



Certified Public Accountants

CITY OF HIAWATHA, KANSAS

FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2019

CITY OF HIAWATHA, KANSAS

FINANCIAL STATEMENT
REGULATORY BASIS

Year Ended December 31, 2019

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CITY OF HIAWATHA, KANSAS

FINANCIAL STATEMENT
REGULATORY BASIS

Year Ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

Mayor and City Commission
City of Hiawatha, Kansas

Report on the Financial Statement

We have audited the summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Hiawatha, Kansas (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* (KMAAG) as described in Note 2; this includes determining that the 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 a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 KMAAG. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement 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, 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 statement.

An Independently Owned Member, RSM US Alliance

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 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 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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 Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the 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, 2019, 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 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, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the KMAAG described in Note 2.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of regulatory basis receipts, expenditures, and unencumbered cash (the basic financial statement) as a whole. The schedules listed under supplementary information in the accompanying table of contents, including 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*, 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 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 2.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2020 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.

BT&Co., P.A.

April 27, 2020
Topeka, Kansas

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CITY OF HIAWATHA, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES,
AND UNENCUMBERED CASH
REGULATORY BASIS
Year Ended December 31, 2019

Funds	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances
General fund	\$ 745,350	\$ -
Special purpose funds:		
Library	23	-
Industrial	91,375	-
Recreation	50,332	-
Employee benefit	250,700	-
Special highway	384,666	-
Parks and recreation	19,770	-
Liability	500	-
Drug forfeiture	15,961	-
History Center	21,730	-
Special events	7,072	-
Special streets	82,812	-
Hotel economic development	27,448	-
MVE inspection	5,747	-
Safety dividends	36,852	-
Bond and interest fund	273,870	-
Capital project funds:		
Post lantern street light project	217,273	-
Other capital projects	6,186,065	-
Business funds:		
Water	2,014,953	-
Sewer	559,191	-
Storm water utility	96,545	-
Pool	187,289	-
Airport	30,893	-
Trust funds	17,314	-
Total primary government	11,323,731	-
Related municipal entity:		
Morrill Public Library	1,194,160	-
Total reporting entity (excluding agency funds)	\$ 12,517,891	\$ -

See accompanying notes to financial statement.

Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
\$ 1,642,564	\$ 1,528,105	\$ 859,809	\$ 9,391	\$ 869,200
144,177	144,164	36	-	36
180,021	172,002	99,394	-	99,394
64,118	49,465	64,985	132	65,117
591,381	586,927	255,154	-	255,154
451,650	455,514	380,802	48	380,850
5,917	8,835	16,852	-	16,852
-	-	500	-	500
-	15,961	-	-	-
27,597	21,312	28,015	-	28,015
7,500	6,500	8,072	-	8,072
446,459	187,130	342,141	-	342,141
68,808	99,998	(3,742)	-	(3,742)
6,877	2,904	9,720	-	9,720
-	-	36,852	-	36,852
832,247	812,378	293,739	-	293,739
180,717	142,130	255,860	-	255,860
2,203,249	5,233,172	3,156,142	-	3,156,142
876,485	2,196,998	694,440	75,716	770,156
855,587	840,954	573,824	14,741	588,565
79,492	71,163	104,874	1,277	106,151
98,647	127,200	158,736	-	158,736
64,671	69,119	26,445	-	26,445
1,305	1,274	17,345	-	17,345
8,829,469	12,773,205	7,379,995	101,305	7,481,300
320,052	349,943	1,164,269	2,902	1,167,171
\$ 9,149,521	\$ 13,123,148	\$ 8,544,264	\$ 104,207	\$ 8,648,471
Composition of cash:				
Morrill & Janes Bank:				
General fund				\$ 3,660,514
Economic development grant fund				1,121
Sewer project fund				272,214
Post lantern fund				89,934
Insurance proceeds fund				18,929
Todd Widman memorial fund				1,682
Citywide street sales tax				1,873
Aquatic park capital improvement fund				147,251
Reserve account				185,000
Municipal court cash bond account				5,500
Petty cash				1,795
Library savings				186,537
Total Morrill & Janes Bank				4,572,350
Citizens State Bank & Trust:				
Library checking				15,629
Library savings				203,223
Library investments				175,051
Library petty cash				180
Total Citizens State Bank & Trust				394,083
Bank of Blue Valley:				
City-wide sales tax street project investments				3,122,369
Edward Jones:				
Library investments				586,551
Total cash				8,675,353
Less agency funds per schedule 5				(26,882)
Total reporting entity (excluding agency funds)				\$ 8,648,471

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT

December 31, 2019

1 - Municipal Financial Reporting Entity

The City of Hiawatha, Kansas (the City) is a municipal corporation governed by a five-member commission. This financial statement includes only the primary government of the City and the Morrill Public Library (the Library) related municipal entity. It excludes one of the related municipal entities for which the City is considered financially accountable:

The Housing Authority of the City of Hiawatha

A separate related municipal entity financial statement may be obtained directly from the Housing Authority.

2 - Summary of Significant Accounting Policies

(a) Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

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 a 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.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(b) Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following regulatory basis fund types comprise the financial activities of the City for the year ended December 31, 2019:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – used to account for the proceeds of specific tax levies and other specific regulatory receipts sources (other than major capital projects and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds, and payment of general long-term debt.

Capital Project Funds – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services.

Trust Funds – funds used to report assets held in trust for the benefit of the City.

Agency Funds – funds used to report assets held by the City in a purely custodial capacity.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(c) 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), the bond and interest fund, 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.

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 had no budget amendments for the year ended December 31, 2019.

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 budgeted 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. 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.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(c) Budgetary Information (Continued)

A legal operating budget is not required for capital project funds other than the Post Lantern Street Light Project fund, trust funds, agency funds, and the following special purpose funds:

Liability, Drug Forfeiture, History Center, Hotel Economic Development, MVE Inspection, and Safety Dividends

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.

All budgets must be filed with the County Clerk by August 25th. The County Clerk must calculate the final tax levy rates necessary to finance the budget subject to any legal limitations. After all budgets have been received and tax rates calculated, the County Clerk certifies the tax roll to the County Treasurer, who prepares tax statements and receives payment.

