

CITY OF LAHARPE, KANSAS

Financial Statement and
Independent Auditors' Report with
Supplemental Information

For the Year Ended December 31, 2012

CITY OF LAHARPE, KANSAS

December 31, 2012

TABLE OF CONTENTS

	<u>PAGE NUMBERS</u>
Independent Auditors' Report	1-2
<u>Statement 1</u>	
Summary Statement of Receipts, Expenditures, and Unencumbered Cash – Regulatory Basis.....	3
Notes to Financial Statement	4-11
SUPPLEMENTAL INFORMATION	
<u>Schedule 1</u>	
Summary of Expenditures – Actual and Budget Regulatory Basis - (Budgeted Funds Only)	12
<u>Schedule 2</u>	
Schedule of Receipts and Expenditures – Actual and Budget Regulatory Basis - (with Comparative Actual Amounts for the Prior Year)	
General Fund	13-14
Special Highway Fund.....	15
Equipment Reserve Fund.....	16
Bond and Interest Fund.....	17
Water Utility Fund.....	18
Electric Utility Fund.....	19
Sewer Utility Fund.....	20
Trash Utility Fund.....	21
<u>Schedule 3</u>	
Agency Funds – Schedule of Receipts and Disbursements – Regulatory Basis	22

JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of LaHarpe, Kansas

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

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of LaHarpe, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of LaHarpe, Kansas as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and disbursements-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.



JARRED GILMORE & PHILLIPS, PA
Certified Public Accountants

March 28, 2013
Chanute, Kansas

CITY OF LAHARPE, KANSAS

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balances	Receipts	Expenditures	Ending Unencumbered Cash Balances	Add Encumbrances and Accounts Payable	Cash Balance December 31 2012
Governmental Type Funds:						
General Fund	\$ 45,412.65	\$ 137,066.32	\$ 103,429.69	\$ 79,049.28	\$ 7,188.57	\$ 86,237.85
Special Purpose Funds:						
Special Highway	31,401.51	15,184.24	35,319.88	11,265.87	-	11,265.87
Equipment Reserve	5,183.72	1,658.00	3,384.14	3,457.58	10.00	3,467.58
Bond and Interest Funds:						
Bond and Interest	-	51,186.34	51,186.34	-	-	-
Business Funds:						
Water Utility	1,868.39	130,101.24	112,806.56	19,163.07	5,454.66	24,617.73
Electric Utility	52,689.53	318,706.34	298,025.56	73,370.31	26,841.60	100,211.91
Sewer Utility	12,558.37	89,400.06	75,400.47	26,557.96	367.60	26,925.56
Trash Utility	4,444.88	16,952.64	16,958.07	4,439.45	-	4,439.45
Total Reporting Entity (Excluding Agency Funds)	\$ 153,559.05	\$ 760,255.18	\$ 696,510.71	\$ 217,303.52	\$ 39,862.43	\$ 257,165.95
Composition of Cash:						
Cash on Hand						\$ 300.00
Checking Accounts - Piqua State Bank						218,037.55
Certificates of Deposit						47,237.81
Total Cash						265,575.36
Agency Funds Per Statement 4						(8,409.41)
Total Reporting Entity						\$ 257,165.95

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

CITY OF LAHARPE, KANSAS

Notes to Financial Statement
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

Financial Reporting Entity

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

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

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

Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the City of Moran, Kansas, for the year of 2012:

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

Special Purpose funds – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

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

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

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

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

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

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for the revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

Reimbursed Expenses

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

Comparative Data

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

Pension Plan

Substantially all full-time City employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The City's policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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 timetable in the adoption of the legal operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

All legal annual operating budgets are prepared using the 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, fiduciary funds, permanent funds and the following special purpose fund:

- Equipment Reserve Fund.

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

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

Compliance with Kansas Statutes

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

3. DEPOSITS AND INVESTMENTS

K.S.A 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main branch or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the 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. All deposits were legally secured at December 31, 2012.

