

CITY OF EDGERTON, KANSAS
Financial Statements
For the Year Ended December 31, 2012

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CITY OF EDGERTON, KANSAS
 Financial Statements
 For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Edgerton, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Edgerton, Kansas, (the City), as of and for the year ended December 31, 2012 and the related notes to the financial statement. The prior year partial comparative information has been derived from the City's financial statements for the year ended December 31, 2011. In our report dated June 7, 2012 on these financial statements we expressed an adverse opinion as to presentation on the basis of generally accepted accounting principles and an unqualified opinion as to presentation on the Kansas prescribed basis of accounting.

Management's Responsibility for the Financial Statements

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.

Auditor's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Kansas Municipal Audit 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 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 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 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.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2011, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Report on 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 and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2) 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. 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.

Mize Houser & Company PA

June 3, 2013

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

<u>Funds</u>	<u>Restated Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add: Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Fund Types:							
General Fund	\$ 910,139	\$ -	\$ 1,628,743	\$ 1,433,549	\$ 1,105,333	\$ 138,161	\$ 1,243,494
Special Purpose Funds:							
Alcohol and Drug Safety Action Program	275	-	-	150	125	-	125
Special Highway	87,753	-	43,644	2,997	128,400	-	128,400
Special Street and Equipment Reserve	180,640	-	35,000	11,503	204,137	-	204,137
Building Permit	110	-	31	141	-	-	-
Special Parks and Recreation	4,314	-	1,115	-	5,429	-	5,429
Mayor's Holiday	-	-	3,900	-	3,900	-	3,900
Capital Projects Funds:							
Public Infrastructure	1,644,191	-	307,314	4,125	1,947,380	-	1,947,380
2012A GO Bond Reserve	-	-	3,293,755	2,845,827	447,928	-	447,928
Wastewater Treatment Plant	[143,586]	-	9,774,460	12,583,796	[2,952,922]	3,017,911	64,989
Business Funds:							
Water Utility	384,149	-	453,944	394,291	443,802	11,780	455,582
Water Principal and Interest Reserve	5,216	-	77,174	82,390	-	-	-
Water Reserve	37,223	-	30,000	5,061	62,162	-	62,162
Sewer Utility	203,803	-	116,352	173,732	146,423	406	146,829
Sewer Principal and Interest Reserve	952	-	19,211	20,163	-	-	-
Wastewater Improvement Reserve	56,868	-	-	29,203	27,665	-	27,665
Benefit District Temporary Note	312,446	-	751,506	339,681	724,271	-	724,271
Total Reporting Entity	<u>\$ 3,684,493</u>	<u>\$ -</u>	<u>\$ 16,536,149</u>	<u>\$ 17,926,609</u>	<u>\$ 2,294,033</u>	<u>\$ 3,168,258</u>	<u>\$ 5,462,291</u>
<u>Composition of Cash:</u>							
Metcalfe Bank							
				Super NOW			\$ 4,231,760
				Fire Bond Savings			5,256
				Certificates of Deposit			1,225,000
				Cash on Hand			<u>275</u>
				Total			<u>\$ 5,462,291</u>

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

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Edgerton (the City), is a municipal corporation governed by a mayor and five member council.

Basis of Accounting

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.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts (except as noted), cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements. Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

Regulatory Basis Fund Types

In governmental accounting, 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.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Regulatory Basis Fund Types (Continued)

The following types of funds comprise the financial activities of the City for the year ended December 31, 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 Fund - 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.

Capital Projects Fund – 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 Fund - 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.)

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), debt service funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

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 budget for the year ended December 31, 2012 was not amended.

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

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the 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 project funds, fiduciary funds, the following special purpose funds: Special Street and Equipment Reserve, Building Permit, Payroll Withholding and the Mayor's Holiday, and the following business funds: Water Principal and Interest Reserve, Water Reserve, Sewer Principal and Interest Reserve, Wastewater Improvement Reserve and Benefit District Temporary Note.

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.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 2 – Deposits and Investments

Deposits. 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.

Investments. 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, 2012, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>		<u>Rating</u>
		<u>Less than 1 year</u>		
Certificates of Deposit	\$ 1,225,000	\$ 1,225,000		NA
Total fair value	<u>\$ 1,225,000</u>	<u>\$ 1,225,000</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.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has no designated "peak periods". All deposits were legally secured at December 31, 2012.

