIPAL	2026	2027	2028	2029	2030	2031-2035	2036-2040	2041-2045	2046-2050	2051-2055	2056-2060	2061-2065	Total
General Obligation Bonds	$ 8,874	$ 8,998	$ 9,113	$ 9,248	$ 9,377	$ 48,857	$ 52,337	$ 56,088	$ 60,105	$ 64,419	$ 69,055	$ 23,970	$ 420,441
INTEREST													
General Obligation Bonds	$ 5,900	$ 5,776	$ 5,660	$ 5,526	$ 5,397	$ 25,011	$ 21,530	$ 17,782	$ 13,763	$ 9,449	$ 4,814	$ 712	$ 121,320
TOTAL PRINCIPAL AND INTEREST	$ 14,774	$ 14,774	$ 14,773	$ 14,774	$ 14,774	$ 73,868	$ 73,867	$ 73,870	$ 73,868	$ 73,868	$ 73,869	$ 24,682	$ 541,761

Note 9: Other Long-Term Obligations from Operations

Compensated Absences

Expenses for accumulated paid leave earned by the employees are recorded when paid or taken by the employees. Only full-time employees, defined as employees who work at least 1,000 hours per year, shall be entitled to benefits of leave accumulation, holidays, insurance programs, and other similar benefits. No benefits are available or can be accrued by a parttime or seasonal employee. Each City employee shall receive 160 hours of paid regular leave per year after the first full calendar year of service, accumulation up to and not more than 240 hours. After seven years of employment shall be allowed to accumulate up to 360 hours of paid leave. Upon request of an employee, the Governing Body may choose to pay an employee for accumulated paid leave in excess of the stated maximums at the end of any calendar year. Upon termination, no leave shall be paid unless approved by the City Council.

Note 10: Defined Benefit Pension Plan

General Information about the Pension Plan

Plan description: The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, etc. seq. Kansas Law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kspers.gov or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions: KSA 74-4919 and KSA 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2016. Effective January 1, 2016, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(b) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) was 9.71% for the fiscal year ended December 31, 2025. Contributions to the pension plan from the City were $2,912 for the year ended December 31, 2025.

Net Pension Liability

At December 31, 2025, the City's estimated proportionate share of the collective net pension liability was $33,070. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2024, which was rolled forward to June 30, 2025. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website or can be obtained as described above.

Note 11: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no decreases in insurance coverage from the prior year

Note 12: Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report, which is the date the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE 1

CITY OF VERMILLION, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Funds					
General Fund	$ 84,750	$ -	$ 84,750	$ 76,753	$ (7,997)
Special Purpose Funds					
Library	3,270	-	3,270	2,527	(743)
Special Highway	3,000	-	3,000	3,000	-
Business Funds					
Electric	128,000	-	128,000	123,596	(4,404)
Water	46,000	2,482,580	2,528,580	3,076,735	548,155
Sewer	28,500	-	28,500	21,478	(7,022)
Total Reporting Entity	$ 293,520	$ 2,482,580	$ 2,776,100	$ 3,304,089	$ 527,989

The accompanying notes are an integral part of this financial statement.
See Independent Auditor's Report.

CITY OF VERMILLION, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
Ad Valorem tax	$ 21,327	$ 22,813	$ (1,486)
Delinquent tax	2,418	-	2,418
Motor vehicle tax	7,983	9,281	(1,298)
Recreational vehicle tax	126	106	20
16/20M vehicle tax	1,384	42	1,342
Commercial vehicle tax	366	1,041	(675)
Intangible tax	119	-	119
Deposits, equipment, use, camping	1,511	2,500	(989)
KGS Franchise	3,173	3,000	173
Insurance/BVRC dividends	1,847	2,000	(153)
Tractor pull and other events	16,399	3,023	13,376
Trash	15,625	14,000	1,625
Tax and late charges	3,258	2,000	1,258
Reimbursements	6,445	-	6,445
Interest on idle funds	4,315	1,000	3,315
Total Receipts	$ 86,296	$ 60,806	$ 25,490
EXPENDITURES			
Salaries and wages	$ 17,136	$ 12,000	$ 5,136
Employee benefits	7,647	9,500	(1,853)
Contractual	33,715	18,000	15,715
Commodities	-	1,500	(1,500)
Trash	16,421	16,000	421
Equipment	-	3,000	(3,000)
Insurance	-	10,000	(10,000)
Repairs and fuel	1,834	4,000	(2,166)
Streets	-	10,000	(10,000)
Parks	-	500	(500)
Noxious weeds	-	250	(250)
Total Expenditures	$ 76,753	$ 84,750	$ (7,997)
Receipts Over (Under) Expenditures	$ 9,543		
Unencumbered Cash - Beginning	71,184		
Unencumbered Cash - Ending	$ 80,727		

