

CITY OF HIAWATHA, KANSAS
FINANCIAL STATEMENTS
Year ending December 31, 2012

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City of Hiawatha, Kansas
 FINANCIAL STATEMENTS
 Year ending December 31, 2012

TABLE OF CONTENTS

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Table of Contents	i - ii
 <u>FINANCIAL STATEMENTS SECTION</u>	
Independent Auditor's Report	1 - 2
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
Notes to the Financial Statements	4 – 12
 <u>REGULATORY REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE 1	
Summary of Expenditures - Actual and Budget	13
SCHEDULE 2	
Schedule of Cash Receipts and Expenditures - Actual and Budget or Actual Only	
General Fund	14
Library Fund	15
Industrial Fund	16
Recreation Fund	17
Employee Benefit Fund	18
Special Highway Fund	19
Parks and Recreation Fund	20
Liability Fund	21
Drug Forfeiture Fund	22
History Center Fund	23
Debt Service Fund	24
Post Lantern Street Light Project Fund	25
Other Capital Projects Funds	26
Water Fund	27
Sewer Fund	28
Storm Water Utility Fund	29
Pool Fund	30
Airport Fund	31
SCHEDULE 3	
Schedule of Cash Receipts, Expenditures and Unencumbered Cash	
Fiduciary Funds	32
SCHEDULE 4	
Schedule of Cash Receipts and Expenditures	
Agency Funds	33
SCHEDULE 5	
Schedule of Cash Receipts and Expenditures - Actual	
Morrill Public Library – Related Municipal Entity	34

City of Hiawatha, Kansas
FINANCIAL STATEMENTS
Year ending December 31, 2012

TABLE OF CONTENTS
(Continued)

<u>GOVERNMENTAL AUDIT SECTION</u>	<u>Page</u>
Schedule of Expenditures of Federal Awards	35
Notes to the Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs	37 - 38
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"	39 - 40
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	41 - 42



INDEPENDENT AUDITOR'S REPORT

Mayor and City Commission
City of Hiawatha, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the municipal financial reporting entity of the City of Hiawatha, Kansas, (the City), as of and for the year ended December 31, 2012 and the related notes to the financial statement.

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 omission of the financial data of one, but not all, of the related municipal entities of the City of Hiawatha, Kansas and 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.

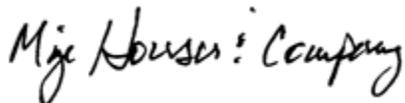
Opinion on Regulatory Basis of Accounting

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 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, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts, expenditures and unencumbered cash-fiduciary funds, schedule of regulatory basis receipts and expenditures-agency funds, and schedule of regulatory basis cash receipts and expenditures-related municipal entity (Schedules 1, 2, 3, 4 and 5 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.

A handwritten signature in black ink that reads "Mike Houser: Company". The signature is written in a cursive, slightly slanted style.

April 2, 2013

City of Hiawatha, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Restated Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Types:							
General Fund	\$ 820,195	\$ -	\$ 1,325,246	\$ 1,616,430	\$ 529,011	\$ 7,332	\$ 536,343
Special Purpose Funds:							
Library	-	-	126,166	126,166	-	-	-
Industrial	165,884	-	175,010	203,194	137,700	-	137,700
Recreation	19,394	-	57,792	37,973	39,213	26	39,239
Employee Benefit	202,904	-	318,203	320,542	200,565	-	200,565
Special Highway	470,474	-	551,916	881,763	140,627	221	140,848
Parks and Recreation	31,980	-	9,260	15,000	26,240	-	26,240
Liability	500	-	-	-	500	-	500
Drug Forfeiture	-	-	525	500	25	-	25
History Center	961	-	42,939	1,021	42,879	-	42,879
Debt Service Fund	165,990	-	837,832	812,944	190,878	-	190,878
Capital Projects Funds:							
Post Lantern Street							
Light Project	292,461	-	161,676	127,613	326,524	-	326,524
Other Capital Projects	322,182	-	735,780	1,037,599	20,363	74,517	94,880
Business Funds:							
Water	358,134	-	835,933	705,179	488,888	8,268	497,156
Sewer	440,458	-	526,669	667,011	300,116	10,301	310,417
Storm Water Utility	101,607	-	80,036	81,597	100,046	-	100,046
Pool	153,771	-	113,700	98,102	169,369	123	169,492
Airport	59,303	-	5,910	28,431	36,782	-	36,782
Fiduciary Funds	32,189	-	1,288	1,386	32,091	-	32,091
Total Primary Government	3,638,387	-	5,905,881	6,762,451	2,781,817	100,788	2,882,605
Related Municipal Entities:							
Morrill Public Library	449,475	-	279,588	253,264	475,799	35	475,834
Total Reporting Entity (Excluding Agency Funds)	\$ 4,087,862	\$ -	\$ 6,185,469	\$ 7,015,715	\$ 3,257,616	\$ 100,823	\$ 3,358,439
<u>Composition of Cash:</u>							
Morrill & Janes Bank							
			Checking				\$ 2,101,462
			Money Market				781,110
			Library Savings				2,846
			Library Checking				25,306
			Library Certificates of Deposit				40,787
			Library Investments				193,134
			Petty Cash				1,380
			Total Morrill & Janes Bank				<u>3,146,025</u>
Citizens State Bank & Trust			Library Checking				805
			Library Investments				212,856
			Library Petty Cash				100
			Total Citizens State Bank & Trust				<u>213,761</u>
			Total Cash				3,359,786
			Less Agency Funds per Schedule 3				<u>[1,347]</u>
			Total Reporting Entity (Excluding Agency Funds)				<u>\$ 3,358,439</u>

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

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Hiawatha (the City) is a municipal corporation governed by a five-member commission. These financial statements present only the primary government of the City and the Morrill Public Library related municipal entity. They exclude one of the related municipal entities for which the City is considered financially accountable:

The Housing Authority of the City of Hiawatha

Separate related municipal entity financial statements may be obtained directly from the above.

