

CITY OF PRETTY PRAIRIE, KANSAS

Primary Government Financial Statement
With Independent Auditors' Report

For the Year Ended December 31, 2012

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Pretty Prairie, Kansas
Pretty Prairie, Kansas

We have audited the accompanying primary government summary statement of regulatory basis receipts, expenditures, and unencumbered cash of **City of Pretty Prairie, 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 Statements

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

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 from 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 Aggregate Discretely Presented Related Municipal Entities

The financial statement referred to above does not include financial data for the City's legally separate related municipal entity. Accounting principles generally accepted in the United States of America require financial data for the related municipal entity to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include

the financial data for its related municipal entities. The City has not issued such reporting entity financial statements. The effect on the financial statement of this departure from accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities" paragraph, the financial statement referred to above does not present fairly the financial position of the aggregate discretely presented related municipal entities of **City of Pretty Prairie, Kansas**, as of December 31, 2012, or the changes in financial position thereof for the year then ended.

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

As described in Note 1, the financial statement is prepared by **City of Pretty Prairie, 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 Aggregate Remaining Fund Information

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities" and "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraphs, the financial statement referred to above does not present fairly, in all material respects, the financial position of the aggregate remaining fund information of **City of Pretty Prairie, Kansas** as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of **City of Pretty Prairie, 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* as described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures and unencumbered cash (basic financial statement) as a whole. The summary of expenditures – actual and budget and individual fund schedules of receipts and expenditures (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional 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 financial statement as a whole.

Adams, Brown, Beran + Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 07, 2013

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

Governmental Fund Categories	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General Fund							
General Fund	\$ (19,996)	-	232,936	209,872	3,068	13,281	16,349
Special Purpose Funds							
Library Fund	420	-	5,488	5,479	429	-	429
Ambulance/Police/Fire Fund	2,474	-	5,509	5,546	2,437	-	2,437
Civic Theater Fund	2,249	-	13,307	8,858	6,698	-	6,698
Special Highway Fund	5,263	-	19,968	25,057	174	-	174
Golf Course Fund	914	-	72,803	87,895	(14,178)	-	(14,178)
Wheatridge Addition Fund	18,281	-	6,880	25,161	-	-	-
Municipal Equipment Reserve Fund	4,134	-	-	3,187	947	-	947
Bond and Interest Funds							
2012 Redemption Fund	-	-	232,459	232,459	-	-	-
2012 Debt Service for GO Bonds Series 2012-1	-	-	7,134	-	7,134	-	7,134
Capital Project Fund							
CDBG Fund	(274,397)	-	379,423	105,026	-	-	-
Business Funds							
Refuse Utility Fund	(553)	-	49,776	49,980	(757)	4,123	3,366
Ambulance Fund	4,519	-	42,813	40,887	6,445	-	6,445
Ambulance Equipment Reserve Fund	974	-	-	-	974	-	974
Sewer Utility Fund	2,939	-	92,524	94,332	1,131	-	1,131
Water Utility Fund	12,651	-	97,840	105,420	5,071	698	5,769
Water and Sewer Reserve Fund	24,032	-	40,655	50,811	13,876	-	13,876
1999 Revenue Bond Fund	7,578	-	10,800	10,550	7,828	-	7,828
2006 Sewer Revenue Bond Fund	818	-	39,600	37,991	2,427	-	2,427
2008 Water Tower Revenue Bond Fund	3,291	-	3,120	2,954	3,457	-	3,457
2008 Sewer Line Revenue Bond Fund	4,347	-	5,400	5,170	4,577	-	4,577
Trust Funds							
Water Deposit Fund	9,372	-	2,525	966	10,931	-	10,931
Total Primary Government	<u>\$ (190,690)</u>	<u>-</u>	<u>1,360,960</u>	<u>1,107,601</u>	<u>62,669</u>	<u>18,102</u>	<u>80,771</u>
			Composition of Cash				
				Checking Accounts		\$	15,771
				Certificate of Deposit			65,000
				Total Primary Government		\$	<u>80,771</u>

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

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CITY OF PRETTY PRAIRIE, KANSAS has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statement is presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Financial Reporting Entity

The City is a municipal corporation governed by an elected Mayor and an elected five-member council. This financial statement does not include the related municipal entity shown below. A related municipal entity is an entity established to benefit the City and/or its constituents.

Public Library

The City's Library Board operates the City's public library. Acquisition or disposition of real property by the board must be approved by the City. Bond issuances must also be approved by the City. Unaudited financial statements can be obtained by contacting the library.