At year-end, the City's carrying amount of deposits was \$265,275.36 and the bank balance was \$266,606.30. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$266,606.30 was covered by FDIC insurance.

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 issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports 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. 74-49,210 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 at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. K.S.A. 74-4975 establishes KP&F member-employee contribution rate at 7% of covered salary. 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.

5. Long-Term Debt Commitments

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

Issue	Interest Rates	Date of Issue	Original Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Sewer System Revolving Loan									
Paid by Utility Revenues:									
Series 1998	2.86%	June 26, 1999	\$ 760,000.00	Sept. 1, 2019	\$ 360,065.12	\$ -	\$ 40,299.23	\$ 319,765.89	\$ 10,887.11
Capital Lease									
Police Car	3.50%	June 29, 2011	9,488.00	May 29, 2014	7,686.63	-	3,119.71	4,566.92	219.29
Total Long-Term Debt Commitments					<u>\$ 367,751.75</u>	<u>\$ -</u>	<u>\$ 43,418.94</u>	<u>\$ 324,332.81</u>	<u>\$ 11,106.40</u>

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

Issue	2013	2014	2015	2016	2017	2018 - 2019	Total
Principal							
General Obligation Bonds							
Sewer System Revolving Loan							
Series 1998	\$ 41,562.28	\$ 42,864.91	\$ 44,208.37	\$ 45,593.94	\$ 47,022.94	\$ 98,513.45	\$ 319,765.89
Capital Lease							
Police Car	3,230.14	1,336.78	-	-	-	-	4,566.92
Total Principal	<u>44,792.42</u>	<u>44,201.69</u>	<u>44,208.37</u>	<u>45,593.94</u>	<u>47,022.94</u>	<u>98,513.45</u>	<u>324,332.81</u>
Interest							
General Obligation Bonds							
Sewer System Revolving Loan							
Series 1998	9,624.05	8,321.42	6,977.96	5,592.39	4,163.40	3,859.30	38,538.52
Capital Lease							
Police Car	106.86	11.32	-	-	-	-	118.18
Total Interest	<u>9,730.91</u>	<u>8,332.74</u>	<u>6,977.96</u>	<u>5,592.39</u>	<u>4,163.40</u>	<u>3,859.30</u>	<u>38,656.70</u>
Total Principal and Interest	<u>\$ 54,523.33</u>	<u>\$ 52,534.43</u>	<u>\$ 51,186.33</u>	<u>\$ 51,186.33</u>	<u>\$ 51,186.34</u>	<u>\$ 102,372.75</u>	<u>\$ 362,989.51</u>

6. **CAPITAL LEASE OBLIGATIONS**

The City has entered into a capital lease agreement in order to finance the acquisition of a police car. Payments are made monthly, including interest at 3.50%. Final maturity of the lease is May 29, 2014. Future minimum lease payments are as follows:

<u>Year Ended December 31</u>	<u>Totals</u>
2013	\$ 3,337.00
2014	<u>1,348.10</u>
Total Payments	4,685.10
Less imputed interest	<u>(118.18)</u>
Net Present Value of Minimum Lease Payments	4,566.92
Less: Current Maturities	<u>(3,230.14)</u>
Long-Term Capital Lease Obligations	<u>\$ 1,336.78</u>

7. **COMPENSATED ABSENCES**

Regular employees earn and accumulate vacation leave from the beginning of employment. The maximum number of vacation days which can be accumulated by employees is based upon number of years of full-time service and varies from 5-15 days. Vacation days cannot be carried over if not used during the year earned.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of 10 days per year. Sick leave may be accumulated to a maximum of 20 days. Any unused sick leave above 20 days is lost. Sick leave is not paid to terminated employees.

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

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

In accordance with the above criteria, the City has estimated a liability for vacation pay of \$752.47, and not accrued a liability for sick pay which has been earned, but not taken by City employees, inasmuch as the amount cannot be reasonably estimated.