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 Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
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.

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

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.)

Fiduciary Fund - used to report assets held in a trustee or agency capacity for others and which therefore cannot be sued to support the government's own programs (i.e. payroll clearing fund, permanent trust funds, 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 amended for the General Fund and Debt Service Fund.

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.

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information (Continued)

A legal operating budget is not required for capital project funds, fiduciary funds, and the following special purpose funds: Liability, Drug Forfeiture and the History Center.

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

NOTE 2 - 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. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

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,</u>
General government	2003	10/1/13	1.80 - 3.85%	\$ 195,000	\$ 20,000
General government and capital projects	2005B	10/1/15	2.90 - 4.50%	2,450,000	290,000
General government	2005C	10/1/13	2.90 - 4.50%	72,000	10,000
General government and capital projects	2006A	10/1/14	4.10 - 5.00%	1,025,000	75,000
General government and capital projects	2006B	7/1/14	3.60 - 4.00%	1,400,000	195,000
General government and capital projects	2011	10/1/26	1.75 - 3.75%	400,000	380,000
General government refunding	2012	8/1/26	1.10 - 2.75%	1,265,000	1,245,000
General government refunding	2012B	10/1/43	2.00 - 4.00%	6,530,000	6,530,000
				<u>\$ 13,337,000</u>	<u>\$ 8,745,000</u>

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 2 - LONG-TERM DEBT (Continued)

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

<u>Year Ending December 31,</u>	
2013	\$ 679,591
2014	651,748
2015	666,218
2016	661,668
2017	678,678
2018 - 2022	3,174,200
2023 - 2027	2,175,573
2028 - 2032	1,085,583
2033 - 2037	1,085,000
2038 - 2042	1,396,000
2043	<u>280,800</u>
Total principal and interest	12,535,059
Less: Interest	<u>[3,790,059]</u>
Total principal	<u>\$ 8,745,000</u>

State Agency Loans. In 1997, the City arranged for a \$691,927 loan through the Kansas Water Pollution Control Revolving Loan Fund for improving the wastewater system in Hiawatha. The City was obligated to make semi-annual payments of \$15,565 from September 1, 1997 to February 28, 2000 and then semi-annual payments of \$24,774 from March 1, 2000 through March 1, 2017. These payments will include a gross interest rate of 3.38% plus a .25% service fee. At December 31, 2012, the outstanding principal balance was \$120,176. In 2003, the City arranged for a \$1,374,044 loan through the Kansas Water Public Water Supply Loan Fund for improving the water system in Hiawatha. In 2007, the amount of the loan was changed to \$702,736. The City was obligated to make semi-annual payments of \$50,282 from August 1, 2004 through February 1, 2007 and the semi-annual payments of \$18,608 from August 1, 2007 through February 1, 2011. On March 15, 2012, the remaining balance on the loan of \$350,366 was paid off with the issuance of the Series 2012 General Obligation Refunding Bonds.

The following displays annual debt service requirements to maturity for the Kansas Water Pollution Control Revolving Loan, to be paid from service revenues:

<u>Year Ending December 31,</u>	
2013	\$ 29,013
2014	29,013
2015	29,013
2016	29,013
2017	<u>14,507</u>
Total principal and interest	130,559
Less: interest and fees	<u>[10,383]</u>
Total principal	<u>\$ 120,176</u>

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 2 - LONG-TERM DEBT (Continued)

Changes in General Long-term Liabilities. During the year ended December 31, 2012, the following changes occurred in long-term debt:

	Balance January 1,	<u>Additions</u>	<u>Retirements</u>	<u>Refundings</u>	Balance December 31,	<u>Interest Paid</u>
General obligation debt - Governmental funds	\$4,215,000	\$7,795,000	\$ 330,000	\$2,935,000	\$ 8,745,000	\$129,791
General obligation debt - Enterprise funds	4,283,220	-	58,401	4,224,819	-	230,276
State agency loans	<u>506,107</u>	<u>-</u>	<u>385,931</u>	<u>350,366</u>	<u>120,176</u>	<u>11,078</u>
Totals	<u>\$ 9,004,327</u>	<u>\$ 7,795,000</u>	<u>\$ 774,332</u>	<u>\$ 7,510,185</u>	<u>\$ 8,865,176</u>	<u>\$ 371,145</u>

Defeased debt. On March 15, 2012, the City issued \$1,265,000 of Series 2012 general obligation refunding bonds with interest ranging from 1.10 to 2.75% to current refund all \$350,366 of the outstanding Kansas Public Water Supply Loan No. 2066 with an interest rate of 4.43% and to advance refund \$795,000 of the Series 2006A General Obligation and Capital Projects Bonds with interest rates ranging from 4.25% to 4.60%. The net proceeds were used to establish an escrow account invested in U.S. Government Securities to pay the outstanding principal of the Series 2006A General Obligation and Capital Projects Bonds and the interest due on the refunding general obligation bonds. As a result, this portion of the 2006B bonds were considered to be defeased and the liability for the defeased bonds has been removed from the City's financial statements. The transaction resulted in an economic gain of \$30,147 and a reduction of \$39,265 in future debt payments.

