

**CITY OF CHEROKEE, KANSAS**

Financial Statement and  
Independent Auditors' Report  
with Supplemental Information

For the Year Ended December 31, 2012

**CITY OF CHEROKEE, KANSAS**  
December 31, 2012

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**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Council  
City of Cherokee, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of City of Cherokee, Kansas, a municipality, as of and for the year ended December 31, 2012, 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 as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. 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 1 of the financial statement, the financial statement is prepared by the City of Cherokee, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, 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.

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 of Cherokee, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

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 of Cherokee, Kansas as of December 31, 2012, 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 described in Note 1.

Report on Regulatory Required 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 disbursements-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. 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 1.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

April 23, 2013  
Chanute, Kansas

**CITY OF CHEROKEE, KANSAS**  
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash  
 Regulatory Basis  
 For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balances	Receipts	Expenditures	Ending Unencumbered Cash Balances	Encumbrances and Accounts Payable	Cash Balance December 31, 2012
<b>Governmental Type Funds:</b>						
General	\$ 367.24	\$ 484,488.07	\$ 474,725.17	\$ 10,130.14	\$ 8,563.12	\$ 18,693.26
<b>Special Purpose Funds:</b>						
Special Parks and Recreation	5,166.65	1,536.88	-	6,703.53	-	6,703.53
Special Highway	8,493.36	20,945.04	5,496.72	23,941.68	-	23,941.68
<b>Business Funds:</b>						
Water Utility	53,255.99	222,177.18	213,876.25	61,556.92	6,533.79	68,090.71
Water Utility Principal and Interest	17,887.88	28,799.62	46,687.50	-	-	-
Water Utility Bond Reserve	8,400.00	-	8,400.00	-	-	-
Sewer Utility	33,328.75	57,980.83	60,251.61	31,057.97	312.53	31,370.50
Meter Deposit	-	1,284.20	1,284.20	-	10,475.00	10,475.00
<b>Trust Funds:</b>						
Cemetery Perpetual Care	11,692.29	52.16	-	11,744.45	-	11,744.45
<b>Total Reporting Entity</b>						
(Excluding Agency Funds)	\$ 138,592.16	\$ 817,263.98	\$ 810,721.45	\$ 145,134.69	\$ 25,884.44	\$ 171,019.13
<b>Composition of Cash:</b>						
Cash on Hand						\$ 183.80
<b>Checking Accounts</b>						
General						54,635.13
Police Dept						362.78
Fire Dept						1,251.65
Storm Shelter						22.75
Investments						
Savings - Cemetery Care						16,154.83
Certificates of Deposit						98,770.97
Total Cash						171,381.91
Less Agency Funds - Schedule 3						(362.78)
<b>Total Reporting Entity</b>						\$ 171,019.13

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

## CITY OF CHEROKEE, KANSAS

Notes to the Financial Statement  
December 31, 2012

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement and schedules of the City of Cherokee, Kansas, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies follow. Note 1 describes how the City's accounting policies differ from accounting principles generally accepted in the United States of America.

#### Financial Reporting Entity

The City of Cherokee, Kansas, is a municipal corporation governed by an elected five-member council.

*Related Municipal Entities:* A related municipal entity is determined by the following criteria. Whether the City exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the City. Related municipal entities are not required to be included in the City's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The City has determined that no outside agency meets the above criteria and, therefore, no outside agency has been include as a related municipal entity in this financial statement.

#### 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 types of funds comprise the financial activities of the City of Cherokee, Kansas, for the year of 2012:

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 revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

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

Business funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.)

Agency fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, etc.).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*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 municipality 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 municipality to use the regulatory basis of accounting..

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis 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 or the full amount of taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statements and budget comparisons presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the City Treasurer and are often difficult to identify the exact expenditure which they are reimbursing. For funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

Comparative Data

Comparative data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data in each of the statements have not been presented since their inclusion would make the statements unduly complex and difficult to read.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### Budgetary Information

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

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

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 schedules 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 statutory 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 municipality 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 projects funds, fiduciary funds, permanent funds.

In addition, an operating budget is not required for enterprise principal and interest funds and enterprise reserve funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

### Compliance with Kansas Statutes

Statement 1 and Schedule 1 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statement 1 and Schedule 1, the City was in compliance with Kansas cash basis and budget laws.

