

CITY OF MUSCOTAH, KANSAS  
FINANCIAL STATEMENT  
WITH INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED DECEMBER 31, 2012

**CITY OF MUSCOTAH, KANSAS**  
**FINANCIAL STATEMENT**  
For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council of  
City of Muscotah, Kansas

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Muscotah, Kansas 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.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my 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 that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Muscotah, Kansas to meet the requirements of the State of Kansas on the basis of 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**

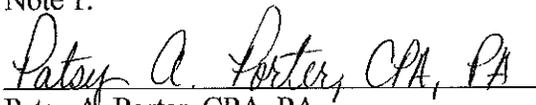
In my opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United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

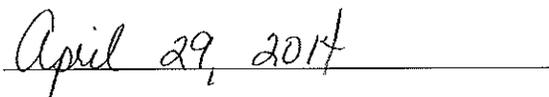
**Opinion on Regulatory Basis of Accounting**

In my opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Muscotah, 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**

My audit was conducted for the purpose of forming an opinion on the fund summary 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, and individual fund schedules of regulatory basis receipts and expenditures 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 my 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.

  
Patsy A. Porter, CPA, PA  
Atchison, KS



**CITY OF MUSCOTAH, KANSAS**

**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES  
AND UNENCUMBERED CASH - REGULATORY BASIS**

For the Year Ended December 31, 2012

| FUND                     | Beginning                    | Prior Year                | Receipts   | Expenditures | Ending                       | Add<br>Encumbrances<br>and Accounts<br>Payable | Ending       |
|--------------------------|------------------------------|---------------------------|------------|--------------|------------------------------|--|--------------|
|                          | Unencumbered<br>Cash Balance | Cancelled<br>Encumbrances |            |              | Unencumbered<br>Cash Balance |  | Cash Balance |
| Governmental type funds: |                              |                           |            |              |                              |  |              |
| General                  | \$ 26,434                    | \$ -                      | \$ 35,578  | \$ 41,264    | \$ 20,748                    | \$ -   | \$ 20,748    |
| Special purpose funds:   |                              |                           |            |              |                              |  |              |
| Special highway          | 2,358                        | -                         | 9,621      | 8,807        | 3,172                        | -  | 3,172        |
| Capital improvement      | 39,280                       | -                         | 500        | 31,425       | 8,355                        | -  | 8,355        |
| Capital projects funds:  |                              |                           |            |              |                              |  |              |
| Capital project          | 2,151                        | -                         | 401,159    | 365,261      | 38,049                       | -  | 38,049       |
| Business funds:          |                              |                           |            |              |                              |  |              |
| Electric                 | 113,963                      | -                         | 114,860    | 114,261      | 114,562                      | -  | 114,562      |
| Water                    | 23,573                       | -                         | 46,377     | 34,563       | 35,387                       | -  | 35,387       |
| Sewer                    | 17,393                       | -                         | 15,730     | 17,667       | 15,456                       | -  | 15,456       |
| Total reporting entity   | \$ 225,152                   | \$ -                      | \$ 623,825 | \$ 613,248   | \$ 235,729                   | \$ -   | \$ 235,729   |
|                          |                              |                           |            |              | Checking accounts            |  | \$ 210,739   |
|                          |                              |                           |            |              | Certificates of deposit      |  | 24,990       |
|                          |                              |                           |            |              | Total cash                   |  | 235,729      |
|                          |                              |                           |            |              | Total reporting entity       |  | \$ 235,729   |

See accompanying notes to the financial statement.

**City of Muscotah, Kansas**  
Notes to the Financial Statement

1 - Summary of Significant Accounting Policies

(a) Municipal Financial Reporting Entity

The City of Muscotah, Kansas (the City) is a municipal corporation governed by an elected five-member council. This financial statement presents the City of Muscotah, Kansas.

(b) Regulatory Basis Fund Types

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

Special purpose fund - used to account for the proceeds of specific tax levies and other specific revenue sources (other than capital project and tax levies for long-term debt) that are intended for specified purposes.

Capital project 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 funds).

(c) Basis of Presentation and Accounting

*Regulatory basis of accounting and departure from accounting principles generally accepted in the United States of America.* The 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.

**City of Muscotah, Kansas**  
Notes to the Financial Statement (Continued)

1 - Summary of Significant Accounting Policies (Continued)

(d) 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 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

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 City 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, trust funds and the following special purpose fund – Capital Improvement Fund.