On October 1, 2012, the City issued \$6,530,000 of Series 2012B general obligation refunding bonds with interest rates ranging from 2.00 to 4.00% to current refund all \$2,759,181 of the outstanding Series 2005A General Obligation Sewer Bonds with an interest rate of 4.25%, to current refund all \$1,465,638 of the outstanding Series 2005D General Obligation Sewer Bonds with an interest rate of 4.25%, to advance refund \$1,405,000 of the Series 2005B General Obligation and Capital Projects Bonds with interest rates ranging from 3.95% to 4.50% and to advance refund \$735,000 of the Series 2006B General Obligation and Capital Projects Bonds with interest rates ranging from 3.70% to 4.00%. The net proceeds were used to establish an escrow account invested in U.S. Government Securities to pay the outstanding principal of the 2005B and 2006B General Obligation and Capital Projects Bonds and the interest due on the refunding general obligation bonds. As a result, these portions of the 2005B and 2006B bonds were considered to be defeased and the liability for the defeased bonds has been removed from the City's financial statements. The transaction resulted in an economic gain of \$509,687 and a reduction of \$822,745 in future debt payments.

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

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

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 2 - LONG-TERM DEBT (Continued)

Conduit Debt Obligations (Continued). Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2012, there was six series of Industrial Revenue bonds outstanding, with an aggregate original principal amount payable of \$14,795,000.

NOTE 3 – 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 held no investments.

KSA 12-1225(h) authorizes library boards to invest or reinvest gifts and donations and any dividends, interest, rent, or income derived from the gifts in the manner the board deems will best serve the interest of the library. The Morrill Public Library had the following unsecured investments from gifts and donations at December 31, 2012.

<u>Investment Type</u>	<u>Fair Value</u>
Citizens State Bank & Trust	
Bond Funds	\$ 186,599
Cash & Cash Equivalents	22,751
Stocks & Mutal Funds	871
Other Investments	2,635
Morrill & Janes Bank	
Stocks & Mutal Funds	176,677
Cash & Cash Equivalents	<u>16,457</u>
Total	<u>\$ 405,990</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". At December 31, 2012, the Kansas State Treasurer's Fiscal Agency Department held an unsecured and uncollateralized deposit of \$18,237.

At December 31, 2012, the City's and Library's carrying amounts of deposits were \$2,883,952 and \$69,844, respectively, and the bank balances were \$3,138,300 and \$70,703, respectively. The City's and Library's bank balances were held by two banks resulting in a concentration of credit risk. Of the City's bank balance, \$366,668 was covered by federal depository insurance and the remaining balance of \$2,771,632 was collateralized with securities held by the pledging financial institutions' agents in the City's name. All of the Library's bank balance was covered by federal depository insurance.

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

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 4 – 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 year ended December 31, 2012, 2011, and 2010 were \$68,924, \$64,680, and \$62,224, respectively.

NOTE 5 - 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 6 - COMPENSATED ABSENCES

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2012, the liability for earned vacation pay was \$40,001.

NOTE 7 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these 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 – CAPITAL LEASES OF EQUIPMENT

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

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

	January 1,			December 31,
		Additions	Retirements	
Capital lease obligations -				
Governmental funds	\$ -	\$ 212,160	\$ 34,967	\$ 177,193
Totals	\$ -	\$ 212,160	\$ 34,967	\$ 177,193

City of Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 8 – CAPITAL LEASES OF EQUIPMENT (Continued)

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

	<u>Year Ending December 31,</u>	
	2013	\$ 44,891
	2014	44,890
	2015	44,891
	2016	44,890
	2017	<u>9,924</u>
Total principal and interest		189,486
Less: interest and fees		<u>[12,293]</u>
Total principal		<u>\$ 177,193</u>

NOTE 9 - INTERFUND TRANSACTIONS

Operating transfers were as follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 400,314
Industrial Fund	-	164,610
Recreation Fund	-	1,606
Special Highway Fund	127,867	65,000
Parks and Recreation Fund	-	14,646
Debt Service Fund	588,423	-
Post Lantern Street Light Project Fund	-	127,613
Other Capital Project Funds	167,530	-
Water Fund	-	142,998
Storm Water Utility Fund	-	9,859
Pool Fund	60,000	-
Airport Fund	-	<u>17,174</u>
Total	<u>\$ 943,820</u>	<u>\$ 943,820</u>

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 Hiawatha, Kansas

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2012

NOTE 11 – CAPITAL PROJECTS

During 2011, the City began construction on Phase II of the Downtown Streetscape Improvements Project. The project was completed in 2012 at a total cost of \$946,714. Qualifying project expenditures were 70% reimbursable through a federal Highway Planning and Construction Grant passed through to the City by the Kansas Department of Transportation (KDOT). \$837,295 of the total project costs were qualifying expenditures and the total KDOT reimbursements received as of December 31, 2012 were \$443,177. The remaining \$142,930 KDOT reimbursement was received in January, 2013.