The City was in violation of K.S.A. 12-1608 which requires that the treasurer of each city shall publish, within 30 days after the year end, financial statements by fund. The 2012 required publication was completed after the 30 day requirement.

### **3. 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 branch 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 bank 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.

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.

*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.

*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. All deposits were legally secured at December 31, 2012.

*Deposits:* At December 31, 2012, the City's carrying amount of deposits was \$171,198.11 and the bank balance was \$174,060.73. The bank balance was held at two banks resulting in a concentration of credit risk. Of the bank balance, \$174,060.73 was covered by federal depository insurance (FDIC).

**4. LONG-TERM DEBT COMMITMENTS**

Changes in long-term debt commitments for the City for the year ended December 31, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General Obligation Paid with Utility Revenues Series 2004 - Water System Refunding Bonds	2.00% to 3.75%	October 29, 2004	\$ 310,000.00	September 1, 2012	\$ 45,000.00	-	\$ 45,000.00	\$ -	\$ 1,687.50
Capital Leases Lift Station	4.50%	August 26, 2009	14,744.00	August 26, 2012	3,450.48	-	3,450.48	-	59.16
Storm Shelter	3.13%	June 21, 2012	70,000.00	June 22, 2022	-	70,000.00	3,005.54	66,994.46	1,075.96
<b>Total Long-Term Debt Commitments</b>					<u>\$ 48,450.48</u>	<u>\$ 70,000.00</u>	<u>\$ 51,456.02</u>	<u>\$ 66,994.46</u>	<u>\$ 2,822.62</u>

Current maturities of long-term debt commitments and interest for the next five years and in five year increments through maturity is as follows:

Issue	2013	2014	2015	2016	2017	2018-2022	Total
Principal							
Capital Leases							
Storm Shelter	\$ 6,153.86	\$ 6,349.26	\$ 6,550.87	\$ 6,758.88	\$ 6,973.49	\$ 34,208.10	\$ 66,994.46
Total Principal Payments	6,153.86	6,349.26	6,550.87	6,758.88	6,973.49	34,208.10	66,994.46
Interest							
Capital Leases							
Storm Shelter	2,009.14	1,813.74	1,612.13	1,404.12	1,189.51	2,474.04	10,502.68
Total Interest Payments	2,009.14	1,813.74	1,612.13	1,404.12	1,189.51	2,474.04	10,502.68
Total Principal and Interest	\$ 8,163.00	\$ 8,163.00	\$ 8,163.00	\$ 8,163.00	\$ 8,163.00	\$ 36,682.14	\$ 77,497.14

**5. CAPITAL LEASES**

The City has entered into a capital lease agreement dated June 21, 2012, to construct a storm shelter. The cost of the storm shelter was \$70,000.00. The City agreed to make monthly payments of \$680.25, which includes imputed interest at 3.13% for a period of ten years.

	<u>CAPITAL LEASE</u>	
2013		\$ 8,163.00
2014		8,163.00
2015		8,163.00
2016		8,163.00
2017		8,163.00
2018-2022		<u>36,682.14</u>
Total Net Minimum Lease Payments		77,497.14
Less: Imputed Interest		<u>(10,502.68)</u>
NET PRESENT VALUE OF CAPITAL LEASE		66,994.46
Less: Current Maturities		<u>(6,153.86)</u>
Long-Term Capital Lease Obligations		<u>\$ 60,840.60</u>

**6. COMPENSATED ABSENCES**

Regular employees earn and accumulate vacation leave as follows:

- After One Full Year of Employment - 10 Days
- After Ten Full Years of Employment - 15 Days

Vacation is not earned for partial years worked. Employees shall not accumulate more than ten vacation days.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of .20 days per week of service. Sick leave may be accumulated to a maximum of 60 days. Any unused sick leave at date of termination is lost.

The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has estimated a liability for vacation pay, which has been earned, but not taken by City employees of \$3,149.12. The City has not accrued a liability for sick leave earned, but not taken, by City employees, as the amounts cannot be reasonably estimated at this time.