At December 31, 2012, the City's carrying amount of deposits was \$5,462,291 and the bank balance was \$5,490,634. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and the balance of \$5,240,634 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

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.

NOTE 3 – 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 Kansas law. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERs member-employee contribution rates. Effective July 1, 2009 KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERs member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The City employer contributions to KPERs for the years ending December 31, 2012, 2011 and 2010 were \$36,189, \$22,002, and \$23,174, respectively, equal to the required contributions for each year.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 4 - 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 proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues.

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. General Obligation Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date Issued</u>	<u>Date of Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance December 31, 2012</u>
Proprietary and general government Series 2012A	9/27/12	8/1/34	0.75 - 4.00%	\$ 3,600,000	\$ 3,600,000
				<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 91,770	\$ 91,770
2014	-	108,675	108,675
2015	10,000	108,675	118,675
2016	10,000	108,600	118,600
2017	15,000	108,500	123,500
2018 - 2022	885,000	511,465	1,396,465
2023 - 2027	1,000,000	401,250	1,401,250
2028 - 2032	1,155,000	234,520	1,389,520
2033 - 2034	525,000	31,600	556,600
Total	<u>\$ 3,600,000</u>	<u>\$ 1,705,055</u>	<u>\$ 5,305,055</u>

State Agency Loans. On April 15, 1999, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to \$1,141,617 to fund Water Utility Fund projects. As of December 31, 2012, the City had borrowed \$1,141,617 on this loan and repaid \$496,930. The interest rate on the loan is 3.69% with an additional .35% service fee rate. The final maturity date on the loan is February 1, 2022. The following is a schedule of future loan payments.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 56,914	\$ 25,476	\$ 82,390
2014	59,237	23,154	82,391
2015	61,654	20,736	82,390
2016	64,170	18,220	82,390
2017	66,788	15,602	82,390
2018 - 2022	335,924	34,833	370,757
Total	<u>\$ 644,687</u>	<u>\$ 138,021</u>	<u>\$ 782,708</u>

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 4 - Long-Term Debt (Continued)

State Agency Loans (Continued). On May 8, 2007, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to \$197,615 to fund Water Utility Fund projects. As of December 31, 2012, the City had borrowed \$197,615 on this loan and repaid \$94,665. The interest rate on the loan is 2.27% with an additional .25% service fee rate. The final maturity date on the loan is March 1, 2018. The following is a schedule of future loan payments.

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 17,679	\$ 2,484	\$ 20,163
2014	18,128	2,035	20,163
2015	18,587	1,576	20,163
2016	19,059	1,104	20,163
2017	19,542	621	20,163
2018	9,955	125	10,080
Total	<u>\$ 102,950</u>	<u>\$ 7,945</u>	<u>\$ 110,895</u>

On April 30, 2012, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to \$10,748,000 to fund the wastewater treatment plant project. As of December 31, 2012, the City had borrowed \$9,404,571 on this loan and had not made any repayments. The interest rate on the loan is 2.01% with an additional .25% service fee rate. The final maturity date on the loan is September 1, 2033. The following is a schedule of future loan payments for the full loan proceeds amount.

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ -	\$ -
2014	200	242,904	243,104
2015	458,607	240,324	698,931
2016	469,030	229,901	698,931
2017	479,690	219,241	698,931
2018 - 2022	2,567,025	927,629	3,494,654
2023 - 2027	2,872,303	622,351	3,494,654
2028 - 2032	3,213,885	280,769	3,494,654
2033	687,260	11,670	698,930
Total	<u>\$ 10,748,000</u>	<u>\$ 2,774,789</u>	<u>\$ 13,522,789</u>

Temporary Notes. Series 2012A-1 and Series 2012A-2 proprietary fund renewal temporary notes in the amounts of \$555,000 and \$195,000, respectively, were issued on July 12, 2012, for water supply and distribution improvements. The Series 2012A-1 note is due in 2013 at an interest rate of 0.65% and the Series 2012A-2 note is due in 2013 at an interest rate of 0.89%. The temporary notes will be refunded through the issuance of general obligation bonds.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 4 - Long-Term Debt (Continued)

Following is a summary of changes in long-term debt for the year ended December 31, 2012:

<u>Type of Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
State Agency Loans:				
Kansas Public Water Supply	\$ 699,369	\$ -	\$ 54,682	\$ 644,687
Kansas Water Pollution Control #1	120,192	-	17,242	102,950
Kansas Water Pollution Control #2	-	9,404,571	-	9,404,571
Total state agency loans	<u>\$ 819,561</u>	<u>\$ 9,404,571</u>	<u>\$ 71,924</u>	<u>\$ 10,152,208</u>
Temporary Notes				
Series 2011	\$ 2,745,000	\$ -	\$ 2,745,000	\$ -
Series 2012A-1	-	555,000	-	555,000
Series 2012A-2	-	195,000	-	195,000
Total temporary notes	<u>\$ 2,745,000</u>	<u>\$ 750,000</u>	<u>\$ 2,745,000</u>	<u>\$ 750,000</u>
General Obligation Bonds				
Series 2012A	\$ -	\$ 3,600,000	\$ -	\$ 3,600,000
Total general obligation bonds	<u>\$ -</u>	<u>\$ 3,600,000</u>	<u>\$ -</u>	<u>\$ 3,600,000</u>

NOTE 5 – Capital Leases

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

During the year ended December 31, 2012, the following changes occurred in capital leases:

	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Capital lease obligations -				
Governmental funds	\$ 29,868	\$ -	\$ 14,539	\$ 15,329
Proprietary funds	21,272	-	10,411	10,861
Total capital leases	<u>\$ 51,140</u>	<u>\$ -</u>	<u>\$ 24,950</u>	<u>\$ 26,190</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, are as follows:

<u>Year Ended December 31, 2013</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Total minimum lease payments	\$ 16,166	\$ 11,329
Less: amount representing interest	[837]	[468]
Present value of minimum lease payments	<u>\$ 15,329</u>	<u>\$ 10,861</u>

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 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. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the city expects such amounts, if any, to be immaterial.

NOTE 8 - Interfund Transfers

A reconciliation of all transfers by fund type for 2012 follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 88,139
Special Street and Equipment Reserve Fund	35,000	-
Wastewater Treatment Plant Fund	53,139	-
Water Utility Fund	-	107,174
Water Principal and Interest Reserve Fund	77,174	-
Water Reserve Fund	30,000	-
Sewer Utility Fund	-	19,211
Sewer Principal and Interest Reserve Fund	19,211	-
Total	<u>\$ 214,524</u>	<u>\$ 214,524</u>

NOTE 9 - Compensated Absences

Under terms of the City's personnel policy, employees are granted vacation leave in varying amounts, based upon length of service. Vacation pay accumulated as of December 31, 2012 was \$12,552.

Note 10 - 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 local government 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 this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government 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 government under this program.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 11 - Restatements

During 2012, the City elected to separately state the Wastewater Treatment Plant Capital Project Fund. In previous years, this fund had been combined with the Sewer Utility Fund. Additionally, in 2012 the City elected to reclassify prior year expenditures from the General Fund to the Wastewater Treatment Plant Capital Project Fund. These changes in presentation resulted in the following restatements to beginning unencumbered cash.

	General Fund	Wastewater Treatment Plant Fund	Sewer Utility Fund
Unencumbered Cash Balance December 31, 2011	\$ 793,299	\$ -	\$ 177,057
Adjustment to Separately State the Wastewater Treatment Plant Fund	-	[26,746]	26,746
Adjustment to Reclassify 2011 Expenditures from the General Fund to the Wastewater Treatment Plant Fund	116,840	[116,840]	-
Unencumbered Cash Balance December 31, 2011, Restated	\$ 910,139	\$ [143,586]	\$ 203,803

NOTE 12 - Statutory Violations

Actual exceeded budgeted expenditures in the Alcohol and Drug Safety Action Program Fund and in the Water Utility Fund at December 31, 2012, which violates KSA 79-2935.

The Wastewater Treatment Plant Fund had a deficit unencumbered cash balance of \$2,952,922 at December 31, 2012, which is a violation of K.S.A. 10-1113. The deficit balance is due to a timing difference between capital project expenditures incurred by the City and loan draws and reimbursements received by the City to cover the cost of the expenditures.