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

**City of Muscotah, Kansas**  
Notes to the Financial Statement (Continued)

1 - Summary of Significant Accounting Policies (Continued)

(e) Risk Management

The City handles risk of loss through the purchase of commercial insurance. Insurance coverage has not been reduced from the prior year. Insurance settlements have not exceeded insurance coverage.

(f) Reimbursements

The City records reimbursable expenditures in the funds that make the disbursements and records reimbursements as revenue to that fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

2 - Compensated Absences

As described in Note 1, the financial statement is prepared on the regulatory basis of accounting in accordance with KMAAG, and therefore there is no presentation for vested or accumulated compensated absences. Employees of the City do not accumulate vacation or sick time.

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 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 deposit, 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 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%. All deposits were legally secured at December 31, 2012.

**City of Muscotah, Kansas**  
Notes to the Financial Statement (Continued)

3 - Deposits and Investments (continued)

At December 31, 2012 the carrying amount of the City's deposits, including certificates of deposit and time deposits, was \$235,729 and the bank balance was \$246,527. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$246,527 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.

4 - Ad Valorem Tax Revenues

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties.

The County appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied on November 1 and become delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year. The tax rate assessed for the year ended December 31, 2012 to finance the general fund was \$13.978 per \$1,000 valuation.

5 - Long-Term Debt

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

|                         | Beginning<br>Balance | Additions/<br>Reductions | Payments | Ending<br>Balance | Interest<br>Paid |
|-------------------------|----------------------|--------------------------|----------|-------------------|------------------|
| General Obligation Bond | \$237,000            | \$ -                     | \$3,000  | \$234,000         | \$ 7,110         |

|                        |            |
|------------------------|------------|
| Series 2010            |            |
| Interest Rate          | 3%         |
| Date of Issue          | 12/29/2010 |
| Amount of Issue        | \$240,000  |
| Date of Final Maturity | 12/29/2050 |

**City of Muscotah, Kansas**  
Notes to the Financial Statement (Continued)

5 - Long-Term Debt (continued)

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

|                            | <u>2013</u>     | <u>2014</u>    | <u>2015</u>    | <u>2016</u>    | <u>2017</u>     | <u>2018-2022</u> |
|----------------------------|-----------------|----------------|----------------|----------------|-----------------|------------------|
| Principal                  | \$3,000         | \$3,000        | \$3,000        | \$3,000        | \$4,000         | \$20,000         |
| Interest                   | <u>7,020</u>    | <u>6,930</u>   | <u>6,840</u>   | <u>6,750</u>   | <u>6,600</u>    | <u>31,500</u>    |
| Total principal & interest | <u>\$10,020</u> | <u>\$9,930</u> | <u>\$9,840</u> | <u>\$9,750</u> | <u>\$10,600</u> | <u>\$51,500</u>  |

|                            | <u>2023-2027</u> | <u>2028-2032</u> | <u>2033-2037</u> | <u>2038-2042</u> | <u>2043-2047</u> |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Principal                  | \$24,000         | \$28,000         | \$33,000         | \$38,000         | \$45,000         |
| Interest                   | <u>28,320</u>    | <u>24,510</u>    | <u>20,010</u>    | <u>14,760</u>    | <u>8,550</u>     |
| Total principal & interest | <u>\$52,320</u>  | <u>\$52,510</u>  | <u>\$53,010</u>  | <u>\$52,760</u>  | <u>\$53,550</u>  |

|                            | <u>2047-2050</u> | <u>Total</u>     |
|----------------------------|------------------|------------------|
| Principal                  | \$30,000         | \$234,000        |
| Interest                   | <u>1,800</u>     | <u>163,590</u>   |
| Total principal & interest | <u>\$31,800</u>  | <u>\$397,590</u> |

6 - Capital Projects

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows:

|                           | <u>Project Authorization</u> | <u>Cash Disbursements and Accounts Payable</u> |
|---------------------------|------------------------------|--|
| Water system improvements | \$1,190,000                  | \$ 809,765                                     |

7 - Interfund Transfers

Operating transfers were as follows:

| <u>Fund</u>     | <u>Regulatory Authority</u> | <u>From</u> | <u>To</u> |
|-----------------|-----------------------------|-------------|-----------|
| Electric        | KSA 12-825d                 | \$ 5,000    | \$        |
| Special Highway | KSA 12-825d                 |             | 5,000     |

8 - Subsequent Events

Management has evaluated subsequent events through April 29, 2014, the date the financial statements were available to be issued.

REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION

**CITY OF MUSCOTAH, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS**

For the Year Ended December 31, 2012

| <u>FUNDS</u>             | <u>Certified<br/>Budget</u> | <u>Expenditures<br/>Chargeable to<br/>Current Year</u> | <u>Variance -<br/>(Over)<br/>Under</u> |
|--------------------------|-----------------------------|--|--|
| Governmental type funds: |                             |  |  |
| General                  | \$ 65,966                   | \$ 41,264  | \$ 24,702                              |
| Special purpose funds:   |                             |  |  |
| Special highway          | 15,380                      | 8,807  | 6,573                                  |
| Business funds:          |                             |  |  |
| Electric                 | 184,329                     | 114,261  | 70,068                                 |
| Water                    | 34,638                      | 34,563   | 75                                     |
| Sewer                    | 24,018                      | 17,667   | 6,351                                  |

**CITY OF MUSCOTAH, 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<br>Actual | Current Year     |                  | Variance<br>Over<br>(Under) |
|---|----------------------|------------------|------------------|-----------------------------|
|   |                      | Actual           | Budget           |                             |
| Cash receipts:                          |                      |                  |                  |                             |
| Ad valorem tax                          | \$ 6,488             | \$ 6,757         | \$ 7,169         | \$ (412)                    |
| Delinquent tax                          | 63                   | 141              | -                | 141                         |
| Motor vehicle tax                       | 2,448                | 1,708            | 2,288            | (580)                       |
| Recreational vehicle tax                | 73                   | 77               | 58               | 19                          |
| 16/20M vehicle tax                      | 18                   | 31               | 103              | (72)                        |
| Intangible tax                          | 477                  | 204              | 204              | -                           |
| Local sales and compensating use tax    | 12,189               | 11,066           | 12,500           | (1,434)                     |
| Franchise tax                           | 1,881                | 1,405            | 2,600            | (1,195)                     |
| Miscellaneous and hall rent             | 5,501                | 3,025            | 1,300            | 1,725                       |
| Utility deposits                        | 600                  | 1,280            | 800              | 480                         |
| Sales tax collected                     | 1,656                | 1,676            | 1,300            | 376                         |
| Late charges                            | 927                  | 1,121            | 800              | 321                         |
| Trash service                           | 4,608                | 4,053            | 4,500            | (447)                       |
| Mowing                                  | -                    | -                | 500              | (500)                       |
| Capital credit                          | 323                  | 491              | -                | 491                         |
| Returned checks and fees                | 751                  | 734              | 800              | (66)                        |
| Interest on idle funds                  | 2,254                | 1,809            | 2,000            | (191)                       |
| Total cash receipts                     | <u>40,257</u>        | <u>35,578</u>    | <u>\$ 36,922</u> | <u>\$ (1,344)</u>           |
| Expenditures:                           |                      |                  |                  |                             |
| Salaries and wages                      | 3,648                | 1,672            | 1,000            | \$ 672                      |
| Employee benefits                       | 279                  | 127              | 1,000            | (873)                       |
| Contracts                               | 5,264                | 9,305            | 10,000           | (695)                       |
| Supplies                                | 8,152                | 4,661            | 5,000            | (339)                       |
| Real estate taxes                       | 174                  | 138              | 130              | 8                           |
| Sales taxes paid on utilities collected | 439                  | 1,581            | 2,250            | (669)                       |
| Lawyer fees                             | 932                  | 3,764            | 3,000            | 764                         |
| Dues                                    | 1,075                | 739              | 350              | 389                         |
| Donations                               | 275                  | 150              | 200              | (50)                        |
| Liability insurance                     | 5,013                | 6,247            | 4,800            | 1,447                       |
| Returned checks and fees                | 468                  | 782              | 500              | 282                         |
| Budget and publication                  | 65                   | 217              | 250              | (33)                        |
| Fire protection fees                    | 800                  | 800              | 1,300            | (500)                       |
| City council fees                       | 470                  | 480              | 600              | (120)                       |
| Utility deposit return                  | 420                  | 315              | 500              | (185)                       |
| Special street improvements             | -                    | -                | 22,586           | (22,586)                    |
| Sales tax to county treasurer           | 10,294               | 10,286           | 12,500           | (2,214)                     |
| Land purchase                           | 6,545                | -                | -                | -                           |
| Total expenditures                      | <u>44,313</u>        | <u>41,264</u>    | <u>\$ 65,966</u> | <u>\$ (24,702)</u>          |
| Cash receipts over (under) expenditures | <u>(4,056)</u>       | <u>(5,686)</u>   |                  |                             |
| Unencumbered cash, beginning            | <u>30,490</u>        | <u>26,434</u>    |                  |                             |
| Prior year cancelled encumbrances       | <u>-</u>             | <u>-</u>         |                  |                             |
| Unencumbered cash, ending               | <u>\$ 26,434</u>     | <u>\$ 20,748</u> |                  |                             |