During 2012, the City began work on the School & Fitness Trail Project. The total estimated cost for the School & Fitness Trail Project is \$1.4 million and the estimated completion date is December, 2013. A portion of the grant will be reimbursed by KDOT, but the terms of the reimbursement have not been determined. During 2012, only engineering expenditures had been incurred on the project, which totaled \$74,517 through December 31, 2012.

On January 13, 2012 the City was awarded a \$500,000 Community Development Block Grant (CDBG) to provide partial financing for a sewer project. The remaining financing will be received through a loan from the U.S. Department of Agriculture (USDA) that had not been finalized as of December 31, 2012. The total estimated cost for the sewer project is \$1,492,369 and the estimated completion date is in the fall of 2013. During 2012, only engineering and design expenditures had been incurred on the project, which totaled \$242,085 through December 31, 2012. No CDBG funds or USDA loan proceeds had been received as of December 31, 2012.

NOTE 12 - RESTATEMENTS

During 2012, the City elected to reclassify some 2011 expenditures from the Special High Fund to the Main Street Project Fund. This reclassification resulted in the following restatements to beginning unencumbered cash.

	Special Highway Fund	Main Street Project Fund
Unencumbered Cash Balance December 31, 2011	\$ 401,679	\$ 284,372
Adjustment to Reverse 2011 Expense Allocation	<u>68,795</u>	<u>[68,795]</u>
Unencumbered Cash Balance December 31, 2011, Restated	<u>\$ 470,474</u>	<u>\$ 215,577</u>

NOTE 13 - STATUTORY VIOLATIONS

Actual exceeded budgeted expenditures in the Post Lantern Street Light Project Fund at December 31, 2012, which violates KSA 79-2935.

City of Hiawatha, 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	\$ 1,709,963	\$ -	\$ 1,709,963	\$ 1,616,430	\$ 93,533
Special Purpose Funds:					
Library	127,918	-	127,918	126,166	1,752
Industrial	205,285	-	205,285	203,194	2,091
Recreation	50,475	-	50,475	37,973	12,502
Employee Benefit	465,200	-	465,200	320,542	144,658
Special Highway	901,475	-	901,475	881,763	19,712
Parks and Recreation	15,000	-	15,000	15,000	-
Debt Service Fund	853,790	-	853,790	812,944	40,846
Capital Projects Fund:					
Post Lantern Street Light Project	127,205	-	127,205	127,613	[408]
Business Funds:					
Water	869,057	-	869,057	705,179	163,878
Sewer	767,410	-	767,410	667,011	100,399
Storm Water Utility	118,000	-	118,000	81,597	36,403
Pool	127,375	-	127,375	98,102	29,273
Airport	30,500	-	30,500	28,431	2,069

See independent auditor's report on the financial statements.

SCHEDULE 2-1

City of Hiawatha, Kansas

GENERAL FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 849,112	\$ 775,433	\$ 73,679
Intergovernmental	1,500	-	1,500
Licenses and permits	25,539	10,000	15,539
Charges for services	20,010	40,000	[19,990]
Fines and fees	291,635	275,000	16,635
Use of money and property	70,975	-	70,975
Reimbursed expenses	52,391	9,000	43,391
Miscellaneous	<u>14,084</u>	<u>-</u>	<u>14,084</u>
Total Cash Receipts	<u>1,325,246</u>	<u>\$ 1,109,433</u>	<u>\$ 215,813</u>
Expenditures			
General government	413,095	\$ 536,450	\$ 123,355
Public safety	547,390	557,588	10,198
Highways and streets	95,611	86,850	[8,761]
Culture and recreation	101,786	170,775	68,989
Capital outlay	58,234	58,300	66
Transfers out	<u>400,314</u>	<u>300,000</u>	<u>[100,314]</u>
Total Expenditures	<u>1,616,430</u>	<u>\$ 1,709,963</u>	<u>\$ 93,533</u>
Cash Receipts Over [Under] Expenditures	[291,184]		
Unencumbered Cash, Beginning	<u>820,195</u>		
Unencumbered Cash, Ending	<u>\$ 529,011</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

LIBRARY FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 122,068	\$ 127,918	\$ [5,850]
Miscellaneous	<u>4,098</u>	<u>-</u>	<u>4,098</u>
Total Cash Receipts	<u>126,166</u>	<u>\$ 127,918</u>	<u>\$ [1,752]</u>
Expenditures			
Appropriation - related municipal entity	<u>126,166</u>	<u>\$ 127,918</u>	<u>\$ 1,752</u>
Total Expenditures	<u>126,166</u>	<u>\$ 127,918</u>	<u>\$ 1,752</u>
Cash Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-3