NOTE 13 - Capital Projects

Burlington Northern Santa Fe (BNSF) Intermodal and Logistics Park KC (LPKC): In 2010, the City of Edgerton entered into a financing agreement with BNSF and The Allen Group (development company for LPKC) for construction of certain infrastructure projects associated with the BNSF Intermodal and LPKC. The financing agreement is structured such that infrastructure projects are built only after certain square footage amounts of distribution facilities are leased, assuming money is available. Based on the amount of distribution warehouses announced before the end of 2012, the City is required to construct two Quiet Zones (Nelson Street and 199th Street) valued at approximately \$600,000 and to provide wastewater treatment to the Intermodal project when it opens in 2013. The City approved a preliminary design/build contract with Burns and McDonnell/CAS Construction, LLC in July, 2011 for the wastewater treatment facility. In March 2012, the City approved a design/build contract with Burns and McDonnell/CAS Construction in 2012 to construct a 500,000 gallons per day sanitary sewer plant (Big Bull Creek Wastewater Treatment Facility and Conveyance System). The City also entered into a contract with the City of Gardner to provide sanitary sewer service to a portion of the City of Gardner via the Big Bull Creek Wastewater Treatment Facility and Conveyance System. As a part of that agreement, the City of Gardner agreed to be a capital partner in the construction of the plant and conveyance system. Gardner will contribute 50% towards the cost of construction of the plant and the incremental percentage to increase the conveyance system to accommodate the average flows from Gardner. The total project cost for Big Bull Creek Wastewater Treatment Facility and Conveyance System is estimated at \$16.94 million. The City of Edgerton's portion is \$10.23 million. The City of Gardner's portion is \$6.71 million. The estimated date of completion of the plant and conveyance system is August 2013.

CITY OF EDGERTON, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Positive [Negative]</u>
Governmental Fund Types:					
General Fund	\$ 1,684,644	\$ -	\$ 1,684,644	\$ 1,433,549	\$ 251,095
Special Purpose Funds:					
Alcohol and Drug Safety Action Program	-	-	-	150	[150]
Special Highway	64,588	-	64,588	2,997	61,591
Special Parks and Recreation	2,500	-	2,500	-	2,500
Business Funds:					
Water Utility	337,398	-	337,398	394,291	[56,893]
Sewer Utility	264,809	-	264,809	173,732	91,077

See independent auditor's report on the financial statements.

SCHEDULE 2 - 1

CITY OF EDGERTON, KANSAS
 General Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ 1,123,869	\$ 1,039,333	\$ 1,003,260	\$ 36,073
Intergovernmental	403,390	429,647	253,069	176,578
Franchise tax	47,174	42,860	52,905	[10,045]
Licenses	75,871	6,774	78,125	[71,351]
Fines and fees	19,687	13,716	21,058	[7,342]
Interest	5,076	1,441	5,000	[3,559]
Use of property	32,640	33,408	25,802	7,606
Charges for services	13	1,951	30,075	[28,124]
Solid waste fees	54,986	48,985	47,880	1,105
Miscellaneous	6,522	-	-	-
Reimbursements	18,802	10,628	90,000	[79,372]
Total Cash Receipts	<u>1,788,030</u>	<u>1,628,743</u>	<u>\$ 1,607,174</u>	<u>\$ 21,569</u>
Expenditures				
General government	472,610	503,029	\$ 435,049	\$ [67,980]
Law enforcement	275,899	286,663	320,250	33,587
Parks and recreation	19,835	43,876	149,560	105,684
Streets	212,418	222,902	380,068	157,166
Employee benefits	66,773	101,977	141,851	39,874
Library	7,995	15,557	22,766	7,209
Solid waste	92,978	93,562	100,000	6,438
Community development	-	-	75,100	75,100
Economic development	-	-	25,000	25,000
Capital project	9,583	77,844	-	[77,844]
Transfers out	-	88,139	35,000	[53,139]
Total Expenditures	<u>1,158,091</u>	<u>1,433,549</u>	<u>\$ 1,684,644</u>	<u>\$ 251,095</u>
Cash Receipts Over [Under] Expenditures	<u>629,939</u>	<u>195,194</u>		
Unencumbered Cash, Beginning (as originally stated)	1,982,144	793,299		
Prior period adjustment	<u>[1,818,784]</u>	<u>116,840</u>		
Unencumbered Cash, Beginning (restated)	<u>163,360</u>	<u>910,139</u>		
Unencumbered Cash, Ending	<u>\$ 793,299</u>	<u>\$ 1,105,333</u>		

See independent auditor's report on the financial statements.