**7. ECONOMIC DEPENDENCY**

During 2012, the City sold 28.32% of its water available for sale to Rural Water District #5 and 30.90% to the City of McCune, Kansas. The City purchased 22.58% of its water from Public Wholesale Water Supply District #11.

**8. OTHER POST EMPLOYMENT BENEFITS**

As provided by K.S.A. 12-5040, the local government 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 the level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

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 the City under this program.

**9. 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; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

**10. ENVIRONMENTAL CONTINGENCY**

The Kansas Rural Water Association inspected the City's wastewater lagoons and recommended having the sludge removed from the first cell. The cost of removing the sludge from the first two cells, including some improvements to the Lift Station, has been estimated at \$171,000.00. The City is currently pursuing various financing options.

**11. INTERFUND TRANSFERS**

Operating and residual transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority</u>	<u>Amount</u>
Water Utility	Water Utility Principal and Interest	K.S.A. 12-825d	\$ 28,799.62
Water Utility	General	K.S.A. 12-825d	10,000.00
Sewer Utility	General	K.S.A. 12-825d	20,000.00
Water Utility Bond And Reserve	Water Utility	K.S.A. 12-825d	8,400.00

**12. SUBSEQUENT EVENTS**

The City evaluated events and transactions occurring subsequent year end, and there were no subsequent events requiring recognition in the financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure.

## **SUPPLEMENTAL INFORMATION**

**Schedule 1**

**CITY OF CHEROKEE, KANSAS**  
 Summary of Expenditures - Budgeted Funds Only  
 Regulatory Basis  
 For the Year Ended December 31, 2012

Funds	Total	Adjustments for	Total	Expenditures	Variance - Over (Under)
	Certified Budget	Qualifying Budget Credits	Certified Budget for Comparison	Charged to Current Year Budget	
Governmental Type Funds:					
General Fund	\$ 212,731.00	\$ 282,350.00	\$ 495,081.00	\$ 474,725.17	\$ (20,355.83)
Special Purpose Funds:					
Special Parks and Recreation	8,060.00	-	8,060.00	-	(8,060.00)
Special Highway	39,748.00	-	39,748.00	5,496.72	(34,251.28)
Business Funds:					
Water Utility	284,315.00	-	284,315.00	213,876.25	(70,438.75)
Sewer Utility	129,645.00	-	129,645.00	60,251.61	(69,393.39)

**CITY OF CHEROKEE, KANSAS**  
**GENERAL FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 52,816.36	\$ 54,715.75	\$ 60,685.00	\$ (5,969.25)
Delinquent Tax	5,745.91	5,040.65	3,156.00	1,884.65
Motor Vehicle Tax	16,035.41	16,761.57	17,182.00	(420.43)
Recreational Vehicle Tax	221.20	213.19	197.00	16.19
16 & 20 M Truck Tax	21.65	71.20	17.00	54.20
Sales Tax	53,520.08	55,467.22	52,100.00	3,367.22
Alcohol Liquor Tax	1,201.42	1,298.53	1,304.00	(5.47)
Franchise Tax	18,672.47	17,169.51	20,760.00	(3,590.49)
Intergovernmental				
Federal Grants - FEMA	11,891.14	212,350.00	-	212,350.00
Federal Grants - DOT	-	496.75	-	496.75
Licenses and Permits				
Other Licenses and Permits	252.00	200.00	40.00	160.00
Fines, Forfeitures, and Penalties	4,875.00	15,934.50	4,500.00	11,434.50
Use of Money and Property				
Capital Lease Proceeds	-	70,000.00	-	70,000.00
Interest	1,117.52	600.60	1,350.00	(749.40)
Sale of Rocks, Culverts and Dirt	882.50	-	-	-
Charges for Services				
Grave Openings and Sale of Cemetery Lots	670.00	300.00	1,040.00	(740.00)
Copies and Fax Charges	5.00	-	-	-
Other Revenues				
Donations	300.00	744.21	-	744.21
Miscellaneous	1,307.46	3,124.39	400.00	2,724.39
Operating Transfers from:				
Water Utility Fund	12,000.00	10,000.00	30,000.00	(20,000.00)
Sewer Utility fund	10,000.00	20,000.00	20,000.00	-
<b>Total Receipts</b>	<b>191,535.12</b>	<b>484,488.07</b>	<b>\$ 212,731.00</b>	<b>\$ 271,757.07</b>
<b>Expenditures</b>				
General Government				
Personal Services	37,123.19	28,926.02	\$ 61,384.00	\$ (32,457.98)
Contractual Services	38,790.66	26,196.24	38,000.00	(11,803.76)
Commodities	8,162.68	5,832.65	10,200.00	(4,367.35)
Capital Outlay	15,854.85	283,723.99	1,727.00	281,996.99