CITY OF VERMILLION, KANSAS
LIBRARY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
Ad Valorem tax	$ 1,607	$ 1,718	$ (111)
Delinquent tax	180	-	180
Motor vehicle tax	600	700	(100)
Recreational vehicle tax	9	8	1
16/20M vehicle tax	103	3	100
Commercial vehicle tax	28	79	(51)
Total Receipts	$ 2,527	$ 2,508	$ 19
EXPENDITURES			
Contractual	$ -	$ 2,270	$ (2,270)
Commodities	-	500	(500)
Books and movies	-	500	(500)
Appropriations	2,527	-	2,527
Total Expenditures	$ 2,527	$ 3,270	$ (743)
Receipts Over (Under) Expenditures	$ -		
Unencumbered Cash - Beginning	209		
Unencumbered Cash - Ending	$ 209		

CITY OF VERMILLION, KANSAS
SPECIAL HIGHWAY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
State of Kansas Gas Tax	$ 2,095	$ 2,760	$ (665)
Expenditures			
Street repair and maintenance	$ 3,000	$ 3,000	$ -
Receipts Over (Under) Expenditures	$ (905)		
Unencumbered Cash - Beginning	5,003		
Unencumbered Cash - Ending	$ 4,098		

CITY OF VERMILLION, KANSAS
CAPITAL IMPROVEMENTS FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2025

Receipts		
Donations	$	20,148
Reimbursements		23,903
Total Receipts	$	44,051
Expenditures		
Capital Outlay	$	59,198
Receipts Over (Under) Expenditures	$	(15,147)
Unencumbered Cash - Beginning		38,667
Unencumbered Cash - Ending	$	23,520

CITY OF VERMILLION, KANSAS
ELECTRIC FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
Charges to customers	$ 119,290	$ 100,000	$ 19,290
EXPENDITURES			
Employee wages	$ 8,569	$ 7,000	$ 1,569
Employee benefits	3,824	6,000	(2,176)
Contractual	109,190	105,000	4,190
Commodities	2,013	5,000	(2,987)
Transformer testing and repair	-	5,000	(5,000)
Total Expenditures	$ 123,596	$ 128,000	$ (4,404)
Receipts Over (Under) Expenditures	$ (4,306)		
Unencumbered Cash - Beginning	51,529		
Unencumbered Cash - Ending	$ 47,223		

CITY OF VERMILLION, KANSAS
WATER FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
Charges to customers	$ 39,495	$ 35,000	$ 4,495
Grants	2,482,580	-	2,482,580
Total Receipts	$ 2,522,075	$ 35,000	$ 2,487,075
EXPENDITURES			
Employee wages	$ 8,569	$ 6,000	$ 2,569
Employee benefits	3,824	6,000	(2,176)
Contractual	9,567	30,000	(20,433)
Commodities	2,108	4,000	(1,892)
Capital outlay	3,037,305	-	3,037,305
Principal payments	8,201	-	8,201
Interest payments	7,161	-	7,161
Adjustment to Qualifying Budget Credit	-	2,482,580	(2,482,580)
Total Expenditures	$ 3,076,735	$ 2,528,580	$ 548,155
Receipts Over (Under) Expenditures	$ (554,660)		
Unencumbered Cash - Beginning	17,059		
Unencumbered Cash - Ending	$ (537,601)		

CITY OF VERMILLION, KANSAS
SEWER FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2025

	Actual	Budget	Variance Over (Under)
Receipts			
Charges to customers	$ 18,202	$ 18,500	$ (298)
EXPENDITURES			
Employee wages	$ 8,569	$ 6,500	$ 2,069
Employee benefits	3,824	6,500	(2,676)
Contractual	7,253	8,000	(747)
Commodities	650	5,500	(4,850)
Lease purchase Lift Station	1,182	2,000	(818)
Total Expenditures	$ 21,478	$ 28,500	$ (7,022)
Receipts Over (Under) Expenditures	$ (3,276)		
Unencumbered Cash - Beginning	15,673		
Unencumbered Cash - Ending	$ 12,397		