**CITY OF MUSCOTAH, 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<br>Actual | Current Year    |                  | Variance<br>Over<br>(Under) |
|---|----------------------|-----------------|------------------|-----------------------------|
|   |                      | Actual          | Budget           |                             |
| Cash receipts:                          |                      |                 |                  |                             |
| State of Kansas gas tax                 | \$ 4,853             | \$ 4,546        | \$ 5,380         | \$ (834)                    |
| Miscellaneous receipts                  | 15                   | 75              | -                | 75                          |
| Transfer from Sewer Fund                | -                    | -               | 5,000            | (5,000)                     |
| Transfer from Electric Fund             | 3,000                | 5,000           | 5,000            | -                           |
| Total cash receipts                     | <u>7,868</u>         | <u>9,621</u>    | <u>\$ 15,380</u> | <u>\$ (5,759)</u>           |
| Expenditures:                           |                      |                 |                  |                             |
| Street repair and maintenance           | <u>8,691</u>         | <u>8,807</u>    | <u>\$ 15,380</u> | <u>\$ 6,573</u>             |
| Total expenditures                      | <u>8,691</u>         | <u>8,807</u>    | <u>\$ 15,380</u> | <u>\$ 6,573</u>             |
| Cash receipts over (under) expenditures | <u>(823)</u>         | <u>814</u>      |                  |                             |
| Unencumbered cash, beginning            | <u>3,181</u>         | <u>2,358</u>    |                  |                             |
| Prior year cancelled encumbrances       | <u>-</u>             | <u>-</u>        |                  |                             |
| Unencumbered cash, ending               | <u>\$ 2,358</u>      | <u>\$ 3,172</u> |                  |                             |

**CITY OF MUSCOTAH, KANSAS**

**ELECTRIC 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<br>Actual | Cuurent Year      |                   | Variance<br>Over<br>(Under) |
|---|----------------------|-------------------|-------------------|-----------------------------|
|   |                      | Actual            | Budget            |                             |
| Cash receipts:                          |                      |                   |                   |                             |
| Sales                                   | \$ 105,809           | \$ 114,754        | \$ 110,000        | \$ 4,754                    |
| Interest                                | 60                   | 106               | -                 | 106                         |
| Total cash receipts                     | <u>105,869</u>       | <u>114,860</u>    | <u>\$ 110,000</u> | <u>\$ 4,754</u>             |
| Expenditures:                           |                      |                   |                   |                             |
| Salaries and wages                      | 12,503               | 12,502            | \$ 12,000         | \$ 502                      |
| Employee benefits                       | 1,238                | 950               | 3,500             | (2,550)                     |
| Commodities                             | 86,447               | 85,872            | 82,500            | 3,372                       |
| Contractors                             | 8,581                | 9,716             | 20,000            | (10,284)                    |
| Capital improvements                    | 17,597               | -                 | 41,329            | (41,329)                    |
| Equipment                               | 472                  | 52                | -                 | 52                          |
| Lawyer fees                             | 80                   | 169               | -                 | 169                         |
| Transfer to Special Highway Fund        | 3,000                | 5,000             | 5,000             | -                           |
| Transfer to General Fund                | -                    | -                 | -                 | -                           |
| Transfer to Capital Improvement Fund    | 20,000               | -                 | 20,000            | (20,000)                    |
| Total expenditures                      | <u>149,918</u>       | <u>114,261</u>    | <u>\$ 184,329</u> | <u>\$ (70,068)</u>          |
| Cash receipts over (under) expenditures | <u>(44,049)</u>      | <u>599</u>        |                   |                             |
| Unencumbered cash, beginning            | <u>158,012</u>       | <u>113,963</u>    |                   |                             |
| Prior year cancelled encumbrances       | <u>-</u>             | <u>-</u>          |                   |                             |
| Unencumbered cash, ending               | <u>\$ 113,963</u>    | <u>\$ 114,562</u> |                   |                             |