8. SEWER TREATMENT SYSTEM AGREEMENT

On April 14, 1999 the City of LaHarpe, the City of Gas, and the Allen County Commissioners entered into a sewer treatment system agreement. The following items were agreed upon:

- a) The City of LaHarpe owns and operates a sewer treatment system and provides service to the City of Gas.
- b) The Kansas Department of Commerce would provide funds to build a replacement lagoon system that will be jointly owned by the City of LaHarpe and the City of Gas.
- c) An interlocal agreement was entered into between the City of LaHarpe and the City of Gas to establish a joint sewer board.
- d) The agreement terminates on September 30, 2019, unless extended by the written agreement of all parties. No parties may terminate this agreement prior to September 30, 2019, without the consent of all parties.

9. ECONOMIC DEPENDENCY

During 2012, the City collected 18.18% of its sewer utility revenue from the City of Gas, Kansas. During 2012, the City purchased 100% of its water sold from Public Wholesale Water Supply District #5.

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 city is subsidizing the retirees because each participant is charged a level 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 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.

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

12. INTERFUND TRANSFERS

Operating and residual transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority</u>	<u>Amount</u>
Sewer Utility	Bond & Interest Fund	K.S.A. 12-825d	\$ 32,682.48
Electric Utility	Equipment Reserve	K.S.A. 12-1,117	1,658.00

13. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

CITY OF LAHARPE, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 (Budgeted Funds Only)
 For the Year Ended December 31, 2012

Funds	Total Certified Budget	Expenditures Chargeable to Current Year	Variance - Over (Under)
General Fund	\$ 215,942.00	\$ 103,429.69	\$ (112,512.31)
Special Purpose Funds:			
Special Highway	84,066.00	35,319.88	(48,746.12)
Bond and Interest Funds:			
Bond and Interest	51,186.00	51,186.34	0.34
Business Funds:			
Water Utility	123,158.00	112,806.56	(10,351.44)
Electric Utility	540,050.00	298,025.56	(242,024.44)
Sewer Utility	91,965.00	75,400.47	(16,564.53)
Trash Utility	21,088.00	16,958.07	(4,129.93)

CITY OF LAHARPE, KANSAS

GENERAL FUND

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 77,691.68	\$ 71,607.72	\$ 82,874.00	\$ (11,266.28)
Delinquent Tax	4,449.49	2,677.62	2,000.00	677.62
Motor Vehicle Tax	17,598.53	16,730.62	19,695.00	(2,964.38)
Recreational Vehicle Tax	170.89	294.02	374.00	(79.98)
16/20 Vehicle Tax	179.20	218.90	164.00	54.90
Special Assessment	-	-	300.00	(300.00)
Intergovernmental				
Franchise Tax	9,375.43	7,374.86	10,210.00	(2,835.14)
Sales Tax	26,076.24	24,968.12	28,000.00	(3,031.88)
State of Kansas - Siren Grant	6,500.00	-	-	-
Licenses and Permits	390.00	260.00	380.00	(120.00)
Dog Tags	-	360.00	760.00	(400.00)
Fines, Forfeitures and Penalties				
	4,750.04	3,271.00	4,000.00	(729.00)
Use of Money and Property				
Interest Income	941.15	916.88	1,200.00	(283.12)
Rental Income	-	2,300.00	2,300.00	-
Loan Proceeds	9,487.50	-	-	-
Other Revenue				
Miscellaneous	8,641.09	6,014.58	3,000.00	3,014.58
Reimbursed Expense	-	72.00	-	72.00
Total Receipts	166,251.24	137,066.32	\$ 155,257.00	\$ (18,190.68)
Expenditures				
General and Administrative				
Personal Services	23,351.36	19,091.16	\$ 21,771.00	\$ (2,679.84)
Contractual Services	32,806.01	26,603.60	23,000.00	3,603.60
Commodities	4,269.44	7,113.45	6,000.00	1,113.45
Capital Outlay	-	2,990.00	2,000.00	990.00
Parks and Recreation				
Commodities	-	216.16	5,000.00	(4,783.84)