CITY OF EDGERTON, KANSAS
 Alcohol and Drug Safety Action Program Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Fines	\$ 125	\$ -	\$ 2,500	\$ [2,500]
Total Cash Receipts	<u>125</u>	<u>-</u>	<u>\$ 2,500</u>	<u>\$ [2,500]</u>
Expenditures				
Contractual services	-	150	\$ -	\$ [150]
Total Expenditures	<u>-</u>	<u>150</u>	<u>\$ -</u>	<u>\$ [150]</u>
Cash Receipts Over [Under] Expenditures	125	[150]		
Unencumbered Cash, Beginning	<u>150</u>	<u>275</u>		
Unencumbered Cash, Ending	<u>\$ 275</u>	<u>\$ 125</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2 - 3

CITY OF EDGERTON, KANSAS
 Special Highway Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	<u>\$ 45,845</u>	<u>\$ 43,644</u>	<u>\$ 48,920</u>	<u>\$ [5,276]</u>
Total Cash Receipts	<u>45,845</u>	<u>43,644</u>	<u>\$ 48,920</u>	<u>\$ [5,276]</u>
Expenditures				
Contractual	330	-	\$ 59,088	\$ 59,088
Commodities	<u>4,120</u>	<u>2,997</u>	<u>5,500</u>	<u>2,503</u>
Total Expenditures	<u>4,450</u>	<u>2,997</u>	<u>\$ 64,588</u>	<u>\$ 61,591</u>
Cash Receipts Over [Under] Expenditures	41,395	40,647		
Unencumbered Cash, Beginning	<u>46,358</u>	<u>87,753</u>		
Unencumbered Cash, Ending	<u>\$ 87,753</u>	<u>\$ 128,400</u>		

See independent auditor's report on the financial statements.

CITY OF EDGERTON, KANSAS
 Special Street and Equipment Reserve Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Transfer in	\$ 35,000	\$ -
Total Cash Receipts	<u>35,000</u>	<u>-</u>
Expenditures		
Capital outlay	<u>11,503</u>	<u>-</u>
Total Expenditures	<u>11,503</u>	<u>-</u>
Cash Receipts Over [Under] Expenditures	23,497	-
Unencumbered Cash, Beginning	<u>180,640</u>	<u>180,640</u>
Unencumbered Cash, Ending	<u>\$ 204,137</u>	<u>\$ 180,640</u>

* This fund is not required to be budgeted.

SCHEDULE 2 - 5

CITY OF EDGERTON, KANSAS
 Building Permit Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	2012	2011
Cash Receipts		
Miscellaneous	\$ 31	\$ -
Total Cash Receipts	31	-
Expenditures		
Contractual services	141	60
Total Expenditures	141	60
Cash Receipts Over [Under] Expenditures	[110]	[60]
Unencumbered Cash, Beginning	110	170
Unencumbered Cash, Ending	\$ -	\$ 110

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 Special Parks and Recreation Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes	\$ -	\$ 1,115	\$ 1,224	\$ [109]
Total Cash Receipts	<u>-</u>	<u>1,115</u>	<u>\$ 1,224</u>	<u>\$ [109]</u>
Expenditures				
Special projects	<u>-</u>	<u>-</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>
Cash Receipts Over [Under] Expenditures	-	1,115		
Unencumbered Cash, Beginning	<u>4,314</u>	<u>4,314</u>		
Unencumbered Cash, Ending	<u>\$ 4,314</u>	<u>\$ 5,429</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2 - 7

CITY OF EDGERTON, KANSAS
 Payroll Withholding Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
General fund	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures		
Personnel	-	-
Total Expenditures	-	-
Cash Receipts Over [Under] Expenditures	-	-
Unencumbered Cash, Beginning (as originally stated)	-	2,831
Prior period adjustment	-	[2,831]
Unencumbered Cash, Beginning (restated)	-	-
Unencumbered Cash, Ending	\$ -	\$ -

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 Mayor's Holiday Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
Donations	<u>\$ 3,900</u>
Total Cash Receipts	<u>3,900</u>
Expenditures	
Commodities	<u>-</u>
Total Expenditures	<u>-</u>
Cash Receipts Over [Under] Expenditures	3,900
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u>\$ 3,900</u>

* This fund is not required to be budgeted.