These taxes become a lien against all property on November 1st. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20th and May 10th. Delinquent taxes are assessed interest at 12% per annum. This interest is retained by the County.

Taxes levied to finance the budget are made available to the City after January 1st and are distributed by the County Treasurer approximately every month and a half. At least 50% of the taxes levied are available in January. Delinquent tax collections are distributed throughout the year.

The County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the City, is on or before January 20th of the ensuing year. Additional amounts are distributed on four subsequent dates through the calendar year.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(d) Annual Personal and Sick Leave Benefits

Under the terms of the City's personnel policy, City employees are granted annual personal and sick leave in varying amounts.

Full-time employees accrue vacation each year at a rate of eighty hours beginning after six months of employment. After five full years of consecutive service, employees accrue vacation each year at a rate of eighty hours plus eight additional hours for each consecutive year of service in excess of five years, to a maximum of two-hundred hours per year.

Upon termination or resignation, employees are compensated for unused vacation time, up to a maximum of the yearly amount of vacation time earned. As of December 31, 2019, the liability for earned vacation pay is \$ 94,272.

(e) Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase.

(f) Use of Estimates

The preparation of the financial statement in compliance with the regulatory basis requires management to make estimates and assumptions that affect the reported amounts of encumbrances at the date of the financial statement and the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

3 - Long-Term Debt

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

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

3 - Long-Term Debt (Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year.

On February 14, 2019, the City issued Series 2019 general obligation bonds in the amount of \$ 1,885,000 for the purpose of paying off its state agency loan and to finance a portion of the costs of certain water improvements. This bond matures on February 14, 2059 and has an interest rate of 1.75%.

State Agency Loans. In 2015, the City arranged for a \$ 6,700,000 loan through the Kansas Public Water Supply Loan Fund for improving the public water supply system in Hiawatha. The terms of the loan specified that a principal forgiveness amount will be calculated at 30% of the final loan amount associated with the qualifying portion of the project that returns the public water supply system to compliance with maximum contaminant level requirements. The loan included a gross interest rate of 2.21% including a 0.35% service fee. During fiscal year 2019, the City paid off the loan in its entirety using the proceeds from its Series 2019 general obligation bond issuance.

General Obligation Sales Tax Temporary Note. In 2018, the City issued a \$ 6,000,000 general obligation sales tax temporary note. The note was issued for the purpose of providing funds to pay for the sales tax street project.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

3 - Long-Term Debt (Continued)

Changes in long-term debt for the City for the year ended December 31, 2019 were as follows:

Issue	Interest Rates	Date of Issue	Date of Final Maturity	Original Amount Issued	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General obligation bonds*:									
Series 2011	2.75 - 3.75%	08/15/11	10/01/26	\$ 400,000	\$ 235,000	\$ -	\$ 25,000	\$ 210,000	\$ 8,313
Series 2012	2.00 - 2.75%	03/15/12	08/01/26	1,265,000	800,000	-	100,000	700,000	18,337
Series 2012-B	2.25 - 4.00%	10/01/12	10/01/43	6,530,000	5,090,000	-	370,000	4,720,000	166,940
Series 2014-A	2.75%	01/28/14	01/28/54	998,000	939,633	-	15,609	924,024	25,840
Series 2014-B	3.50%	01/28/14	01/28/24	258,400	165,561	-	25,276	140,285	5,795
Series 2016-A	1.75%	06/15/16	06/15/56	1,373,000	1,324,602	-	24,836	1,299,766	23,180
Series 2016-B	1.75%	06/15/16	06/15/56	93,000	89,722	-	1,682	88,040	1,570
Series 2019	1.75%	02/14/19	02/14/59	1,885,000	-	1,885,000	-	1,885,000	-
Total general obligation bonds					8,644,518	1,885,000	562,403	9,967,115	249,975
State agency loan:									
Kansas Public Water Supply Loan	1.86%	07/27/15	02/01/19	6,700,000	4,407,676	190,490	4,598,166	-	45,950
Temporary note:									
Series 2018	3.15%	12/07/18	12/01/21	6,000,000	6,000,000	-	-	6,000,000	185,850
Total long-term debt					\$ 19,052,194	\$ 2,075,490	\$ 5,160,569	\$ 15,967,115	\$ 481,775

* Portions of the above general obligation bonds were used to finance projects related to the Water, Sewer, and Post Lantern Street Light Project Funds or were used to refund debt previously incurred by those funds. Transfers are made each year from these funds to the Debt Service fund to pay for the portions of the debt related to their respective projects. See more details of these transfers at Note 10.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT (Continued)

3 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds and temporary note are as follows:

	Year										Thereafter	Total
	2020	2021	2022	2023	2024	2025-2029	2030-2034	2035-2039	2040-2044	2045-2049		
Principal:												
General obligation bonds:												
Series 2011	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 65,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,000
Series 2012	105,000	110,000	110,000	110,000	100,000	165,000	-	-	-	-	-	700,000
Series 2012-B	385,000	255,000	260,000	270,000	280,000	735,000	630,000	890,000	1,015,000	-	-	4,720,000
Series 2014-A	16,038	16,479	16,932	17,398	17,876	97,031	111,126	127,269	145,758	166,933	191,184	924,024
Series 2014-B	26,160	27,076	28,024	29,005	30,020	-	-	-	-	-	-	140,285
Series 2016-A	25,271	25,713	26,163	26,621	27,087	142,712	155,643	169,748	185,131	201,905	313,772	1,299,766
Series 2016-B	1,712	1,742	1,772	1,803	1,835	9,667	10,543	11,498	12,540	13,676	21,252	88,040
Series 2019	32,935	33,511	34,098	34,694	35,302	185,993	202,847	221,229	241,277	263,140	599,974	1,885,000
Total general obligation bonds	617,116	499,521	506,989	519,521	522,120	1,400,403	1,110,159	1,419,744	1,599,706	645,654	1,126,182	9,967,115
Temporary note:												
Series 2018	-	6,000,000	-	-	-	-	-	-	-	-	-	6,000,000
Total principal	<u>\$ 617,116</u>	<u>\$ 6,499,521</u>	<u>\$ 506,989</u>	<u>\$ 519,521</u>	<u>\$ 522,120</u>	<u>\$ 1,400,403</u>	<u>\$ 1,110,159</u>	<u>\$ 1,419,744</u>	<u>\$ 1,599,706</u>	<u>\$ 645,654</u>	<u>\$ 1,126,182</u>	<u>\$ 15,967,115</u>
Interest:												
General obligation bonds:												
Series 2011	\$ 7,625	\$ 6,938	\$ 5,813	\$ 4,688	\$ 3,563	\$ 3,876	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,503
Series 2012	16,338	14,119	11,644	9,100	6,413	5,775	-	-	-	-	-	63,389
Series 2012-B	155,840	144,290	136,640	130,140	123,390	540,053	452,688	320,000	103,400	-	-	2,106,441
Series 2014-A	25,411	24,970	24,516	24,051	23,572	110,212	96,116	79,972	61,483	40,309	16,058	526,670
Series 2014-B	4,910	3,994	3,047	2,066	1,051	-	-	-	-	-	-	15,068
Series 2016-A	22,808	22,304	21,854	21,396	20,987	97,423	84,486	70,376	55,014	38,197	22,358	477,203
Series 2016-B	1,545	1,511	1,480	1,449	1,422	6,599	5,723	4,767	3,726	2,587	1,514	32,323
Series 2019	32,897	32,500	31,825	31,228	30,537	143,698	126,762	108,380	88,291	66,511	59,244	751,873
Total general obligation bonds	267,374	250,626	236,819	224,118	210,935	907,636	765,775	583,495	311,914	147,604	99,174	4,005,470
Temporary note:												
Series 2018	189,000	189,000	-	-	-	-	-	-	-	-	-	378,000
Total interest	<u>\$ 456,374</u>	<u>\$ 439,626</u>	<u>\$ 236,819</u>	<u>\$ 224,118</u>	<u>\$ 210,935</u>	<u>\$ 907,636</u>	<u>\$ 765,775</u>	<u>\$ 583,495</u>	<u>\$ 311,914</u>	<u>\$ 147,604</u>	<u>\$ 99,174</u>	<u>\$ 4,383,470</u>
Total principal and interest	<u>\$ 1,073,490</u>	<u>\$ 6,939,147</u>	<u>\$ 743,808</u>	<u>\$ 743,639</u>	<u>\$ 733,055</u>	<u>\$ 2,308,039</u>	<u>\$ 1,875,934</u>	<u>\$ 2,003,239</u>	<u>\$ 1,911,620</u>	<u>\$ 793,258</u>	<u>\$ 1,225,356</u>	<u>\$ 20,350,585</u>

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

3 - Long-Term Debt (Continued)

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as regulatory receipts in the appropriate project. Special assessments received after the issuance of bonds are recorded as regulatory receipts in the Bond and Interest Fund. The special assessment debt is a contingent liability of the City to the extent of property owner defaults which have historically been immaterial.

Conduit Debt Obligations. From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported in the accompanying financial statement. As of December 31, 2019, there were two series of Industrial Revenue Bonds outstanding, with an aggregate original principal amount payable of \$ 7,690,000 and an outstanding balance of \$ 4,755,000.

4 - 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. The City has no other policies that would further limit interest rate risk.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

4 - Deposits and Investments (Continued)

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. As of December 31, 2019, the City had the following unsecured investments:

<u>Investment Type</u>	<u>Fair Value</u>
Bank of Blue Valley:	
Cash and cash equivalents	\$ 1,823,029
U.S. treasury notes	<u>1,299,340</u>
Total	<u><u>\$ 3,122,369</u></u>

K.S.A. 12-1225(h) authorizes library boards to invest or reinvest gifts and donations and any dividends, interest, rent, or income derived from the gifts in the manner the board deems will best serve the interest of the library. The Morrill Public Library had the following unsecured investments from gifts and donations at December 31, 2019:

<u>Investment Type</u>	<u>Fair Value</u>
Citizens State Bank & Trust:	
Bond funds	\$ 143,183
Cash and cash equivalents	10,134
Stocks and mutual funds	20,834
Other investments	900
Edward Jones:	
Cash and cash equivalents	70,039
Stocks and mutual funds	<u>516,512</u>
Total	<u><u>\$ 761,602</u></u>

Concentration of Credit Risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

4 - Deposits and Investments (Continued)

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. Kansas statutes require the deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City.

At December 31, 2019, the City's and Library's carrying amounts of deposits were \$ 4,385,813 and \$ 405,569, respectively, and the bank balances were \$ 4,412,159 and \$ 405,911, respectively. The City's and Library's bank balances were held by two banks resulting in a concentration of credit risk. Of the City's bank balance, \$ 251,000 was covered by federal depository insurance and the remainder was collateralized with securities held by the pledging financial institutions' agents in the City's name. The Library's bank balance was fully covered by federal depository insurance.

Custodial Credit Risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

5 - Defined Benefit 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, *et seq.* Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statement and required supplementary information. KPERS' financial statement are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas Avenue, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

5 - Defined Benefit Pension Plan (Continued)

Contributions. K.S.A. 74-4919 and K.S.A. 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, 2015. Effective January 1, 2015, 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(h) 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) and the statutory contribution rate was 8.89% for the fiscal year ended December 31, 2019. Contributions to the pension plan from the City were \$ 122,815 for the year ended December 31, 2019.

Net Pension Liability

At December 31, 2019, the City's proportionate share of the collective net pension liability reported by KPERS was \$909,983. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, which was rolled forward to June 30, 2019. 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 these financial statements.

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

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

6 - Risk Management

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

7 - Commitments and Contingencies

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the basic financial statement as of December 31, 2019.

8 - Capital Leases of Equipment

The City has entered into lease agreements as lessee for financing the acquisition of equipment.