CITY OF LAHARPE, KANSAS
GENERAL FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Expenditures				
Streets				
Contractual Services	\$ 328.88	\$ 497.10	\$ 1,000.00	\$ (502.90)
Law Enforcement				
Personal Services	2,455.04	1,859.38	6,000.00	(4,140.62)
Contractual Services	7,568.50	9,852.86	10,100.00	(247.14)
Commodities	4,776.58	2,003.16	6,000.00	(3,996.84)
Capital Outlay	9,487.50	-	3,360.00	(3,360.00)
Animal Control and Code Enforcement				
Personal Services	4,639.83	3,895.84	2,306.00	1,589.84
Contractual Services	-	472.90	-	472.90
Commodities	-	77.01	1,500.00	(1,422.99)
Fire Department				
Personal Services	2,950.00	3,366.27	3,244.00	122.27
Contractual Services	-	-	2,000.00	(2,000.00)
Commodities	2,565.38	1,630.79	2,200.00	(569.21)
Capital Outlay	-	-	15,000.00	(15,000.00)
Incentive Program Houses				
Contractual Services	-	-	5,000.00	(5,000.00)
Capital Outlay	29,000.00	-	64,731.00	(64,731.00)
Neighborhood Revitalization Rebate	5,062.16	-	5,730.00	(5,730.00)
Employee Benefits	18,258.91	23,760.01	25,000.00	(1,239.99)
Operating Transfers to				
Equipment Reserve Fund	5,000.00	-	5,000.00	(5,000.00)
Total Expenditures	<u>152,519.59</u>	<u>103,429.69</u>	<u>\$ 215,942.00</u>	<u>\$ (112,512.31)</u>
Receipts Over (Under) Expenditures	13,731.65	33,636.63		
Unencumbered Cash, Beginning	<u>31,681.00</u>	<u>45,412.65</u>		
Unencumbered Cash, Ending	<u>\$ 45,412.65</u>	<u>\$ 79,049.28</u>		

CITY OF LAHARPE, KANSAS
SPECIAL HIGHWAY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
State Payments	\$ 16,164.43	\$ 14,960.97	\$ 17,670.00	\$ (2,709.03)
Other Revenues				
Reimbursed Expense	273.75	223.27	-	223.27
Total Receipts	<u>16,438.18</u>	<u>15,184.24</u>	<u>\$ 17,670.00</u>	<u>\$ (2,485.76)</u>
Expenditures				
Highways and Streets				
Personal Services	-	248.82	\$ -	\$ 248.82
Contractual Services	14,397.28	13,055.72	15,000.00	(1,944.28)
Commodities	1,784.67	1,074.52	69,066.00	(67,991.48)
Capital Outlay	18,105.97	20,940.82	-	20,940.82
Total Expenditures	<u>34,287.92</u>	<u>35,319.88</u>	<u>\$ 84,066.00</u>	<u>\$ (48,746.12)</u>
Receipts Over (Under) Expenditures	(17,849.74)	(20,135.64)		
Unencumbered Cash, Beginning	<u>49,251.25</u>	<u>31,401.51</u>		
Unencumbered Cash, Ending	<u>\$ 31,401.51</u>	<u>\$ 11,265.87</u>		

CITY OF LAHARPE, KANSAS
EQUIPMENT RESERVE FUND
 Schedule of Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfer from		
Electric Utility Fund	\$ -	\$ 1,658.00
General Fund	5,000.00	-
	5,000.00	1,658.00
Total Receipts	5,000.00	1,658.00
Expenditures		
Capital Outlay	5,500.00	3,384.14
Total Expenditures	5,500.00	3,384.14
Receipts Over (Under) Expenditures	(500.00)	(1,726.14)
Unencumbered Cash, Beginning	5,683.72	5,183.72
Unencumbered Cash, Ending	\$ 5,183.72	\$ 3,457.58