**CITY OF CHEROKEE, KANSAS**  
**GENERAL FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Expenditures (Continued)				
Police Department				
Personal Services	\$ 50,977.00	\$ 50,413.34	\$ 41,536.00	\$ 8,877.34
Contractual Services	4,167.32	8,131.17	5,500.00	2,631.17
Commodities	7,062.19	11,976.02	5,000.00	6,976.02
Capital Outlay	-	-	1,000.00	(1,000.00)
Fire Department				
Personal Services	3,729.07	3,810.08	3,256.00	554.08
Contractual Services	4,600.50	5,302.53	6,500.00	(1,197.47)
Commodities	2,298.38	2,039.40	3,500.00	(1,460.60)
Capital Outlay	-	-	1,000.00	(1,000.00)
Street Department				
Personal Services	3,907.83	4,839.41	4,299.00	540.41
Contractual Services	6,366.06	16,757.13	5,000.00	11,757.13
Commodities	7,898.28	6,741.76	7,000.00	(258.24)
Capital Outlay	-	185.00	-	185.00
Parks and Recreation Department				
Contractual Services	265.76	452.30	500.00	(47.70)
Commodities	137.89	1,636.31	-	1,636.31
Cemetery Department				
Personal Services	981.43	1,000.85	1,079.00	(78.15)
Contractual Services	9,487.33	12,662.50	15,000.00	(2,337.50)
Commodities	1,236.51	16.97	1,250.00	(1,233.03)
Debt Service				
Capital Lease - Storm Shelter	-	4,081.50	-	4,081.50
Total Certified Budget			212,731.00	261,994.17
Adjustments for Qualifying				
Budget Credits			282,350.00	(282,350.00)
Total Expenditures	<u>203,046.93</u>	<u>474,725.17</u>	<u>\$ 495,081.00</u>	<u>\$ (20,355.83)</u>
Receipts Over (Under) Expenditures	(11,511.81)	9,762.90		
Unencumbered Cash, Beginning	<u>11,879.05</u>	<u>367.24</u>		
Unencumbered Cash, Ending	<u>\$ 367.24</u>	<u>\$ 10,130.14</u>		

**CITY OF CHEROKEE, KANSAS**  
**SPECIAL PARKS AND RECREATION FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Intergovernmental				
Alcohol Liquor Tax	\$ 1,201.42	\$ 1,298.55	\$ 1,303.00	\$ (4.45)
Special Parks and Recreation Distribution	264.96	238.33	290.00	(51.67)
<b>Total Receipts</b>	<u>1,466.38</u>	<u>1,536.88</u>	<u>\$ 1,593.00</u>	<u>\$ (56.12)</u>
<b>Expenditures</b>				
Culture and Recreation				
Contractual Services	47.22	-	\$ 2,000.00	\$ (2,000.00)
Commodities	125.87	-	2,000.00	(2,000.00)
Capital Outlay	1,079.60	-	4,060.00	(4,060.00)
<b>Total Expenditures</b>	<u>1,252.69</u>	<u>-</u>	<u>\$ 8,060.00</u>	<u>\$ (4,000.00)</u>
Receipts Over (Under) Expenditures	213.69	1,536.88		
Unencumbered Cash, Beginning	<u>4,952.96</u>	<u>5,166.65</u>		
Unencumbered Cash, Ending	<u>\$ 5,166.65</u>	<u>\$ 6,703.53</u>		