SCHEDULE 2 - 9

CITY OF EDGERTON, KANSAS
 Public Infrastructure Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Interest	\$ 1,034	\$ -
Bond proceeds	<u>306,280</u>	<u>-</u>
Total Cash Receipts	<u>307,314</u>	<u>-</u>
Expenditures		
Contractual services	<u>4,125</u>	<u>176,689</u>
Total Expenditures	<u>4,125</u>	<u>176,689</u>
Cash Receipts Over [Under] Expenditures	<u>303,189</u>	<u>[176,689]</u>
Unencumbered Cash, Beginning (as originally stated)	1,644,191	-
Prior period adjustment	<u>-</u>	<u>1,820,880</u>
Unencumbered Cash, Beginning (restated)	<u>1,644,191</u>	<u>1,820,880</u>
Unencumbered Cash, Ending	<u>\$ 1,947,380</u>	<u>\$ 1,644,191</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 2012A GO Bond Reserve Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
Bond proceeds	\$ 3,293,720
Interest	<u>35</u>
Total Cash Receipts	<u>3,293,755</u>
Expenditures	
Contractual services	86,988
Temporary note principal	2,745,000
Interest and other charges	<u>13,839</u>
Total Expenditures	<u>2,845,827</u>
Cash Receipts Over [Under] Expenditures	447,928
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u>\$ 447,928</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
Wastewater Treatment Plant Fund
Schedule of Cash Receipts and Expenditures - Actual *
Regulatory Basis
For the Year Ended December 31, 2012

Cash Receipts	
Grant proceeds	\$ 182,260
Reimbursements	136,007
Loan proceeds	9,403,054
Transfers in	<u>53,139</u>
 Total Cash Receipts	 <u>9,774,460</u>
 Expenditures	
Wastewater treatment plant project	<u>12,583,796</u>
 Total Expenditures	 <u>12,583,796</u>
 Cash Receipts Over [Under] Expenditures	 <u>[2,809,336]</u>
 Unencumbered Cash, Beginning (as originally stated)	 -
 Prior period adjustment	 <u>[143,586]</u>
 Unencumbered Cash, Beginning (restated)	 <u>[143,586]</u>
 Unencumbered Cash, Ending	 <u>\$ [2,952,922]</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
Water Utility Fund
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for services	\$ 429,777	\$ 429,034	\$ 416,144	\$ 12,890
Service fees	1,740	2,115	3,600	[1,485]
Forfeitures	12,982	13,365	6,565	6,800
Use of money and property	1,871	9,200	1,850	7,350
Reimbursed expense	[155]	230	-	230
	<u>446,215</u>	<u>453,944</u>	<u>\$ 428,159</u>	<u>\$ 25,785</u>
Total Cash Receipts				
Expenditures				
Production	159,860	151,956	\$ 143,150	\$ [8,806]
Distribution	70,681	87,403	38,588	[48,815]
Commercial and general	18,304	29,965	26,298	[3,667]
Employee benefit	13,503	17,793	39,162	21,369
Transfers out	85,200	107,174	90,200	[16,974]
	<u>347,548</u>	<u>394,291</u>	<u>\$ 337,398</u>	<u>\$ [56,893]</u>
Total Expenditures				
Cash Receipts Over [Under] Expenditures	<u>98,667</u>	<u>59,653</u>		
Unencumbered Cash, Beginning (as originally stated)	285,050	384,149		
Prior period adjustment	<u>432</u>	<u>-</u>		
Unencumbered Cash, Beginning (restated)	<u>285,482</u>	<u>384,149</u>		
Unencumbered Cash, Ending	<u>\$ 384,149</u>	<u>\$ 443,802</u>		

See independent auditor's report on the financial statements.

CITY OF EDGERTON, KANSAS
 Water Principal and Interest Reserve Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Transfers in	\$ 77,174	\$ 85,200
Total Cash Receipts	<u>77,174</u>	<u>85,200</u>
Expenditures		
Interest and commission	27,707	29,852
KPWSLF principal	<u>54,683</u>	<u>52,539</u>
Total Expenditures	<u>82,390</u>	<u>82,391</u>
Cash Receipts Over [Under] Expenditures	[5,216]	2,809
Unencumbered Cash, Beginning	<u>5,216</u>	<u>2,407</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 5,216</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 Water Reserve Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Transfers in	\$ 30,000	\$ -
Total Cash Receipts	30,000	-
Expenditures		
Commercial and general	5,061	15,540
Total Expenditures	5,061	15,540
Cash Receipts Over [Under] Expenditures	24,939	[15,540]
Unencumbered Cash, Beginning	37,223	52,763
Unencumbered Cash, Ending	\$ 62,162	\$ 37,223