The City is the primary government as defined in GASB #61. The City council is elected by the public. The council has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following types of funds comprise the financial activities of the City for the year ended December 31, 2012.

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.

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

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for the acquisition or construction of major capital facilities or equipment.

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

Trust Fund – fund used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, scholarship funds, etc.).

Basis of Accounting

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

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

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statement. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, and temporary notes are not presented in the financial statement.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts. Also, cash is restricted in the trust fund of the City for special purposes.

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – BUDGETARY INFORMATION

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

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were two budget amendments for this year for the Special Street Fund and the Water Utility Fund.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison 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 project funds, trust funds, and the following special purpose fund: Municipal Equipment Reserve 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 PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

City of Pretty Prairie, Kansas follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary statement of receipts, expenditures and unencumbered cash.

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 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 K.S.A. 9-1405.

Custodial Credit Risk – Deposits

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

At December 31, 2012, the City's carrying amount of deposits was \$80,771 and the bank balance was \$84,319. The bank balance was held by one bank resulting in a concentration of credit risk. The bank balance was covered by federal depository insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2012.

NOTE 4 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. **City of Pretty Prairie, Kansas'** interfund transfers and regulatory authority for the year ended December 31, 2012 were as follows:

<u>From</u>	<u>To</u>	<u>Regulatory Authority</u>	<u>Amount</u>
Sewer Utility Fund	2006 Sewer Revenue Bond Fund	K.S.A. 12-1,118	\$ 36,300
Sewer Utility Fund	2008 Sewer Line Revenue Fund	K.S.A. 12-1,118	4,950

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statement

December 31, 2012

Sewer Utility Fund	Water and Sewer Reserve Fund	K.S.A. 12-1,118	9,926
Water Utility Fund	2008 Water Tower Revenue Fund	K.S.A. 12-1,118	2,600
Water Utility Fund	Water and Sewer Reserve Fund	K.S.A. 12-1,118	26,838
Water and Sewer Reserve Fund	2008 Water Tower Revenue Fund	K.S.A. 12-825d	520
Water and Sewer Reserve Fund	2008 Sewer Line Revenue Fund	K.S.A. 12-825d	450
Water and Sewer Reserve Fund	1999 Revenue Bond Fund	K.S.A. 12-825d	10,800
Water and Sewer Reserve Fund	Sewer Utility Fund	K.S.A. 12-825d	400
Water and Sewer Reserve Fund	Water Utility Fund	K.S.A. 12-825d	894
Water and Sewer Reserve Fund	2006 Sewer Revenue Bond Fund	K.S.A. 12-1,118	3,300
Ambulance Fund	Ambulance/Police/Fire Fund	K.S.A. 12-110d	172
General Fund	Golf Course Fund	K.S.A. 12-1,118	627
Wheatridge Addition Fund	General Fund	Closed Fund	4,130
Wheatridge Addition Fund	Water and Sewer Reserve Fund	Closed Fund	3,891
Water Deposit Fund	Water Utility Fund	K.S.A. 12-825d	275
2012 Redemption Fund	2012 Debt Service - GO Bonds	K.S.A. 12-6a16	5,026
General Fund	CDBG Fund	K.S.A. 12-1,118	3,882

NOTE 5 – LITIGATION

City of Pretty Prairie, Kansas is a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 6 – RISK MANAGEMENT

City of Pretty Prairie, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, umbrella, linebacker, and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – GRANTS AND SHARED REVENUES

City of Pretty Prairie, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audit, is not believed to be material.

NOTE 8 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

City of Pretty Prairie, Kansas did not send the bond payments to the state treasurer at least 20 days before the due date, which is a violation of K.S.A. 10-130.

Actual expenditures exceeded budgeted expenditures in the Golf Course Fund and Wheatridge Addition Fund by \$12,036 and \$8,023 respectively, which is in violation of K.S.A. 79-2935.

The Golf Course Fund and the Refuse Utility Fund had negative cash balances at December 31, 2012 of \$14,178 and \$757 respectively. This is in violation of K.S.A. 10-1113.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Plan Description

City of Pretty Prairie, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S 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 establish 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. 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.

NOTE 10 – COMPENSATED ABSENCES

Vacation

City of Pretty Prairie, Kansas' policy regarding vacation for non-24 hour shift full-time employees is as follows:

<u>Years Worked</u>	<u>Amount Earned</u>
After 1	8 hours/month
5 - 10	10 hours/month
10 - 15	12 hours/month
Over 15	14 hours/month

Part-time employees who work at least 20 hours or more per week shall earn vacation at the rate of 4 hours each month of employment.