CITY OF LAHARPE, KANSAS
BOND AND INTEREST FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Other Revenues				
Gas City Reimbursement	\$ 18,503.76	\$ 18,503.86	\$ 18,504.00	\$ (0.14)
Operating Transfer from Sewer Utility Fund	32,682.58	32,682.48	32,682.00	0.48
Total Receipts	<u>51,186.34</u>	<u>51,186.34</u>	<u>\$ 51,186.00</u>	<u>\$ 0.34</u>
Expenditures				
Debt Service				
Principal	39,074.56	40,299.23	\$ 40,299.00	\$ 0.23
Interest	12,111.78	10,887.11	10,887.00	0.11
Total Expenditures	<u>51,186.34</u>	<u>51,186.34</u>	<u>\$ 51,186.00</u>	<u>\$ 0.34</u>
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ -</u>		

CITY OF LAHARPE, KANSAS

WATER UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
Water Sales	\$ 104,031.78	\$ 120,685.80	\$ 116,769.00	\$ 3,916.80
Water Penalties and Reconnect Fees	800.00	1,487.50	1,000.00	487.50
Bulk Water Sales	1,605.75	2,982.85	10,000.00	(7,017.15)
Other Revenues				
Reimbursed Expenses	99.14	-	99.00	(99.00)
Miscellaneous	1,443.69	4,945.09	660.00	4,285.09
Total Receipts	107,980.36	130,101.24	\$ 128,528.00	\$ 1,573.24
Expenditures				
Transmission and Distribution				
Contractual Services	58,800.15	61,890.60	\$ 65,000.00	\$ (3,109.40)
Commodities	2,314.33	1,938.92	3,000.00	(1,061.08)
Capital Outlay	-	-	7,096.00	(7,096.00)
General Operations				
Personal Services	28,662.91	28,797.33	30,562.00	(1,764.67)
Contractual Services	7,633.30	13,074.56	8,000.00	5,074.56
Commodities	8,798.20	7,105.15	9,500.00	(2,394.85)
Total Expenditures	106,208.89	112,806.56	\$ 123,158.00	\$ (10,351.44)
Receipts Over (Under) Expenditures	1,771.47	17,294.68		
Unencumbered Cash, Beginning	96.92	1,868.39		
Unencumbered Cash, Ending	<u>\$ 1,868.39</u>	<u>\$ 19,163.07</u>		

CITY OF LAHARPE, KANSAS
ELECTRIC UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
Residential Sales	\$ 314,463.10	\$ 297,737.12	\$ 459,107.00	\$ (161,369.88)
Other Sales	17,056.32	16,819.68	20,000.00	(3,180.32)
Connect Fee	1,825.00	2,362.50	3,000.00	(637.50)
Other Revenues				
Reimbursed Expenses	5,640.99	-	-	-
Miscellaneous	1,440.72	1,787.04	1,000.00	787.04
Total Receipts	340,426.13	318,706.34	\$ 483,107.00	\$ (164,400.66)
Expenditures				
Operating Expenditures				
Transmission and Distribution				
Contractual Services	256,005.16	242,631.49	\$ 403,425.00	\$ (160,793.51)
Commodities	-	-	5,000.00	(5,000.00)
General Operations				
Personal Services	28,835.68	27,252.44	31,672.00	(4,419.56)
Contractual Services	6,548.85	8,103.79	5,000.00	3,103.79
Commodities	7,793.64	7,667.83	20,000.00	(12,332.17)
Capital Outlay	17,601.90	12,370.01	71,953.00	(59,582.99)
Operating Transfers to				
Equipment Reserve Fund	-	-	3,000.00	(3,000.00)
Total Expenditures	316,785.23	298,025.56	\$ 540,050.00	\$ (242,024.44)
Receipts Over (Under) Expenditures	23,640.90	20,680.78		
Unencumbered Cash, Beginning	29,048.63	52,689.53		
Unencumbered Cash, Ending	\$ 52,689.53	\$ 73,370.31		