City of Hiawatha, Kansas

INDUSTRIAL FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 174,196	\$ 145,161	\$ 29,035
Use of money and property	2	-	2
Reimbursed expenses	<u>812</u>	<u>-</u>	<u>812</u>
Total Cash Receipts	<u>175,010</u>	<u>\$ 145,161</u>	<u>\$ 29,849</u>
Expenditures			
Commodities	34,821	\$ 34,575	\$ [246]
Contractual services	3,763	3,100	[663]
Capital outlay	-	3,000	3,000
Transfers out	<u>164,610</u>	<u>164,610</u>	<u>-</u>
Total Expenditures	<u>203,194</u>	<u>\$ 205,285</u>	<u>\$ 2,091</u>
Cash Receipts Over [Under] Expenditures	[28,184]		
Unencumbered Cash, Beginning	<u>165,884</u>		
Unencumbered Cash, Ending	<u>\$ 137,700</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

RECREATION FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 37,455	\$ 38,544	\$ [1,089]
Charges for services	10,942	-	10,942
Reimbursements	4,437	-	4,437
Miscellaneous	<u>4,958</u>	<u>-</u>	<u>4,958</u>
Total Cash Receipts	<u>57,792</u>	<u>\$ 38,544</u>	<u>\$ 19,248</u>
Expenditures			
Personal services	8,297	\$ 10,000	\$ 1,703
Contractual services	6,655	12,025	5,370
Commodities	12,021	17,450	5,429
Capital outlay	9,394	11,000	1,606
Transfers out	<u>1,606</u>	<u>-</u>	<u>[1,606]</u>
Total Expenditures	<u>37,973</u>	<u>\$ 50,475</u>	<u>\$ 12,502</u>
Cash Receipts Over [Under] Expenditures	19,819		
Unencumbered Cash, Beginning	<u>19,394</u>		
Unencumbered Cash, Ending	<u>\$ 39,213</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-5

City of Hiawatha, Kansas

EMPLOYEE BENEFIT FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 317,683	\$ 321,190	\$ [3,507]
Reimbursed expenses	<u>520</u>	<u>-</u>	<u>520</u>
Total Cash Receipts	<u>318,203</u>	<u>\$ 321,190</u>	<u>\$ [2,987]</u>
Expenditures			
Social security	48,781	\$ 61,200	\$ 12,419
Retirement	48,138	62,000	13,862
Unemployment	918	5,000	4,082
Workman's compensation insurance	28,088	45,000	16,912
Health insurance	194,617	272,000	77,383
Miscellaneous	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Total Expenditures	<u>320,542</u>	<u>\$ 465,200</u>	<u>\$ 144,658</u>
Cash Receipts Over [Under] Expenditures	[2,339]		
Unencumbered Cash, Beginning	<u>202,904</u>		
Unencumbered Cash, Ending	<u>\$ 200,565</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

SPECIAL HIGHWAY FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 318,992	\$ 300,000	\$ 18,992
Intergovernmental	89,582	100,790	[11,208]
Reimbursed expenses	15,475	3,000	12,475
Transfers in	<u>127,867</u>	<u>300,000</u>	<u>[172,133]</u>
Total Cash Receipts	<u>551,916</u>	<u>\$ 703,790</u>	<u>\$ [151,874]</u>
Expenditures			
Personal services	104,117	\$ 145,000	\$ 40,883
Contractual services	122,627	158,625	35,998
Commodities	157,204	245,850	88,646
Capital outlay	432,815	352,000	[80,815]
Transfers out	<u>65,000</u>	<u>-</u>	<u>[65,000]</u>
Total Expenditures	<u>881,763</u>	<u>\$ 901,475</u>	<u>\$ 19,712</u>
Cash Receipts Over [Under] Expenditures	<u>[329,847]</u>		
Unencumbered Cash, Beginning (as originally stated)	401,679		
Prior period adjustment	<u>68,795</u>		
Unencumbered Cash, Beginning (restated)	<u>470,474</u>		
Unencumbered Cash, Ending	<u>\$ 140,627</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-7

City of Hiawatha, Kansas

PARKS AND RECREATION FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 9,260	\$ 10,000	\$ [740]
Total Cash Receipts	<u>9,260</u>	<u>\$ 10,000</u>	<u>\$ [740]</u>
Expenditures			
Capital outlay	354	\$ 15,000	\$ 14,646
Transfers out	<u>14,646</u>	<u>-</u>	<u>[14,646]</u>
Total Expenditures	<u>15,000</u>	<u>\$ 15,000</u>	<u>\$ -</u>
Cash Receipts Over [Under] Expenditures	[5,740]		
Unencumbered Cash, Beginning	<u>31,980</u>		
Unencumbered Cash, Ending	<u>\$ 26,240</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

LIABILITY FUND*
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
Miscellaneous	<u>\$ -</u>
Total Cash Receipts	<u>-</u>
Expenditures	
General government	<u>-</u>
Total Expenditures	<u>-</u>
Cash Receipts Over [Under] Expenditures	-
Unencumbered Cash, Beginning	<u>500</u>
Unencumbered Cash, Ending	<u>\$ 500</u>

* This fund is not required to be budgeted.

SCHEDULE 2-9

City of Hiawatha, Kansas

DRUG FORFEITURE FUND*
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2012

Cash Receipts	
Miscellaneous	<u>\$ 525</u>
Total Cash Receipts	<u>525</u>
Expenditures	
General government	<u>500</u>
Total Expenditures	<u>500</u>
Cash Receipts Over [Under] Expenditures	25
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u>\$ 25</u>

* This fund is not required to be budgeted.