During the year ended December 31, 2019, the following changes occurred in capital leases:

	January 1, 2019	Additions	Retirements	December 31, 2019	Interest Paid
Capital lease obligations:					
Governmental funds	\$ 91,287	\$ -	\$ 29,537	\$ 61,750	\$ 2,729

CITY OF HIAWATHA, KANSAS
NOTES TO FINANCIAL STATEMENT
(Continued)

8 - Capital Leases of Equipment (Continued)

Annual debt service requirements to maturity for capital leases are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 32,266
2021	<u>32,266</u>
Total principal and interest	64,532
Less: interest and fees	<u>2,782</u>
Total principal	<u><u>\$ 61,750</u></u>

9 - Related Party Transactions

The Library paid \$ 9,160 during the year ended December 31, 2019 for accounting services to a company owned by a member of the board. This member resigned from the board in July 2019.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

10 - Interfund Transfers

Transfers by fund for 2019 are as follows:

From	To	Regulatory Authority	Amount
General	Special events	KSA 12-1118	\$ 5,000
General	Bond and interest	KSA 12-1118	31,071
Industrial	Bond and interest	Debt Service	156,700
Post lantern street light	Bond and interest	Debt Service	142,130
Other capital projects	Special streets	KSA 12-1118	86,453
Water	Bond and interest	KSA 12-825d	53,973
Water	Pool	KSA 12-825d	55,000
Water	Employee benefit	KSA 12-825d	122,220
Sewer	Employee benefit	KSA 12-825d	80,499
Sewer	Bond and interest	KSA 12-825d	343,141
Pool	Employee benefit	KSA 12-825d	6,800

11 - Other Long-Term Obligations from Operations

Other Post-Employment Benefits. As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in the basic financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

Death and Disability Other Post-Employment Benefits. As provided by K.S.A. 74-4927, disabled members in the Kansas Public Employees Retirement System (KPERS) receive long-term disability benefits and life insurance benefits. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. The employer contribution rate is set at 1% for the year ended December 31, 2019.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

12 - Capital Project

During 2019, the City started construction work towards improving the City streets, alleys and parking, and other transportation related needs. The original authorization for this Citywide Sales Tax Street Improvements contract was issued on August 20, 2018 in the amount of \$5,564,188. There have been no change orders to date, and the total expenditures incurred for the project as of December 31, 2019 were \$ 2,881,023.

13 - Statutory Compliance

The Hotel Economic Development Fund had a deficit cash balance of \$ 3,742 at December 31, 2019 that will be recovered from future tax revenues.

The Capital Reserve Fund had a deficit cash balance of \$ 96,221 at December 31, 2019 that will be recovered from future general revenues.

The Brick Streets KDOT Grant Fund had a deficit cash balance of \$ 204 at December 31, 2019 that will be recovered from future general revenues.

14 - Subsequent Events

Morrill Public Library went into a contractual agreement with AHRS Construction, Inc. for the Library's remodel project commencing on January 22, 2020. The completion date is expected to be August 18, 2020. The contractual amount of the agreement was \$ 710,152 excluding change orders.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the pandemic.

CITY OF HIAWATHA, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

14 - Subsequent Events (Continued)

It is unknown how long the adverse conditions associated with the pandemic will last and what the complete financial effect will be to the City. Accordingly, while management cannot quantify the financial and other impacts to the City as of December 31, 2019, management believes that a material impact on the City's financial position and results of future operations is reasonably possible.

SUPPLEMENTARY INFORMATION

CITY OF HIAWATHA, KANSAS

SUMMARY OF EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS

Year Ended December 31, 2019

	<u>Certified Budget</u>
<u>FUNDS</u>	
Governmental type funds:	
General fund	\$ 2,166,780
Special purpose:	
Library	152,350
Industrial	175,000
Recreation	102,467
Employee benefit	815,510
Special highway	483,733
Parks and recreation	19,800
Special events	6,500
Special streets	325,000
Bond and interest fund	1,072,235
Capital projects fund:	
Post lantern street light project	142,130
Business funds:	
Water	2,252,861
Sewer	873,761
Storm water utility	80,000
Pool	134,517
Airport	28,870
	<hr/>
Totals	<u>\$ 8,831,514</u>

<u>Adjustment to Comply with Legal Max</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
\$ -	\$ 2,166,780	\$ 1,528,105	\$ (638,675)
-	152,350	144,164	(8,186)
-	175,000	172,002	(2,998)
-	102,467	49,465	(53,002)
-	815,510	586,927	(228,583)
-	483,733	455,514	(28,219)
-	19,800	8,835	(10,965)
-	6,500	6,500	-
-	325,000	187,130	(137,870)
-	1,072,235	812,378	(259,857)
-	142,130	142,130	-
-	2,252,861	2,196,998	(55,863)
-	873,761	840,954	(32,807)
-	80,000	71,163	(8,837)
-	134,517	127,200	(7,317)
-	28,870	28,320	(550)
<u>\$ -</u>	<u>\$ 8,831,514</u>	<u>\$ 7,357,785</u>	

CITY OF HIAWATHA, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Taxes	\$ 1,157,212	\$ 1,200,723	\$ 43,511
Licenses and permits	13,700	24,707	11,007
Charges for services	26,200	21,468	(4,732)
Fines and fees	265,000	249,559	(15,441)
Use of money and property	51,350	45,389	(5,961)
Reimbursed expenses	5,000	58,114	53,114
Miscellaneous	-	42,604	42,604
Transfers in	23,000	-	(23,000)
Total receipts and transfers	<u>\$ 1,541,462</u>	<u>1,642,564</u>	<u>\$ 101,102</u>
Expenditures, encumbrances and transfers:			
General government	\$ 933,647	499,520	\$ (434,127)
Public safety	721,976	623,311	(98,665)
Highways and streets	104,300	83,266	(21,034)
Culture and recreation	113,295	106,276	(7,019)
Capital outlay	137,500	95,175	(42,325)
Ambulance	34,578	34,578	-
Miscellaneous	60,413	49,908	(10,505)
Transfers out	61,071	36,071	(25,000)
Total expenditures, encumbrances and transfers	<u>\$ 2,166,780</u>	<u>1,528,105</u>	<u>\$ (638,675)</u>
Receipts and transfers over expenditures, encumbrances and transfers		114,459	
Unencumbered cash, beginning		<u>745,350</u>	
Unencumbered cash, ending		<u>\$ 859,809</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

