

CITY OF KIRWIN

Kirwin, Kansas

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

WATER UTILITY FUND

For the Year Ended December 31, 2012

**MAPES & MILLER
Certified Public Accountants
Phillipsburg, Kansas 67661**

**CITY OF KIRWIN
Kirwin, Kansas**

For the Year Ended December 31, 2012

City Council

**Linda Roth
Larry Bedore
Donnie Loyd
Todd Lumpkin
Judy Stockman**

Brenda Loyd, Mayor

**Susan Bedore
Debbie Robinson**

**City Clerk
City Treasurer**

CITY OF KIRWIN
Kirwin, Kansas

For the Year Ended December 31, 2012

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MAPES & MILLER LLP

CERTIFIED PUBLIC ACCOUNTANTS

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

JOHN D. MAPES, CPA, CHTD
DENIS W. MILLER, CPA, PA
THOMAS B. CARPENTER, CPA, PA
DON E. TILTON, CPA, PA
BRIAN S. THOMPSON, CPA, PA
REBECCA A. LIX, CPA, PA
STEPHANIE M. HEIER, CPA, PA

418 E HOLME
NORTON, KS 67654
(785)877-5833

P.O. BOX 266
711 3RD STREET
PHILLIPSBURG, KS 67661
(785)543-6561

P.O. BOX 508
503 MAIN STREET
STOCKTON, KS 67669
(785)425-6764

306 N POMEROY
HILL CITY, KS 67642
(785)421-2163

PO BOX 412
QUINTER, KS 67752
(785)754-2111

117 N MAIN ST
WAKEENEY, KS 67672
(785)543-5513

INDEPENDENT AUDITOR'S REPORT

**Mayor and City Council
City of Kirwin
Kirwin, Kansas 67644**

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Water Utility Fund of the City of Kirwin, Kansas, a municipality, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial 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 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.

Mayor and City Council
Kirwin, Kansas
September 10, 2013
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Kirwin, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 1, the financial statement presents only the Water Utility Fund of the City of Kirwin, Kansas and does not purport to, and does not present fairly the financial position of the City of Kirwin, Kansas, as of December 31, 2012, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 and the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Kirwin, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof and 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 "Water Utility Fund" of the City of Kirwin, Kansas as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2012 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) of the Water Utility Fund. The summary of regulatory basis expenditures-actual and budget and individual fund schedule 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 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the

Mayor and City Council
Kirwin, Kansas
September 10, 2013
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underlying accounting and other records used to prepare the 2012 basic financial statement. The 2012 information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statement or to the 2012 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 2012 basic financial statement of the Water Utility Fund, on the basis of accounting described in Note 1.

Respectfully submitted,

Mapes & Miller LLP
Certified Public Accountants

September 10, 2013
Phillipsburg, Kansas

CITY OF KIRWIN
Kirwin, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
REGULATORY BASIS
For the Year Ended December 31, 2012

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds							
Water Utility Fund	\$ 18,039	\$ -	\$ 42,894	\$ 54,172	\$ 6,761	\$ 44	\$ 6,805
All Other City Funds							113,188
Total Financial Reporting Entity							\$ 119,993
					Composition of Cash:		
							\$ 150
							2,582
							117,261
						Total Financial Reporting Entity	\$ 119,993

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

CITY OF KIRWIN
Kirwin, Kansas

NOTES TO THE FINANCIAL STATEMENT
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Kirwin, Kansas, is a municipal corporation governed by an elected mayor and an elected five-member council. The accompanying statement reflects only the Water Utility Fund of the City of Kirwin, Kansas.

B. 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. The Water Utility Fund is the following regulatory basis fund type:

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

C. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.

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

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

2. BUDGETARY INFORMATION

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

1. Preparation of the budget for the succeeding calendar year on or before August 1st.

2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice 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 budgets for the following funds were amended for the year ended December 31, 2012: General Fund, Water Fund, and Sewer 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.

A legal operating budget is not required for capital projects funds and trust funds.

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance With Kansas Statutes

- A. K.S.A. 10-1117 requires the clerk to maintain a record of each funds' indebtedness and contracts creating a liability against the City. The records did not include the City's fund indebtedness and contracts for the year ended December 31, 2012, violating K.S.A. 10-1117.
- B. The City is not aware of any other non-compliance with Kansas statutes for the year ended December 31, 2012.

4. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining County, if such an 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.

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the City's carrying amount of deposits was \$ 119,843 and the bank balance was \$ 119,855. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$ 119,855 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.

5. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

A. Other Post Employment Benefits

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

B. Other Employee Benefits

Vacation Pay

City employees, who have worked at least one year but less than ten years receive ten days of vacation per year. An employee who has worked at least ten years receives fifteen days paid vacation per year. Vacation time is added on the anniversary date and may accumulate to a maximum of twenty days. Vacation days are paid to the employees upon termination of employment.

Sick Pay

Each full time employee is credited with one sick day per month with a maximum accumulation of thirty days. Part time employees who work at least 100 hours per month earn four hours of sick leave per month with a maximum accumulation of sixteen days. Sick leave is not paid upon termination of employment.

Compensatory Pay

City employees who work over forty hours in any week may receive compensatory time off in lieu of pay for overtime hours worked. Compensatory time is calculated at one and one-half times the hours of overtime.

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; injuries to employees; and natural disasters. The City has purchased commercial insurance for these potential risks.

During the year ended December 31, 2012, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three years.

7. LONG-TERM DEBT

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

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance 1/1/2012	Additions	Reductions/Payments	Ending Balance 12/31/2012	Interest/Service Fees Paid
KDHE Loans									
Water Pollution Control	2.83%	10/11/2004	\$ 166,827	3/1/2030	\$ 155,384	\$ -	\$ 6,495	\$ 148,889	\$ 4,352
Public Water Supply	3.77%	9/11/2009	218,996	2/1/2031	157,164	-	5,520	151,644	5,939
Total KDHE Loans					312,548	-	12,015	300,533	10,291
Total Contractual Indebtedness					\$ 312,548	\$ -	\$ 12,015	\$ 300,533	\$ 10,291

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

Year	KDHE Loans	
	Principal	Interest
2013	\$ 12,476	\$ 9,829
2014	12,887	9,418
2015	13,312	8,994
2016	13,751	8,555
2017	14,205	8,101
2018-2022	78,387	33,142
2023-2027	92,265	19,264
2028-2032	63,249	3,975
	\$ 300,532	\$ 101,278

CITY OF KIRWIN, KANSAS
REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

**CITY OF KIRWIN
Kirwin, Kansas**

Schedule 1

**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 Over (Under)</u>
Business Fund					
Water Utility Fund	\$ 54,689	\$ -	\$ 54,689	\$ 54,172	\$ (517)

CITY OF KIRWIN
Kirwin, Kansas

Schedule 2-1

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
For the Year Ended December 31, 2012

WATER UTILITY FUND

	Actual	Budget	Variance Over (Under)
RECEIPTS			
Customer Charges	\$ 39,736	\$ 34,000	\$ 5,736
Water Plan	226	200	26
Enrev	113	1,350	(1,237)
Installation	904	100	804
Water Meter Deposits	800	500	300
Reconnect Fees	1,115	500	615
	<u>42,894</u>	<u>\$ 36,650</u>	<u>\$ 6,244</u>
EXPENDITURES			
Salaries & Wages	14,585	\$ 22,973	\$ (8,388)
Fuel	-	150	(150)
Utilities	4,563	4,000	563
Insurance	7,005	250	6,755
Fees & Workshops	1,067	-	1,067
Repairs	1,761	6,000	(4,239)
Parts & Supplies	4,233	4,000	233
Water Protection Fee	435	297	138
Chlorine	-	550	(550)
Enrev	113	200	(87)
Postage	92	50	42
Water Testing	269	410	(141)
Employee Benefits	604	-	604
Mileage	16	50	(34)
Contract Labor	2,600	3,000	(400)
Water Meter Refund	1,138	300	838
Loan Principal and Interest	11,459	11,459	-
RO Filters and Supplies	4,211	1,000	3,211
Miscellaneous	21	-	21
	<u>54,172</u>	<u>\$ 54,689</u>	<u>\$ (517)</u>
Receipts Over (Under) Expenditures	(11,278)		
UNENCUMBERED CASH, January 1, 2012	<u>18,039</u>		
UNENCUMBERED CASH, December 31, 2012	<u>\$ 6,761</u>		