**CITY OF CHEROKEE, KANSAS**  
**SPECIAL HIGHWAY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Intergovernmental				
State Highway Payment	\$ 18,671.68	\$ 18,523.61	\$ 19,510.00	\$ (986.39)
County Fuel Tax	2,570.70	2,421.43	2,400.00	21.43
<b>Total Receipts</b>	<u>21,242.38</u>	<u>20,945.04</u>	<u>\$ 21,910.00</u>	<u>\$ (964.96)</u>
<b>Expenditures</b>				
Street Maintenance				
Personal Services	4,605.52	106.68	\$ -	\$ 106.68
Contractual Services	1,039.56	2,082.39	10,000.00	(7,917.61)
Commodities	5,576.11	3,307.65	14,748.00	(11,440.35)
Capital Outlay	18,741.58	-	15,000.00	(15,000.00)
<b>Total Expenditures</b>	<u>29,962.77</u>	<u>5,496.72</u>	<u>\$ 39,748.00</u>	<u>\$ (34,251.28)</u>
Receipts Over (Under) Expenditures	(8,720.39)	15,448.32		
Unencumbered Cash, Beginning	<u>17,213.75</u>	<u>8,493.36</u>		
Unencumbered Cash, Ending	<u>\$ 8,493.36</u>	<u>\$ 23,941.68</u>		

**CITY OF CHEROKEE, KANSAS**  
**WATER UTILITY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Charges for Services				
Water Sales	\$ 221,860.10	\$ 210,675.50	\$ 225,000.00	\$ (14,324.50)
Permits and Fees	1,106.74	781.58	650.00	131.58
Penalties	3,254.67	2,139.66	4,075.00	(1,935.34)
Other Revenues				
Miscellaneous	115.70	180.44	-	180.44
Reimbursed Expense	10,030.11	-	-	-
Residual Transfers from:				
Water Utility Bond Reserve Fund	-	8,400.00	-	8,400.00
<b>Total Receipts</b>	<u>236,367.32</u>	<u>222,177.18</u>	<u>\$ 229,725.00</u>	<u>\$ (7,547.82)</u>
<b>Expenditures</b>				
Production and Distribution				
Personal Services	55,326.02	80,250.54	\$ 91,304.00	\$ (11,053.46)
Contractual Services	20,512.99	27,591.95	22,000.00	5,591.95
Commodities	65,018.23	66,839.14	50,000.00	16,839.14
Capital Outlay	15,624.76	395.00	59,331.00	(58,936.00)
Operating Transfers to:				
General Fund	12,000.00	10,000.00	30,000.00	(20,000.00)
Water Utility Principal and Interest Fund	43,107.96	28,799.62	30,000.00	(1,200.38)
Water Utility Bond Reserve Fund	1,680.00	-	1,680.00	(1,680.00)
<b>Total Expenditures</b>	<u>213,269.96</u>	<u>213,876.25</u>	<u>\$ 284,315.00</u>	<u>\$ (70,438.75)</u>
Receipts Over (Under) Expenditures	23,097.36	8,300.93		
Unencumbered Cash, Beginning	<u>30,158.63</u>	<u>53,255.99</u>		
Unencumbered Cash, Ending	<u>\$ 53,255.99</u>	<u>\$ 61,556.92</u>		

**CITY OF CHEROKEE, KANSAS**  
**WATER UTILITY PRINCIPAL AND INTEREST FUND**

Schedule of Receipts and Expenditures - Actual  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfers from Water Utility Fund	\$ 43,107.96	\$ 28,799.62
Total Receipts	<u>43,107.96</u>	<u>28,799.62</u>
Expenditures		
Debt Service		
Principal	40,000.00	45,000.00
Interest	<u>3,107.50</u>	<u>1,687.50</u>
Total Expenditures	<u>43,107.50</u>	<u>46,687.50</u>
Receipts Over (Under) Expenditures	0.46	(17,887.88)
Unencumbered Cash, Beginning	<u>17,887.42</u>	<u>17,887.88</u>
Unencumbered Cash, Ending	<u>\$ 17,887.88</u>	<u>\$ -</u>

**CITY OF CHEROKEE, KANSAS**  
**WATER UTILITY BOND RESERVE FUND**  
Schedule of Receipts and Expenditures - Actual  
Regulatory Basis  
For the Year Ended December 31, 2012  
(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	<u>Prior</u> Year <u>Actual</u>	<u>Current</u> Year <u>Actual</u>
Receipts		
Operating Transfers from Water Utility Fund	\$ 1,680.00	\$ -
Total Receipts	<u>1,680.00</u>	<u>-</u>
Expenditures		
Residual Transfer to: Water Fund	<u>-</u>	<u>8,400.00</u>
Total Expenditures	<u>-</u>	<u>8,400.00</u>
Receipts Over (Under) Expenditures	1,680.00	(8,400.00)
Unencumbered Cash, Beginning	<u>6,720.00</u>	<u>8,400.00</u>
Unencumbered Cash, Ending	<u>\$ 8,400.00</u>	<u>\$ -</u>