LIBRARY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 147,488	\$ 140,662	\$ (6,826)
Miscellaneous	-	3,515	3,515
Total receipts	<u>\$ 147,488</u>	<u>144,177</u>	<u>\$ (3,311)</u>
Expenditures:			
Appropriation - related municipal entity	<u>\$ 152,350</u>	<u>144,164</u>	<u>\$ (8,186)</u>
Receipts over expenditures		13	
Unencumbered cash, beginning		<u>23</u>	
Unencumbered cash, ending		<u>\$ 36</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

INDUSTRIAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 175,000	\$ 180,020	\$ 5,020
Use of money and property	-	1	1
Total receipts	<u>\$ 175,000</u>	<u>180,021</u>	<u>\$ 5,021</u>
Expenditures and transfers:			
Commodities	\$ 3,000	3,106	\$ 106
Contractual	12,300	12,196	(104)
Transfers out	<u>159,700</u>	<u>156,700</u>	<u>(3,000)</u>
Total expenditures and transfers	<u>\$ 175,000</u>	<u>172,002</u>	<u>\$ (2,998)</u>
Receipts over expenditures and transfers		8,019	
Unencumbered cash, beginning		<u>91,375</u>	
Unencumbered cash, ending		<u>\$ 99,394</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 32,366	\$ 30,780	\$ (1,586)
Charges for services	36,360	32,482	(3,878)
Miscellaneous	-	282	282
Reimbursements	-	574	574
Total receipts	<u>\$ 68,726</u>	<u>64,118</u>	<u>\$ (4,608)</u>
Expenditures and encumbrances:			
Personal services	\$ 18,391	10,872	\$ (7,519)
Contractual	63,186	21,070	(42,116)
Commodities	20,890	14,576	(6,314)
Capital outlay	-	2,947	2,947
Total expenditures and encumbrances	<u>\$ 102,467</u>	<u>49,465</u>	<u>\$ (53,002)</u>
Receipts over expenditures and encumbrances		14,653	
Unencumbered cash, beginning		<u>50,332</u>	
Unencumbered cash, ending		<u>\$ 64,985</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

EMPLOYEE BENEFIT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Taxes	\$ 383,909	\$ 372,853	\$ (11,056)
Miscellaneous	-	3,140	3,140
Reimbursed expenses	-	5,869	5,869
Transfers in	209,519	209,519	-
Total receipts and transfers	<u>\$ 593,428</u>	<u>591,381</u>	<u>\$ (2,047)</u>
Expenditures:			
Social security	\$ 108,610	103,926	\$ (4,684)
Retirement	114,360	122,815	8,455
Unemployment	7,080	698	(6,382)
Worker's compensation insurance	32,248	19,431	(12,817)
Health insurance	356,050	340,057	(15,993)
Contractual	197,162	-	(197,162)
Total expenditures	<u>\$ 815,510</u>	<u>586,927</u>	<u>\$ (228,583)</u>
Receipts and transfers over expenditures		4,454	
Unencumbered cash, beginning		<u>250,700</u>	
Unencumbered cash, ending		<u>\$ 255,154</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

SPECIAL HIGHWAY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 350,000	\$ 360,006	\$ 10,006
Intergovernmental	83,100	86,015	2,915
Reimbursed expenses	-	5,629	5,629
Total receipts	<u>\$ 433,100</u>	<u>451,650</u>	<u>\$ 18,550</u>
Expenditures, encumbrances and transfers:			
Personal services	\$ 138,446	140,957	\$ 2,511
Contractual	39,850	27,713	(12,137)
Commodities	48,970	70,400	21,430
Capital outlay	251,467	216,444	(35,023)
Transfers out	5,000	-	(5,000)
Total expenditures, encumbrances and transfers	<u>\$ 483,733</u>	<u>455,514</u>	<u>\$ (28,219)</u>
Receipts under expenditures, encumbrances and transfers		(3,864)	
Unencumbered cash, beginning		<u>384,666</u>	
Unencumbered cash, ending		<u>\$ 380,802</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

PARKS AND RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 5,517	\$ 5,917	\$ 400
Expenditures:			
Capital outlay	\$ 19,800	8,835	\$ (10,965)
Receipts under expenditures		(2,918)	
Unencumbered cash, beginning		19,770	
Unencumbered cash, ending		\$ 16,852	

(Continued)

CITY OF HIAWATHA, KANSAS

SPECIAL EVENTS FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Donations	\$ 2,500	\$ 2,500	\$ -
Transfers in	3,000	5,000	2,000
Total receipts and transfers	<u>\$ 5,500</u>	<u>7,500</u>	<u>\$ 2,000</u>
Expenditures:			
Events	<u>\$ 6,500</u>	<u>6,500</u>	<u>\$ -</u>
Receipts and transfers over expenditures		1,000	
Unencumbered cash, beginning		<u>7,072</u>	
Unencumbered cash, ending		<u>\$ 8,072</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

SPECIAL STREETS

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Taxes	\$ 350,000	\$ 360,006	\$ 10,006
Transfers in	-	86,453	86,453
Total receipts and transfers	<u>\$ 350,000</u>	<u>446,459</u>	<u>\$ 96,459</u>
Expenditures:			
Personal services	\$ -	1,119	\$ 1,119
Contractual	-	161	161
Capital outlay	325,000	-	(325,000)
Interest and other charges	-	185,850	185,850
Total expenditures	<u>\$ 325,000</u>	<u>187,130</u>	<u>\$ (137,870)</u>
Receipts and transfers over expenditures		259,329	
Unencumbered cash, beginning		<u>82,812</u>	
Unencumbered cash, ending		<u>\$ 342,141</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