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 Sewer Utility Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Amounts For the Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Positive [Negative]
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Charges for service	\$ 122,270	\$ 115,982	\$ 154,079	\$ [38,097]
Use of money and property	<u>1,442</u>	<u>370</u>	<u>1,450</u>	<u>[1,080]</u>
Total Cash Receipts	<u>123,712</u>	<u>116,352</u>	<u>\$ 155,529</u>	<u>\$ [39,177]</u>
Expenditures				
Treatment plant	93,738	89,086	\$ 83,071	\$ [6,015]
Maintenance and repair	63,631	39,366	2,947	[36,419]
Mechanical lifts	3,429	4,970	3,779	[1,191]
Commercial and general	4,302	6,061	6,037	[24]
Employee benefits	11,761	15,038	18,775	3,737
Transfers out	<u>26,163</u>	<u>19,211</u>	<u>150,200</u>	<u>130,989</u>
Total Expenditures	<u>203,024</u>	<u>173,732</u>	<u>\$ 264,809</u>	<u>\$ 91,077</u>
Cash Receipts Over [Under] Expenditures	<u>[79,312]</u>	<u>[57,380]</u>		
Unencumbered Cash, Beginning (as originally stated)	256,066	177,057		
Prior period adjustment	<u>303</u>	<u>26,746</u>		
Unencumbered Cash, Beginning (restated)	<u>256,369</u>	<u>203,803</u>		
Unencumbered Cash, Ending	<u>\$ 177,057</u>	<u>\$ 146,423</u>		

CITY OF EDGERTON, KANSAS
 Sewer Principal and Interest Reserve Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Transfers in	\$ 19,211	\$ 26,163
 Total Cash Receipts	 <u>19,211</u>	 <u>26,163</u>
 Expenditures		
Interest and commission	2,921	3,458
KWPCRLF principal	<u>17,242</u>	<u>22,705</u>
 Total Expenditures	 <u>20,163</u>	 <u>26,163</u>
 Cash Receipts Over [Under] Expenditures	 [952]	 -
 Unencumbered Cash, Beginning	 <u>952</u>	 <u>952</u>
 Unencumbered Cash, Ending	 <u>\$ -</u>	 <u>\$ 952</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
Wastewater Improvement Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual *
Regulatory Basis
For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Transfers in	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures		
Sewer line maintenance and repair	29,203	11,329
Total Expenditures	29,203	11,329
Cash Receipts Over [Under] Expenditures	[29,203]	[11,329]
Unencumbered Cash, Beginning	56,868	68,197
Unencumbered Cash, Ending	\$ 27,665	\$ 56,868

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS
 Benefit District Temporary Note Fund
 Schedule of Cash Receipts and Expenditures - Actual *
 Regulatory Basis
 For the Year Ended December 31, 2012 and 2011

	Year Ended December 31,	
	<u>2012</u>	<u>2011</u>
Cash Receipts		
Temporary note proceeds	\$ 750,000	\$ 2,745,000
Use of money and property	<u>1,506</u>	<u>-</u>
Total Cash Receipts	<u>751,506</u>	<u>2,745,000</u>
Expenditures		
Temporary note principal	-	2,680,000
Interest and other charges	-	18,702
Issuance costs	32,870	-
Capital outlay	<u>306,811</u>	<u>121,618</u>
Total Expenditures	<u>339,681</u>	<u>2,820,320</u>
Receipts Over [Under] Expenditures	411,825	[75,320]
Unencumbered Cash, Beginning	<u>312,446</u>	<u>387,766</u>
Unencumbered Cash, Ending	<u>\$ 724,271</u>	<u>\$ 312,446</u>

* This fund is not required to be budgeted.

CITY OF EDGERTON, KANSAS

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

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	Federal CFDA <u>Number</u>	<u>Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Passed Through the Kansas Department of Health and Environment:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>\$ 7,842,072</u>
Total U.S. Department of of Housing and Urban Development		<u>7,842,072</u>
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grants	14.218	<u>186,260</u>
Total U.S. Department of Transportation		<u>186,260</u>
Total		<u>\$ 8,028,332</u>

The accompanying notes are an integral part of this schedule.

CITY OF EDGERTON, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of the City of Edgerton, Kansas. All expenditures of federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the Kansas regulatory basis of accounting which includes cash disbursements, accounts payable and encumbrances.