CITY OF VERMILLION, KANSAS
WATER RESERVE FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2025

Receipts	
Transfers In	$ -
EXPENDITURES	
Contractual	$ -
Receipts Over (Under) Expenditures	$ -
Unencumbered Cash - Beginning	5,000
Unencumbered Cash - Ending	$ 5,000

August 27, 2026

Mayor and Council Members
City of Vermillion, Kansas

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance With *Government Auditing Standards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Vermilion, Kansas (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statement, which collectively comprise the City's basic financial statement, and have issued our report thereon dated August 27, 2026.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statement, 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency. It is identified as 2025-001.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City's financial statement is 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*.

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1102 Commercial St., Suite A
Emporia, KS 66801

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.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

August 27, 2026

VARNEY
& ASSOCIATES, CPAs, LLC

Mayor and Council Members
City of Vermillion, Kansas

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance

Unmodified Opinions
We have audited the City of Vermillion, Kansas (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of City's major federal programs for the year ended December 31, 2025. 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.

In our opinion, the City complied, in all material respects, with the 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, 2025.

Basis for Unmodified Opinions
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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Auditor's Responsibilities for the Audit of Compliance (continued)
In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report
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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF VERMILLION, KANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2025

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Award Expenditures
Department of Agriculture			
Rural Utilities Service			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$ 2,985,808

CITY OF VERMILLION, KANSAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2025

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal financial assistance programs of City of Vermillion, Kansas (the City). The reporting City is defined in Note 1(a) of the City's basic financial statement. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the Schedule.

Note 2: Basis of Presentation

The accompanying Schedule is presented using the regulatory basis of accounting, which is described in Note 1 of the City's basic financial statement. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

The City did not elect to use the 10% de minimis cost rate.

CITY OF VERMILLION, KANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2025

Section I - Summary of Auditor's Results

Financial Statement

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	___ Yes	X None
Reportable conditions identified not considered to be material weaknesses?	X Yes	___ None reported
Noncompliance material to financial statement noted?	___ Yes	X None

Federal Awards

Internal controls over major programs:		
Material weaknesses identified?	___ Yes	X No
Reportable conditions identified not considered to be material weaknesses?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.516(a)?	___ Yes	X No

Identification of major programs:

Name of Federal program	Assistance Listing Number
Water and Waste Disposal Systems for Rural Communities	10.760

Dollar threshold used to distinguish between Type A and Type B programs:	$	1,000,000
Auditee qualified as a low-risk auditee?	___ Yes	X No

Note:

(Continued)

Section II - Financial Statement Findings

2025-001 Significant Deficiency Segregation of Duties

Condition: The size of the City's various departments precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Criteria: Internal controls should be in place to provide reasonable assurance that there is sufficient segregation of duties.

Cause: The size of the City's various departments precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: The City's internal controls may not prevent a misstatement or a noncompliance issue from occurring.

Recommendation: Procedures should be implemented to acquire enough staff to provide optimum segregation of duties. In addition, the City Council should be involved in the review and approval process.

View of Responsible Officials (Unaudited): See attached Corrective Action Plan.

Section III - Federal Award Findings and Questioned Costs

There were no current year findings or questioned costs.

City of Vermillion
102 Main St.
Vermillion, KS 66544

August 26, 2026
Corrective Action Plan
City of Vermillion, Kansas
Fiscal Year Ended December 31, 2025

The City of Vermillion, Kansas, respectfully submits the following Corrective Action Plan for the fiscal year ended December 31, 2025.
Audit Finding Reference: 2025-001
Finding:
The size of the City's various departments precludes certain internal controls that would be preferred if staffing levels were sufficient to provide optimal segregation of duties.
Planned Corrective Action:
The City Council agrees with the auditor's finding and recognizes the importance of maintaining appropriate segregation of duties within the City's operations. Due to limited staffing, complete segregation of duties is not always feasible; however, the City will continue to implement and maintain compensating controls and separate duties to the greatest extent possible.
If you have any questions regarding this Corrective Action Plan, please contact Shane Woodside, City Administrator/Clerk.

Sincerely,

Shane W. Woodside

Shane Woodside
City Administrator/Clerk
City of Vermillion, Kansas