BOND AND INTEREST FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Taxes	\$ 93,119	\$ 90,022	\$ (3,097)
Reimbursed expenses	-	15,210	15,210
Transfers in	727,015	727,015	-
Total receipts and transfers	<u>\$ 820,134</u>	<u>832,247</u>	<u>\$ 12,113</u>
Expenditures:			
Principal	\$ 547,898	562,403	\$ 14,505
Interest and other charges	264,481	249,975	(14,506)
Reserves	259,856	-	(259,856)
Total expenditures	<u>\$ 1,072,235</u>	<u>812,378</u>	<u>\$ (259,857)</u>
Receipts and transfers over expenditures		19,869	
Unencumbered cash, beginning		<u>273,870</u>	
Unencumbered cash, ending		<u>\$ 293,739</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

POST LANTERN STREET LIGHT PROJECT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Taxes	\$ 175,000	\$ 180,003	\$ 5,003
Use of money and property	600	714	114
Total receipts	<u>\$ 175,600</u>	<u>180,717</u>	<u>\$ 5,117</u>
Transfers:			
Transfers out	<u>\$ 142,130</u>	<u>142,130</u>	<u>\$ -</u>
Receipts over transfers		38,587	
Unencumbered cash, beginning		<u>217,273</u>	
Unencumbered cash, ending		<u>\$ 255,860</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

WATER FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts:			
Charges for services	\$ 897,900	\$ 872,642	\$ (25,258)
Reimbursed expenses	-	3,363	3,363
Miscellaneous	-	480	480
Total receipts	<u>\$ 897,900</u>	<u>876,485</u>	<u>\$ (21,415)</u>
Expenditures, encumbrances and transfers:			
Personal services	\$ 240,198	230,531	\$ (9,667)
Contractual	183,320	226,288	42,968
Commodities	106,150	69,614	(36,536)
Capital outlay	1,492,000	39,372	(1,452,628)
Principal	-	1,354,050	1,354,050
Interest and other charges	-	45,950	45,950
Transfers out	231,193	231,193	-
Total expenditures, encumbrances and transfers	<u>\$ 2,252,861</u>	<u>2,196,998</u>	<u>\$ (55,863)</u>
Receipts under expenditures, encumbrances and transfers		(1,320,513)	
Unencumbered cash, beginning		<u>2,014,953</u>	
Unencumbered cash, ending		<u>\$ 694,440</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

SEWER FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
	<u>Budget</u>	<u>Actual</u>	<u>(Under)</u>
Receipts:			
Charges for services	\$ 861,500	\$ 850,393	\$ (11,107)
Reimbursed expenses	3,000	27	(2,973)
Use of money and property	-	4,667	4,667
Miscellaneous	-	500	500
	<u> </u>	<u> </u>	<u> </u>
Total receipts	<u>\$ 864,500</u>	<u>855,587</u>	<u>\$ (8,913)</u>
Expenditures, encumbrances and transfers:			
Personal services	\$ 161,911	157,409	\$ (4,502)
Contractual	144,560	179,021	34,461
Commodities	23,650	23,564	(86)
Capital outlay	102,000	57,320	(44,680)
Transfers out	441,640	423,640	(18,000)
	<u> </u>	<u> </u>	<u> </u>
Total expenditures, encumbrances and transfers	<u>\$ 873,761</u>	<u>840,954</u>	<u>\$ (32,807)</u>
Receipts over expenditures, encumbrances and transfers		14,633	
Unencumbered cash, beginning		<u>559,191</u>	
Unencumbered cash, ending		<u>\$ 573,824</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

STORM WATER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
	<u>Budget</u>	<u>Actual</u>	<u>(Under)</u>
Receipts:			
Charges for services	\$ 80,000	\$ 79,492	\$ (508)
Expenditures and encumbrances:			
Contractual	\$ 760	1,014	\$ 254
Commodities	7,090	7,148	58
Capital outlay	72,150	63,001	(9,149)
Total expenditures and encumbrances	\$ 80,000	71,163	\$ (8,837)
Receipts over expenditures and encumbrances		8,329	
Unencumbered cash, beginning		96,545	
Unencumbered cash, ending		\$ 104,874	

(Continued)

CITY OF HIAWATHA, KANSAS

POOL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
Receipts and transfers:			
Charges for services	\$ 47,200	\$ 41,177	\$ (6,023)
Reimbursed expenses	-	1,236	1,236
Miscellaneous	-	64	64
Use of money and property	1,000	1,170	170
Transfers in	55,000	55,000	-
Total receipts and transfers	<u>\$ 103,200</u>	<u>98,647</u>	<u>\$ (4,553)</u>
Expenditures and transfers:			
Personal services	\$ 58,227	55,569	\$ (2,658)
Contractual	29,460	31,323	1,863
Commodities	15,030	8,508	(6,522)
Capital outlay	25,000	25,000	-
Transfers out	6,800	6,800	-
Total expenditures	<u>\$ 134,517</u>	<u>127,200</u>	<u>\$ (7,317)</u>
Receipts and transfers under expenditures and transfers		(28,553)	
Unencumbered cash, beginning		<u>187,289</u>	
Unencumbered cash, ending		<u>\$ 158,736</u>	

(Continued)

CITY OF HIAWATHA, KANSAS

AIRPORT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

	Budget	Actual	Variance - Over (Under)
	<u>Budget</u>	<u>Actual</u>	<u>(Under)</u>
Receipts:			
Charges for services	\$ 23,200	\$ 23,872	\$ 672
Reimbursed expenses	<u>-</u>	<u>40,799</u>	<u>40,799</u>
Total receipts	<u>\$ 23,200</u>	<u>64,671</u>	<u>\$ 41,471</u>
Expenditures:			
Subject to budget:			
Contractual	\$ 4,600	18,132	\$ 13,532
Commodities	-	984	984
Capital outlay	<u>24,270</u>	<u>9,204</u>	<u>(15,066)</u>
Total expenditures subject to budget	<u>\$ 28,870</u>	<u>28,320</u>	<u>\$ (550)</u>
Not subject to budget:			
Contractual		<u>40,799</u>	
Total expenditures		69,119	
Receipts under expenditures		(4,448)	
Unencumbered cash, beginning		<u>30,893</u>	
Unencumbered cash, ending		<u>\$ 26,445</u>	