**CITY OF MUSCOTAH, KANSAS**

**WATER 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<br>Actual | Current Year     |                  | Variance<br>Over<br>(Under) |
|---|----------------------|------------------|------------------|-----------------------------|
|   |                      | Actual           | Budget           |                             |
| Cash receipts:                          |                      |                  |                  |                             |
| Sales                                   | \$ 28,077            | \$ 46,257        | \$ 28,000        | \$ 18,257                   |
| Grant reimbursement                     | 3,619                | -                | -                | -                           |
| Interest                                | 71                   | 120              | -                | 120                         |
| Total cash receipts                     | <u>31,767</u>        | <u>46,377</u>    | <u>\$ 28,000</u> | <u>\$ 18,377</u>            |
| Expenditures:                           |                      |                  |                  |                             |
| Salaries and wages                      | 8,882                | 12,523           | 11,000           | \$ 1,523                    |
| Employee benefits                       | 837                  | 704              | 3,500            | (2,796)                     |
| Commodities                             | 5,160                | 6,819            | 10,500           | (3,681)                     |
| Contractors                             | 1,835                | 3,087            | 5,500            | (2,413)                     |
| Water protection fee                    | 257                  | 298              | 500              | (202)                       |
| Water certification and testing         | 564                  | 175              | 500              | (325)                       |
| Insurance                               | -                    | -                | 250              | (250)                       |
| Lawyer fees                             | -                    | 681              | 100              | 581                         |
| Membership fee                          | 87                   | 166              | 100              | 66                          |
| Miscellaneous                           | -                    | -                | 500              | (500)                       |
| Capital improvements                    | -                    | -                | 2,188            | (2,188)                     |
| Bond principal                          | 3,000                | 3,000            | -                | 3,000                       |
| Bond interest                           | 7,200                | 7,110            | -                | 7,110                       |
| Total expenditures                      | <u>27,821</u>        | <u>34,563</u>    | <u>\$ 34,638</u> | <u>\$ (75)</u>              |
| Cash receipts over (under) expenditures | <u>3,946</u>         | <u>11,814</u>    |                  |                             |
| Unencumbered cash, beginning            | <u>19,627</u>        | <u>23,573</u>    |                  |                             |
| Prior year cancelled encumbrances       | <u>-</u>             | <u>-</u>         |                  |                             |
| Unencumbered cash, ending               | <u>\$ 23,573</u>     | <u>\$ 35,387</u> |                  |                             |

**CITY OF MUSCOTAH, KANSAS**

**SEWER 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)

|   |                  | Current Year     |                  | Variance          |
|---|------------------|------------------|------------------|-------------------|
|   | Prior Year       | Actual           | Budget           | Over              |
|   | Actual           |                  |                  | (Under)           |
| Cash receipts:                          |                  |                  |                  |                   |
| Sales                                   | \$ 15,546        | \$ 15,730        | \$ 18,000        | \$ (2,270)        |
| Total cash receipts                     | <u>15,546</u>    | <u>15,730</u>    | <u>\$ 18,000</u> | <u>\$ (2,270)</u> |
| Expenditures:                           |                  |                  |                  |                   |
| Salaries and wages                      | 10,547           | 9,258            | \$ 9,000         | \$ 258            |
| Employee benefits                       | 1,043            | 952              | 3,200            | (2,248)           |
| Commodities                             | 8,124            | 6,641            | 5,000            | 1,641             |
| Contractors                             | 473              | 300              | 500              | (200)             |
| Permit                                  | 185              | 185              | 200              | (15)              |
| Wastewater analysis                     | -                | -                | 100              | (100)             |
| Certification and testing               | 120              | 212              | 600              | (388)             |
| Capital improvements                    | -                | -                | 168              | (168)             |
| Transfer to Special Highway Fund        | -                | -                | 5,000            | (5,000)           |
| Transfer to Capital Improvement Fund    | -                | -                | -                | -                 |
| Lawyer fees                             | 80               | 119              | 250              | (131)             |
| Total expenditures                      | <u>20,572</u>    | <u>17,667</u>    | <u>\$ 24,018</u> | <u>\$ (6,351)</u> |
| Cash receipts over (under) expenditures | <u>(5,026)</u>   | <u>(1,937)</u>   |                  |                   |
| Unencumbered cash, beginning            | <u>22,419</u>    | <u>17,393</u>    |                  |                   |
| Prior year cancelled encumbrances       | <u>-</u>         | <u>-</u>         |                  |                   |
| Unencumbered cash, ending               | <u>\$ 17,393</u> | <u>\$ 15,456</u> |                  |                   |