City of Hiawatha, Kansas
 HISTORY CENTER FUND*
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
Miscellaneous	<u>\$ 42,939</u>
Total Cash Receipts	<u>42,939</u>
Expenditures	
General government	<u>1,021</u>
Total Expenditures	<u>1,021</u>
Cash Receipts Over [Under] Expenditures	41,918
Unencumbered Cash, Beginning	<u>961</u>
Unencumbered Cash, Ending	<u>\$ 42,879</u>

* This fund is not required to be budgeted.

City of Hiawatha, Kansas

DEBT SERVICE FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 187,452	\$ 188,509	\$ [1,057]
Reimbursed expenses	61,957	-	61,957
Transfers in	<u>588,423</u>	<u>588,015</u>	<u>408</u>
Total Cash Receipts	<u>837,832</u>	<u>\$ 776,524</u>	<u>\$ 61,308</u>
Expenditures			
Principal	423,965	\$ 415,427	\$ [8,538]
Interest and other charges	371,145	373,363	2,218
Payment to escrow account	17,834	-	[17,834]
Reserves	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Total Expenditures	<u>812,944</u>	<u>\$ 853,790</u>	<u>\$ 40,846</u>
Cash Receipts Over [Under] Expenditures	24,888		
Unencumbered Cash, Beginning	<u>165,990</u>		
Unencumbered Cash, Ending	<u>\$ 190,878</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

POST LANTERN STREET LIGHT PROJECT FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 159,408	\$ 130,000	\$ 29,408
Use of money and property	<u>2,268</u>	<u>3,000</u>	<u>[732]</u>
Total Cash Receipts	<u>161,676</u>	<u>\$ 133,000</u>	<u>\$ 28,676</u>
Expenditures			
Transfers out	<u>127,613</u>	<u>\$ 127,205</u>	<u>\$ [408]</u>
Total Expenditures	<u>127,613</u>	<u>\$ 127,205</u>	<u>\$ [408]</u>
Cash Receipts Over [Under] Expenditures	34,063		
Unencumbered Cash, Beginning	<u>292,461</u>		
Unencumbered Cash, Ending	<u>\$ 326,524</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

OTHER CAPITAL PROJECTS FUNDS*
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
 Regulatory Basis
 For the Year Ended December 31, 2012

	KDOT Street Improvement	Fisher Building	Skate Park	Crestview Park	Waterline Project	Main Street Project	2011 Bond Project	School & Fitness Trail	Actual
Cash Receipts									
Grant proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 438,163	\$ 124,762	\$ -	\$ 562,925
Donations	-	-	-	1,125	-	-	-	-	1,125
Reimbursements	-	-	-	-	-	4,200	-	-	4,200
Transfers in	<u>102,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,000</u>	<u>-</u>	<u>-</u>	<u>167,530</u>
Total Cash Receipts	<u>102,530</u>	<u>-</u>	<u>-</u>	<u>1,125</u>	<u>-</u>	<u>507,363</u>	<u>124,762</u>	<u>-</u>	<u>735,780</u>
Expenditures									
Contractual services	-	-	129	-	-	-	-	-	129
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,262</u>	<u>854,687</u>	<u>24,004</u>	<u>74,517</u>	<u>1,037,470</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>129</u>	<u>-</u>	<u>84,262</u>	<u>854,687</u>	<u>24,004</u>	<u>74,517</u>	<u>1,037,599</u>
Cash Receipts Over [Under] Expenditures	<u>102,530</u>	<u>-</u>	<u>[129]</u>	<u>1,125</u>	<u>[84,262]</u>	<u>[347,324]</u>	<u>100,758</u>	<u>[74,517]</u>	<u>[301,819]</u>
Unencumbered Cash, Beginning (as originally stated)	61,708	202	9,111	-	136,342	284,372	[100,758]	-	390,977
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>[68,795]</u>	<u>-</u>	<u>-</u>	<u>[68,795]</u>
Unencumbered Cash, Beginning (restated)	<u>61,708</u>	<u>202</u>	<u>9,111</u>	<u>-</u>	<u>136,342</u>	<u>215,577</u>	<u>[100,758]</u>	<u>-</u>	<u>322,182</u>
Unencumbered Cash, Ending	<u>\$ 164,238</u>	<u>\$ 202</u>	<u>\$ 8,982</u>	<u>\$ 1,125</u>	<u>\$ 52,080</u>	<u>\$ [131,747]</u>	<u>\$ -</u>	<u>\$ [74,517]</u>	<u>\$ 20,363</u>

* These funds are not required to be budgeted.