CITY OF LAHARPE, KANSAS
SEWER UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
Residential Sales	\$ 73,141.71	\$ 78,047.67	\$ 77,322.00	\$ 725.67
Penalties	9,951.13	11,224.89	10,076.00	1,148.89
Other Revenues				
Reimbursed Expenses	162.00	127.50	324.00	(196.50)
Total Receipts	<u>83,254.84</u>	<u>89,400.06</u>	<u>\$ 87,722.00</u>	<u>\$ 1,678.06</u>
Expenditures				
Operating Expenditures				
Plant Operations				
Contractual Services	-	-	\$ 100.00	\$ (100.00)
Commodities	-	-	1,500.00	(1,500.00)
Operations and Maintenance				
Personal Services	30,710.56	26,194.65	33,908.00	(7,713.35)
Contractual Services	7,366.76	8,276.33	3,500.00	4,776.33
Commodities	7,160.99	8,247.01	17,500.00	(9,252.99)
Capital Outlay	-	-	2,775.00	(2,775.00)
Operating Transfer to				
Bond and Interest Fund	32,682.58	32,682.48	32,682.00	0.48
Total Expenditures	<u>77,920.89</u>	<u>75,400.47</u>	<u>\$ 91,965.00</u>	<u>\$ (16,564.53)</u>
Receipts Over (Under) Expenditures	5,333.95	13,999.59		
Unencumbered Cash, Beginning	<u>7,224.42</u>	<u>12,558.37</u>		
Unencumbered Cash, Ending	<u>\$ 12,558.37</u>	<u>\$ 26,557.96</u>		

CITY OF LAHARPE, KANSAS

TRASH UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over Under
		Actual	Budget	
Receipts				
Operating Revenues				
Residential Sales	\$ 16,072.14	\$ 16,952.64	\$ 16,340.00	\$ 612.64
Total Receipts	<u>16,072.14</u>	<u>16,952.64</u>	<u>\$ 16,340.00</u>	<u>\$ 612.64</u>
Expenditures				
Operating Expenditures				
Commodities	309.24	726.96	\$ 300.00	\$ 426.96
Contractual Services	14,767.61	16,231.11	16,000.00	231.11
Capital Outlay	-	-	4,788.00	(4,788.00)
Total Expenditures	<u>15,076.85</u>	<u>16,958.07</u>	<u>\$ 21,088.00</u>	<u>\$ (4,129.93)</u>
Receipts Over (Under) Expenditures	995.29	(5.43)		
Unencumbered Cash, Beginning	<u>3,449.59</u>	<u>4,444.88</u>		
Unencumbered Cash, Ending	<u>\$ 4,444.88</u>	<u>\$ 4,439.45</u>		

CITY OF LAHARPE, KANSAS
 Agency Funds
 Schedule of Receipts and Disbursements
 Regulatory Basis
 For the Year Ended December 31, 2012

Agency Funds	Beginning Cash Balance	Receipts	Disbursements	Ending Cash Balance
Sales Tax	\$ 8,828.50	\$ 6,110.23	\$ 10,929.32	\$ 4,009.41
Security Deposits	7,398.55	6,400.00	9,398.55	4,400.00
Total Agency Funds	<u>\$ 16,227.05</u>	<u>\$ 12,510.23</u>	<u>\$ 20,327.87</u>	<u>\$ 8,409.41</u>



Communication of Material Weaknesses

The Honorable Mayor and City Council
City of LaHarpe, Kansas

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in City of LaHarpe, Kansas' internal control to be material weaknesses:

Preparation of Financial Statement

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

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

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NEODESHA, KANSAS 66757
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Segregation of Duties

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

Outstanding Checks

Kansas statute requires outstanding checks of over two years be voided and put back to the fund originally charged. There are a few checks on the outstanding list that need to be voided. Some of these may actually have been voided, but have not been cleared out of the accounting system.

Sales Tax Fund

It has been noted in the past the sales tax fund is growing at a rate of approximately \$400 per year, with a current balance of \$3,395.05. We have discussed with the City Clerk in the past, but the situation has not been reconciled. You are collecting sale tax from customers and are not properly remitting to the State or you are overcharging your customers. A reconciliation needs to be completed on a month's bills to determine if you are overcharging a customer or if you are properly charging your customers and not properly remitting to the State.

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



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

March 28, 2013
Chanute, Kansas