**CITY OF MUSCOTAH, KANSAS**

**CAPITAL IMPROVEMENT FUND**

**SCHEDULE OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS**

For the Year Ended December 31, 2012

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

|   | <u>Prior Year<br/>Actual</u> | <u>Current Year<br/>Actual</u> |
|---|------------------------------|--------------------------------|
| Cash receipts:                          |                              |                                |
| Receipts                                | \$ -                         | \$ 500                         |
| Transfer from Electric Fund             | <u>20,000</u>                | <u>-</u>                       |
| Total cash receipts                     | <u>20,000</u>                | <u>500</u>                     |
| Expenditures:                           |                              |                                |
| Improvements                            | -                            | 31,425                         |
| Land purchase                           | <u>720</u>                   | <u>-</u>                       |
| Total expenditures                      | <u>720</u>                   | <u>31,425</u>                  |
| Cash receipts over (under) expenditures | <u>19,280</u>                | <u>(30,925)</u>                |
| Unencumbered cash, beginning            | <u>20,000</u>                | <u>39,280</u>                  |
| Prior year cancelled encumbrances       | <u>-</u>                     | <u>-</u>                       |
| Unencumbered cash, ending               | <u>\$ 39,280</u>             | <u>\$ 8,355</u>                |

**CITY OF MUSCOTAH, KANSAS**

**CAPITAL PROJECT FUND**

**SCHEDULE OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS**

For the Year Ended December 31, 2012

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

|   | <u>Prior Year<br/>Actual</u> | <u>Current Year<br/>Actual</u> |
|---|------------------------------|--------------------------------|
| Cash receipts:                          |                              |                                |
| Bond receipts                           | \$ 119,000                   | \$ -                           |
| Grant receipts                          | 234,091                      | 401,159                        |
| Transfers in                            | <u>-</u>                     | <u>-</u>                       |
| Total cash receipts                     | <u>353,091</u>               | <u>401,159</u>                 |
| Expenditures:                           |                              |                                |
| Contractors                             | 497,790                      | 365,261                        |
| Lawyer fees                             | 2,667                        | -                              |
| Supplies                                | <u>17,107</u>                | <u>-</u>                       |
| Total expenditures                      | <u>517,565</u>               | <u>365,261</u>                 |
| Cash receipts over (under) expenditures | <u>(164,474)</u>             | <u>35,898</u>                  |
| Unencumbered cash, beginning            | <u>166,625</u>               | <u>2,151</u>                   |
| Prior year cancelled encumbrances       | <u>-</u>                     | <u>-</u>                       |
| Unencumbered cash, ending               | <u><u>\$ 2,151</u></u>       | <u><u>\$ 38,049</u></u>        |

April 29, 2014

To the Mayor and Council of  
The City of Muscotah, Kansas

I have audited the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balance of the City of Muscotah, Kansas as of and for the year ended December 31, 2012, and related notes to the financial statement. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Kansas Municipal Audit and Accounting Guide*, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated December 5, 2012. Professional standards also require that I communicate to you the following information related to my audit.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during 2012. I noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

I encountered no significant difficulties in dealing with management in performing and completing my audit.

***Corrected and Uncorrected Misstatements***

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statement taken as a whole.

We proposed adjustments to exclude 2011 deposits totaling \$3,605 that did not clear the bank until the first bank statements in 2012 and were thus recorded on the 2012 reports, as well as to include 2012 deposits totaling \$2,747 that did not clear the bank until the first bank statement in 2013 and were thus recorded on the 2013 reports.

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

***Management Representations***

I have requested certain representations from management that are included in the management representation letter dated April 29, 2014.

***Management Consultations with Other Independent Accountants'***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

***Other Matters***

With respect to the supplementary information accompanying the financial statement, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statement. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

This information is intended solely for the use of the Mayor, City Council and other employees of the City and is not intended to be and should not be used by anyone other than these specified parties.

PATSY A. PORTER, CPA, PA