CITY OF EDGERTON, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified (Regulatory Basis) <u>Adverse (GAAP)</u>
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u>X</u> Yes ___
Noncompliance material to financial statements noted?	___ Yes <u>X</u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ Yes <u>X</u> No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	___ Yes <u>X</u> No
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CITY OF EDGERTON, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Condition</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>
Not applicable	2012-1	The City lacked a separation of physical control over cash and accounting control over cash in dealing with municipal court receipts. One person entered the billing information into the computerized system, collected cash and recorded the cash receipt into the system.	Recommended Practices	Not determined	Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash.	Agrees
Not applicable	2012-2	We noted inconsistent application of the purchase approval requirements listed in the City's purchasing policy. The purchasing policy requires initialing of the invoice by the purchaser or purchase department for purchases less than \$500, approval by the department head for purchases between \$501 and \$1,000, and approval by both the department head and city administrator for purchases between \$1,001 and \$15,000. The policy also requires the use of a purchase order for purchases greater than \$500.	Recommended Practices	Not determined	The City should adhere to its purchasing policy for all purchases or modify the policy to exempt certain types of purchases from the policy.	Agrees

Prior Year Findings

<u>Program</u>	<u>Finding</u>	<u>Condition</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	<u>Current Status</u>
Not applicable	2011-1	The City lacked a separation of physical control over cash and accounting control over cash in dealing with utility receipts. One person entered the billing information into the computerized system, collected cash and recorded the cash receipt into the system. Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash.	Recommended Practices	Not determined	<p>a. Utility billing receipt reports should be reconciled to daily receipts and deposit slips.</p> <p>b. The City should review its utility billing and receipting procedures and verify there are adequate controls over the following areas: new account set up, transfer account procedures, establishment of payment plans, account adjustments and bad debt write-off/collections procedures.</p> <p>c. Utility billing system reports documenting each of the areas noted in b) above should be reviewed periodically by upper management and each of these areas should be monitored for compliance with the procedures set in place. The monitoring should be done by an individual independent of the utility billing and receipting process.</p>	Agrees	Resolved

CITY OF EDGERTON, KANSAS

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section II - Financial Statement Findings (Continued)

Prior Year Findings (Continued)

<u>Program</u>	<u>Finding</u>	<u>Condition</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	
Not applicable	2011-2	Detailed supporting documentation for journal entries was not consistently maintained, that journal entries did not require formal review or approval before posting and that journal entries were not assigned reference numbers in the accounting software.	Recommended Practices	Not determined	All journal entries be reviewed and approved by the city administrator and detailed documentation for each journal entry should be maintained. Additionally, the City should contact its accounting software provider to determine if it is possible for the software to begin automatically assigning reference numbers to each journal entry posted by the City.	Agrees	Resolved
Not applicable	2011-3	The City lacked a separation of physical control over cash and accounting control over cash in dealing with municipal court receipts. One person entered the billing information into the computerized system, collected cash and recorded the cash receipt into the system.	Recommended Practices	Not determined	Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash.	Agrees	Repeated as 2012-1
Not applicable	2011-4	We noted inconsistent application of the purchase approval requirements listed in the City's purchasing policy. The purchasing policy requires initialing of the invoice by the purchaser or purchase department for purchases less than \$500, approval by the department head for purchases between \$501 and \$1,000, and approval by both the department head and city administrator for purchases between \$1,001 and \$15,000. The policy also requires the use of a purchase order for purchases greater than \$500.	Recommended Practices	Not determined	The City should adhere to its purchasing policy for all purchases or modify the policy to exempt certain types of purchases from the policy.	Agrees	Repeated as 2012-2

Section III - Federal Award Findings and Questioned Costs

None Noted



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

Mayor and City Council
City of Edgerton, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide issued by the Comptroller General of the United States, the financial statements of the City of Edgerton, Kansas (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated June 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as Findings 2012-1 and 2012-2, that we consider to be significant deficiencies in internal control over financial reporting.

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Compliance and Other Matters

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

However, we noted certain other matters that we reported to management of the City in a separate letter dated June 3, 2013.

Purpose of this Report

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

Mike Houser: Company PA

June 3, 2013



MIZE & HOUSER
COMPANY P.A.

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

Mayor and City Council
City of Edgerton, Kansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Edgerton, Kansas (the City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal financial programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Kansas Municipal Audit and Accounting Guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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 in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Mike Houser: Company PA

June 3, 2013