City of Hiawatha, Kansas

WATER FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 828,234	\$ 824,000	\$ 4,234
Reimbursed expenses	<u>7,699</u>	<u>5,000</u>	<u>2,699</u>
Total Cash Receipts	<u>835,933</u>	<u>\$ 829,000</u>	<u>\$ 6,933</u>
Expenditures			
Personal services	267,219	\$ 277,530	\$ 10,311
Contractual services	129,533	186,860	57,327
Commodities	81,152	88,450	7,298
Capital outlay	84,277	219,000	134,723
Transfers out	<u>142,998</u>	<u>97,217</u>	<u>[45,781]</u>
Total Expenditures	<u>705,179</u>	<u>\$ 869,057</u>	<u>\$ 163,878</u>
Cash Receipts Over [Under] Expenditures	130,754		
Unencumbered Cash, Beginning	<u>358,134</u>		
Unencumbered Cash, Ending	<u>\$ 488,888</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

SEWER FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 518,251	\$ 547,620	\$ [29,369]
Special assessments	4,135	-	4,135
Reimbursed expenses	607	5,000	[4,393]
Use of money and property	3,176	10,000	[6,824]
Miscellaneous	<u>500</u>	<u>500</u>	<u>-</u>
Total Cash Receipts	<u>526,669</u>	<u>\$ 563,120</u>	<u>\$ [36,451]</u>
Expenditures			
Personal services	133,016	\$ 163,300	\$ 30,284
Contractual services	447,038	276,150	[170,888]
Commodities	16,711	27,960	11,249
Capital outlay	<u>70,246</u>	<u>300,000</u>	<u>229,754</u>
Total Expenditures	<u>667,011</u>	<u>\$ 767,410</u>	<u>\$ 100,399</u>
Cash Receipts Over [Under] Expenditures	[140,342]		
Unencumbered Cash, Beginning	<u>440,458</u>		
Unencumbered Cash, Ending	<u>\$ 300,116</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

STORM WATER UTILITY FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 80,036	\$ 80,000	\$ 36
Total Cash Receipts	<u>80,036</u>	<u>\$ 80,000</u>	<u>\$ 36</u>
Expenditures			
Personal services	3,608	\$ 27,000	\$ 23,392
Contractual services	16	3,000	2,984
Commodities	17,670	23,000	5,330
Capital outlay	50,444	65,000	14,556
Transfers out	9,859	-	[9,859]
Total Expenditures	<u>81,597</u>	<u>\$ 118,000</u>	<u>\$ 36,403</u>
Cash Receipts Over [Under] Expenditures	[1,561]		
Unencumbered Cash, Beginning	<u>101,607</u>		
Unencumbered Cash, Ending	<u>\$ 100,046</u>		

See independent auditor's report on the financial statements.

SCHEDULE 2-17

City of Hiawatha, Kansas

POOL FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 50,273	\$ 48,000	\$ 2,273
Reimbursed expenses	1,597	1,000	597
Use of money and property	1,708	-	1,708
Miscellaneous	122	-	122
Transfers in	<u>60,000</u>	<u>60,000</u>	<u>-</u>
 Total Cash Receipts	 <u>113,700</u>	 <u>\$ 109,000</u>	 <u>\$ 4,700</u>
 Expenditures			
Personal services	46,847	\$ 61,355	\$ 14,508
Contractual services	14,420	35,500	21,080
Commodities	22,474	28,020	5,546
Capital outlay	<u>14,361</u>	<u>2,500</u>	<u>[11,861]</u>
 Total Expenditures	 <u>98,102</u>	 <u>\$ 127,375</u>	 <u>\$ 29,273</u>
 Cash Receipts Over [Under] Expenditures	 15,598		
 Unencumbered Cash, Beginning	 <u>153,771</u>		
 Unencumbered Cash, Ending	 <u>\$ 169,369</u>		

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

AIRPORT FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 5,910	\$ 6,500	\$ [590]
Total Cash Receipts	<u>5,910</u>	<u>\$ 6,500</u>	<u>\$ [590]</u>
Expenditures			
Contractual services	4,681	\$ 6,250	\$ 1,569
Commodities	-	500	500
Contractual services	-	23,750	23,750
Capital outlay	6,576	-	[6,576]
Transfers out	<u>17,174</u>	<u>-</u>	<u>[17,174]</u>
Total Expenditures	<u>28,431</u>	<u>\$ 30,500</u>	<u>\$ 2,069</u>
Cash Receipts Over [Under] Expenditures	[22,521]		
Unencumbered Cash, Beginning	<u>59,303</u>		
Unencumbered Cash, Ending	<u>\$ 36,782</u>		

See independent auditor's report on the financial statements.

SCHEDULE 3

City of Hiawatha, Kansas

FIDUCIARY FUNDS
 SCHEDULE OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
 Regulatory Basis
 For the Year Ended December 31, 2012

	Beginning Unencumbered Cash <u>Balance</u>	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash <u>Balance</u>	Outstanding Encumbrances and Accounts Payable	Ending Cash <u>Balance</u>
Permanent Funds							
C.H. Janes Poor Memorial	\$ 4,774	\$ -	\$ 40	\$ 49	\$ 4,765	\$ -	\$ 4,765
G.A.R. Memorial	1,957	-	16	20	1,953	-	1,953
Morrissee Memorial	2,849	-	24	29	2,844	-	2,844
Daisy Hassenpflug Memorial	1,310	-	11	13	1,308	-	1,308
Private Purpose Trust Funds							
Lake	258	-	1,030	1,275	13	-	13
Child Safety	1,758	-	-	-	1,758	-	1,758
Kiwanis	56	-	-	-	56	-	56
Bruning Memorial	542	-	-	-	542	-	542
Widman Memorial	1,553	-	16	-	1,569	-	1,569
Hockey Rink	1,130	-	-	-	1,130	-	1,130
Lake Bridge Donation	<u>16,002</u>	<u>-</u>	<u>151</u>	<u>-</u>	<u>16,153</u>	<u>-</u>	<u>16,153</u>
Total Fiduciary Funds	<u>\$ 32,189</u>	<u>\$ -</u>	<u>\$ 1,288</u>	<u>\$ 1,386</u>	<u>\$ 32,091</u>	<u>\$ -</u>	<u>\$ 32,091</u>