**CITY OF CHEROKEE, KANSAS**  
**SEWER UTILITY FUND**

Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Charges for Services				
Sewer Charges	\$ 46,694.82	\$ 57,917.32	\$ 51,000.00	\$ 6,917.32
Other Revenues				
Miscellaneous	76.90	63.51	-	63.51
<b>Total Receipts</b>	<u>46,771.72</u>	<u>57,980.83</u>	<u>\$ 51,000.00</u>	<u>\$ 6,980.83</u>
<b>Expenditures</b>				
Treatment and Distribution				
Personal Services	43,434.82	4,943.28	\$ 10,483.00	\$ (5,539.72)
Contractual Services	10,476.16	12,785.76	20,000.00	(7,214.24)
Commodities	5,639.42	18,617.93	3,000.00	15,617.93
Capital Outlay	579.60	395.00	72,376.00	(71,981.00)
Debt Service				
Lease Purchase - Lift Station	5,262.96	3,509.64	3,786.00	(276.36)
Operating Transfers to General Fund	10,000.00	20,000.00	20,000.00	-
<b>Total Expenditures</b>	<u>75,392.96</u>	<u>60,251.61</u>	<u>\$ 129,645.00</u>	<u>\$ (69,393.39)</u>
Receipts Over (Under) Expenditures	(28,621.24)	(2,270.78)		
Unencumbered Cash, Beginning	<u>61,949.99</u>	<u>33,328.75</u>		
Unencumbered Cash, Ending	<u>\$ 33,328.75</u>	<u>\$ 31,057.97</u>		

**CITY OF CHEROKEE, KANSAS**  
**METER DEPOSIT FUND**

Schedule of Receipts and Expenditures - Actual  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Meter Deposits	\$ 1,227.00	\$ 1,284.20
Total Receipts	1,227.00	1,284.20
Expenditures		
Operation and Maintenance		
Contractual Services	1,227.00	1,284.20
Total Expenditures	1,227.00	1,284.20
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	\$ -	\$ -

**CITY OF CHEROKEE, KANSAS**  
**CEMETERY PERPETUAL CARE FUND**

Schedule of Receipts and Expenditures - Actual  
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Interest Income	\$ 82.13	\$ 52.16
Total Receipts	<u>82.13</u>	<u>52.16</u>
Expenditures		
General Government		
Capital Outlay	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>
Receipts Over (Under) Expenditures	82.13	52.16
Unencumbered Cash, Beginning	<u>11,610.16</u>	<u>11,692.29</u>
Unencumbered Cash, Ending	<u>\$ 11,692.29</u>	<u>\$ 11,744.45</u>

**CITY OF CHEROKEE, KANSAS**  
**AGENCY FUNDS**

Schedule of Receipts and Disbursements  
 Regulatory Basis  
 For the Year Ended December 31, 2012

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Fund	Beginning Cash Balance	Receipts	Disbursements	Ending Cash Balance
Drug Seizure Funds	\$ 361.86	\$ 0.92	\$ -	\$ 362.78
	<u>\$ 361.86</u>	<u>\$ 0.92</u>	<u>\$ -</u>	<u>\$ 362.78</u>



## Communication of Material Weaknesses

The Honorable Mayor and City Council  
City of Cherokee, Kansas

In planning and performing our audit of the financial statement of City of Cherokee, Kansas as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered City of Cherokee, Kansas' internal control over financial reporting (internal control) as a basis for designing 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 of Cherokee, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cherokee, Kansas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in City of Cherokee, Kansas' internal control to be material weaknesses:

### Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the City staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a City your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Council should continually be aware of the financial reporting of the City and changes in reporting requirements.

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Jarred, Gilmore & Phillips, PA  
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the City's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the City. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

April 23, 2013  
Chanute, Kansas