CITY OF HIAWATHA, KANSAS

LIABILITY FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS

Year Ended December 31, 2019

Unencumbered cash, beginning	\$ 500
Unencumbered cash, ending	<u>\$ 500</u>

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

DRUG FORFEITURE FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

Expenditures:	
Capital outlay	\$ 15,961
Unencumbered cash, beginning	<u>15,961</u>
Unencumbered cash, ending	<u>\$ -</u>

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

HISTORY CENTER FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

Receipts:	
Miscellaneous	<u>\$ 27,597</u>
Expenditures:	
General government	<u>21,312</u>
Receipts over expenditures	6,285
Unencumbered cash, beginning	<u>21,730</u>
Unencumbered cash, ending	<u><u>\$ 28,015</u></u>

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

HOTEL ECONOMIC DEVELOPMENT FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2019

Receipts:	
Taxes	\$ 68,808
Expenditures:	
Contractual	1,250
Capital outlay	98,748
Total expenditures	99,998
Receipts under expenditures	(31,190)
Unencumbered cash, beginning	27,448
Unencumbered cash, ending	\$ (3,742)

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

MVE INSPECTION FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

Receipts:	
MVE inspections	\$ 6,877
Expenditures:	
Capital improvements	2,904
Receipts over expenditures	3,973
Unencumbered cash, beginning	5,747
Unencumbered cash, ending	\$ 9,720

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

SAFETY DIVIDENDS FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

Unencumbered cash, beginning	\$ 36,852
Unencumbered cash, ending	<u>\$ 36,852</u>

* This fund is not required to be budgeted.

(Continued)

CITY OF HIAWATHA, KANSAS

OTHER CAPITAL PROJECTS FUNDS*

SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
(Continued)

Year Ended December 31, 2019

	Capital Reserve Fund	Fisher Building	Skate Park
Receipts:			
Grant proceeds	\$ -	\$ -	\$ -
Donations	-	-	-
Miscellaneous	-	-	-
Bond/note proceeds	-	-	-
Use of money and property	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures and transfers:			
General government	-	-	-
Contractual	-	-	347
Capital outlay	145,199	-	1,292
Debt service	-	-	-
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and transfers	<u>145,199</u>	<u>-</u>	<u>1,639</u>
Receipts over (under) expenditures and transfers	(145,199)	-	(1,639)
Unencumbered cash, beginning	<u>48,978</u>	<u>202</u>	<u>2,311</u>
Unencumbered cash, ending	<u>\$ (96,221)</u>	<u>\$ 202</u>	<u>\$ 672</u>

* These funds are not required to be budgeted.

School & Fitness Trail	Bruning Upgrades	Grant/ Donation	Sales Tax Streets	Brick Streets KDOT Grant	Water Improvement	Total
\$ -	\$ -	\$ 2,676	\$ -	\$ -	\$ -	\$ 2,676
-	-	22,244	-	-	-	22,244
-	-	1,130	-	-	-	1,130
-	-	-	-	-	2,075,490	2,075,490
-	-	-	101,709	-	-	101,709
-	-	26,050	101,709	-	2,075,490	2,203,249
-	-	1,130	10,608	-	-	11,738
-	-	-	-	-	-	347
16,139	-	19,699	2,881,023	-	210,303	3,273,655
-	-	-	-	-	1,860,979	1,860,979
-	-	-	86,453	-	-	86,453
16,139	-	20,829	2,978,084	-	2,071,282	5,233,172
(16,139)	-	5,221	(2,876,375)	-	4,208	(3,029,923)
18,020	918	28,887	6,000,616	(204)	86,337	6,186,065
\$ 1,881	\$ 918	\$ 34,108	\$ 3,124,241	\$ (204)	\$ 90,545	\$ 3,156,142

CITY OF HIAWATHA, KANSAS

TRUST FUNDS

SCHEDULE OF RECEIPTS, EXPENDITURES, AND
UNENCUMBERED CASH
REGULATORY BASIS

Year Ended December 31, 2019

	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances
Permanent funds:		
C.H. Janes Poor Memorial	\$ 4,749	\$ -
G.A.R. Memorial	1,946	-
Morrissee Memorial	2,834	-
Daisy Hassenpflug Memorial	1,303	-
Private purpose trust funds:		
Lake	1,233	-
Child safety	1,758	-
Kiwanis	56	-
Bruning Memorial	541	-
Widman Memorial	1,665	-
Envisioning	99	-
Hockey rink	1,130	-
Total trust funds	\$ 17,314	\$ -

<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
\$ -	\$ -	\$ 4,749	\$ -	\$ 4,749
-	-	1,946	-	1,946
-	-	2,834	-	2,834
-	-	1,303	-	1,303
1,288	1,274	1,247	-	1,247
-	-	1,758	-	1,758
-	-	56	-	56
-	-	541	-	541
17	-	1,682	-	1,682
-	-	99	-	99
-	-	1,130	-	1,130
<u>\$ 1,305</u>	<u>\$ 1,274</u>	<u>\$ 17,345</u>	<u>\$ -</u>	<u>\$ 17,345</u>

CITY OF HIAWATHA, KANSAS

AGENCY FUNDS

SUMMARY OF RECEIPTS AND DISBURSEMENTS

Year Ended December 31, 2019

Fund	Beginning Cash Balance	Receipts	Disbursements	Ending Cash Balance
Sales tax	\$ 1,269	\$ 16,890	\$ 15,705	\$ 2,454
Municipal court bond	4,715	16,578	15,794	5,499
Insurance proceeds	18,910	19	-	18,929
Total agency funds	<u>\$ 24,894</u>	<u>\$ 33,487</u>	<u>\$ 31,499</u>	<u>\$ 26,882</u>

CITY OF HIAWATHA, KANSAS

MORRILL PUBLIC LIBRARY - RELATED MUNICIPAL ENTITY

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
REGULATORY BASIS

Year Ended December 31, 2019

Receipts:

Grants and state appropriations	\$ 26,830
City appropriation	144,164
Fines and fees	5,207
Gifts and donations	24,130
Interest and interest earnings	56,443
Farm income	43,592
Miscellaneous	23,232
Gain (loss) of value on investments	(3,546)
	<hr/>
Total receipts	320,052
	<hr/>

Expenditures:

Salary and payroll taxes	197,915
Books, periodical, videos, and film	37,979
Supplies	7,865
Repairs and maintenance	14,892
Utilities	18,765
Insurance	8,640
Continuing education	145
Professional fees	9,235
Capital improvements	49,669
Miscellaneous and postage	4,838
	<hr/>
Total expenditures	349,943
	<hr/>

Receipts under expenditures (29,891)

Unencumbered cash, beginning

1,194,160Unencumbered cash, ending

\$ 1,164,269

CITY OF HIAWATHA, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,885,000</u>
Total federal expenditures		<u><u>\$ 1,885,000</u></u>

See accompanying notes to schedule of expenditures of
federal awards

CITY OF HIAWATHA, KANSAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2019

1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Hiawatha, Kansas (the City) under programs of the federal government for the year ended December 31, 2019. The information in this 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statement. 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 financial position, or cash flows of the City.

2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the regulatory basis of accounting, as described in Note 2 to the City's financial statement. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3 - Federal Loan Programs

The City administers water and waste disposal systems for rural communities and community facilities loan programs funded by the U.S. Department of Agriculture. Balances and transactions relating to this program are included in City's basic financial statement. Loans made during the year are included in the federal expenditures presented in the Schedule. Per the Uniform Guidance, in years after program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding loan balances, the prior loan balances are not considered federal awards expended.

The balances of the loans outstanding at December 31, 2019 by program are as follows.

CFDA Number	Program Name	Outstanding Balance
10.760	Water and Waste Disposal Systems for Rural Communities	\$ 4,196,829
10.766	Community Facilities Loans and Grants	\$ 140,285

CITY OF HIAWATHA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2019

Section I – Summary of Auditors’ Results

Financial Statement

Type of report issued on whether the financial statement audited was prepared in accordance with GAAP:	Adverse
Type of auditors’ report issued on the basis of accounting used by the City:	Unmodified – Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	Finding 2019-001 and 2019-002
Noncompliance material to the financial statement:	None

Federal Awards

Type of auditors’ report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	None noted
Audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a):	None
Identification of major programs:	
<u>CFDA Number</u> 10.760	<u>Name of Federal Program or Cluster</u> Water and Waste Disposal Systems for Rural Communities

CITY OF HIAWATHA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

December 31, 2019

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

Finding 2019-001 Significant Deficiency

Prior Reference Number – None

Condition – During the course of the audit, the auditors identified adjustments to the trial balance that were not initially identified by the City's internal control structure.

Criteria – The financial statement is the responsibility of management. As such, the City's internal control over the financial statement should identify misstatements on a timely basis.

Cause – The controls in place failed to ensure that all required journal entries were made during the year.

Effect – Adjusting journal entries were made as a result of the audit.

Recommendation – The City's management should review its trial balance at year end to ensure that all adjustments have been made.

Management's Response/Corrective Action Plan (Unaudited) – As stated in your explanation of 2019-001, the \$5M was recorded as an expenditure. Originally, we received \$6M in revenue in 2018 resulting from the issuance of the temporary notes to fund the Citywide Streets Sales Tax project. In January of 2019, we invested \$5M of said \$6M in government backed short term securities so the monies could earn interest while waiting to be drawn against to pay the contractor for the project as it progressed. You've stated the \$5M should have been shown as an asset. While in theory, it remains an asset to the City, because we initially received \$6M but were going to invest \$5M, we don't see any other way to show it in our financial recording software other than as an expenditure since the monies physically left the account the \$6M was initially deposited into. Therefore, city management disagrees that the finding is on the part of City management. That being said, our corrective action to prevent this sort of disagreement in the future is to contact our auditor prior to taking action on this sort should it arise.

Contact Name – Tish Sims, City Clerk

CITY OF HIAWATHA, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings (Continued)

Finding 2019-001 Significant Deficiency (Continued)

Expected Completion Date – December 31, 2021

Finding 2019-002 Significant Deficiency

Prior Reference Number – None

Condition – During the audit, the City was unable to provide a listing of outstanding items in accounts payable at yearend.

Criteria – The financial statement is the responsibility of management. As such, the City should be able to produce support for the amounts reported on the financial statements.

Cause – City’s management is unable to obtain the necessary reports from the City’s accounting software.

Effect – There is a potential that the financial statement may be materially misstated.

Recommendation – The City should develop a report that provides a listing of outstanding items in accounts payable.

Management’s Response/Corrective Action Plan (Unaudited) – The City agrees we were unable to provide a listing of outstanding items in the accounts payable at yearend. This was a result of following the directions provided by our financial recording software provider. While we regret their directions resulted in what’s seen as a significant deficiency, we disagree that it is on the part of city management. That being said, our corrective action is to work with our financial recording software provider to develop a report that provides an accurate listing of outstanding items in accounts payable.

Contact Name – Tish Sims, City Clerk

Expected Completion Date – December 31, 2021

Section III – Federal Award Findings and Questioned Costs

None.



**INDEPENDENT AUDITORS' 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**

Mayor and City Commission
City of Hiawatha, 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 summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Hiawatha, Kansas (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statement, which collectively comprise the City's basic financial statement, and have issued our report thereon dated April 27, 2020. Our report contained an adverse opinion because the financial statement was presented using accounting practices prescribed or permitted by the State of Kansas.

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 opinion 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 City'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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001 and 2019-002 that we consider to be significant deficiencies.

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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*.

City's Response to the Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BT&Co., P.A.

April 27, 2020
Topeka, Kansas



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Mayor and City Commission
City of Hiawatha, Kansas

Report on Compliance for the Major Federal Program

We have audited the City of Hiawatha, Kansas's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2019. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 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). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the 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 its major federal program for the year ended December 31, 2019.

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Report on Internal Control Over Compliance

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 the Uniform Guidance, 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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weakness 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BT&Co, P.A.

April 27, 2020
Topeka, Kansas