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

AGENCY FUNDS
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
 For the Year Ended December 31, 2012

<u>FUND</u>	Beginning Cash <u>Balance</u>	Cash <u>Receipts</u>	Cash <u>Expenditures</u>	Ending Cash <u>Balance</u>
Sales Tax	\$ 1,293	\$ 15,603	\$ 15,549	\$ 1,347
Total Agency Funds	<u>\$ 1,293</u>	<u>\$ 15,603</u>	<u>\$ 15,549</u>	<u>\$ 1,347</u>

See independent auditor's report on the financial statements.

SCHEDULE 5

City of Hiawatha, Kansas

GENERAL FUND
MORRILL PUBLIC LIBRARY - RELATED MUNICIPAL ENTITY
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2012

Cash Receipts:	
Grants and state appropriations	\$ 23,441
City appropriation	123,307
Fines and fees	6,183
Gifts and donations	41,937
Interest and investment earnings	13,182
Farm income	36,024
Miscellaneous income	6,510
Gain/[Loss] of value on investments	<u>29,004</u>
Total Cash Receipts	<u>279,588</u>
Expenditures:	
Salary and payroll taxes	150,981
Books, periodicals, videos and film	18,292
Supplies	8,570
Repairs and maintenance	16,183
Utilities	21,760
Insurance	6,264
Continuing education	2,438
Professional fees	7,960
Capital improvements	10,402
Miscellaneous and postage	<u>10,414</u>
Total Expenditures	<u>253,264</u>
Cash Receipts Over [Under] Expenditures	26,324
Unencumbered Cash, Beginning	<u>449,475</u>
Unencumbered Cash, Ending	<u>\$ 475,799</u>

See independent auditor's report on the financial statements.

City of Hiawatha, Kansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through the State of Kansas:			
Community Development Block Grants	14.228	\$ _____ -	\$ <u>245,085</u>
Total U.S. Department of of Housing and Urban Development		_____ -	_____ <u>245,085</u>
<u>U.S. Department of Transportation</u>			
Passed Through the Kansas Department of Transportation:			
Highway Planning and Construction	20.205	_____ <u>439,532</u>	_____ <u>580,592</u>
Total U.S. Department of Transportation		_____ <u>439,532</u>	_____ <u>580,592</u>
Total		\$ <u>439,532</u>	\$ <u>825,677</u>

The accompanying notes are an integral part of this schedule.

City of Hiawatha, Kansas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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 Hiawatha, 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 Hiawatha, 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>
20.205	Highway Planning and Construction

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 Hiawatha, 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 currently lacks a separation of physical control over cash and accounting control over cash in dealing with utility and municipal court receipts. Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash.	Recommended Practices	Not determined	We recommend the City 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. We also recommend that utility billing system reports documenting each of these areas be reviewed periodically by upper management and that each of these areas 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.	Agrees
Not applicable	2012-2	The Library currently lacks a separation of physical control over cash and accounting control over cash in dealing with cash disbursements. Currently, one person approves purchases, places orders, enters transactions into the accounting software and reconciles the bank accounts. Proper cash controls would provide that separate individuals be assigned to physical control and accounting control.	Recommended Practices	Not determined	We recommend that an individual independent of the accounting process prepare or review the monthly bank reconciliations. Additionally, we recommend the Library Board of Trustees receive a listing of disbursements at each meeting and initial their approval on this report.	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 currently lacks a separation of physical control over cash and accounting control over cash in dealing with utility and municipal court receipts. Proper cash controls would provide that separate individuals be assigned to physical control and accounting control of cash.	Recommended Practices	Not determined	We recommend the City 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. We also recommend that utility billing system reports documenting each of these areas be reviewed periodically by upper management and that each of these areas 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.	Agrees	Repeated at 2012-1

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 Commission
City of Hiawatha, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Hiawatha, Kansas (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2013.

Internal Control Over Financial Reporting

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

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, as 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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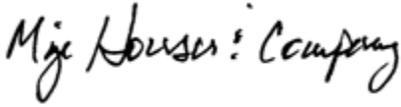
Compliance and Other Matters

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 April 2, 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.

A handwritten signature in black ink that reads "Mize Housen & Company". The signature is written in a cursive, flowing style.

April 2, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Mayor and City Commission
City of Hiawatha, Kansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Hiawatha, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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 charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City as of and for the year ended December 31, 2012, and have issued our report thereon dated April 2, 2013, which contained an unmodified opinion under the Kansas regulatory basis of accounting on those financial statements. Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This communication is intended solely for the information and use of the city commission, management, federal awarding agencies and pass through entities, is not intended to be, and should not be used by anyone other than these specified parties.

Mize Houser & Company

April 2, 2013