Each employee shall be entitled to carry over one week of vacation. Upon termination, an employee shall be compensated for all earned but unused vacation at their final rate of pay, subject to the maximum hours of accumulation authorized based on years of service. The potential liability for vacation at December 31, 2012 was \$4,724. This is reflected in the financial statement.

Sick Leave

The City's policy regarding sick leave is that full-time employees shall earn eight hours of sick leave for each full month of service. Part-time employees who are employed to work not less than 20 hours per week shall receive 4 hours of sick leave for each month of employment. No full-time employee may accrue more than 720 hours of sick leave. Sick leave is not paid upon termination. The potential liability for sick leave at December 31, 2012 was \$6,185. This is not reflected in the financial statement.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 11 – DEBT RESTRICTIONS AND COVENANTS

KDHE Revolving Loan

City of Pretty Prairie, Kansas entered into a loan agreement with the Kansas Department of Health and Environment for a new continuously discharging waste water stabilization lagoon system, force main and sanitary sewer pumping station in the amount of \$596,398. The loan agreement requires that the City provide for the repayment of this loan by providing dedicated funds. The City is in compliance with this requirement as of December 31, 2012 as it is providing dedicated funds through a combination of sewer rates and fees charged and from a general obligation bond levy.

Series 2008 Sewer Line Bond

City of Pretty Prairie, Kansas issued sewer line bonds in the amount of \$62,000 during the year ended December 31, 2008. The bonds were issued for the purpose of providing funds to pay for the cost of excavating, repairing and replacing the sewer system of the City. In connection with the bond issue, the City has made certain covenants and agreements to provide for the payment and security thereof. The City is required to meet certain requirements for “net revenue,” bond reserve accounts, and rate covenants.

For the year ended December 31, 2012, the City had “net revenues”, as computed under the bond resolution, in the amount of \$30,297. Thus, net revenues were in excess of the 140% of the debt service requirement in the bond resolution.

Sewer Utility Fund	
Revenues	\$ 92,124
Total Expenditures per Report	94,332
Transfers Out to Reserve Funds	(51,176)
Debt Payments Out of Other Reserve Funds	18,671
Total Expenditures	61,827
 Net Revenues	 30,297
 Debt Services Requirement for all Electric, Light and Waterworks Revenue Bonds	 18,671
Requirement x 1.4	26,139
 Operating Revenue Exceeding Rate Covenant Requirement	 \$ 4,158

NOTE 12 – PRIOR YEARS’ DEBT DEFEASANCE

On August 1, 2012, the City issued Series 2012-1 General Obligation Refunding and Improvement Bonds of \$311,000 (par value) with an interest rate of 4% to advance refund term bonds and a temporary note. The Series 2012-1 refunding and improvement bonds mature on 08/01/2028. They were issued at a premium and, after paying issuance costs of \$6,700, the net proceeds were \$304,300.

The net proceeds from the issuance of the General Obligation Bonds were used to call the Series 2011 Theater Bonds, Series 2005 Wheatridge Addition Bonds, Series 2006 North Elm St. Bonds and Temporary Note. As a result of the advance refunding, the economic gain to the City (difference between the present value of the debt service payments on the old and new debt) was \$21,361.

CITY OF PRETTY PRAIRIE, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 13 – LONG-TERM DEBT

City of Pretty Prairie, Kansas has the following types of long-term debt.

General Obligation Bond

On September 1, 2003, the City issued \$63,000 in Building Repairs – Series 2003 Bonds for the purpose of building improvements.

On August 6, 2012, the City issued \$311,000 in Refunding and Improvement Bonds – Series 2012-1 for the purpose of paying a portion of the cost of certain street improvements and to refund and redeem the City's General Obligation Bond Series 2001, Series 2005, and Series 2006 and the City's Temporary Note.

Revenue Bonds

On November 8, 2002, the City entered into a \$125,000 revenue bond agreement with the Office of the State Treasurer for the purpose of construction, installing and equipping certain water and sanitary sewer utility improvements.

On June 23, 2008, the City entered into a \$23,000 revenue bond agreement with the Office of the State Treasurer for the purpose of paying the costs of constructing and improving the City's waterworks and sanitary sewer utility system.

On December 9, 2008, the City entered into a \$62,000 revenue bond agreement with the Office of the State Treasurer for the purpose of providing funds for the improvement of the waterworks and sanitary sewer utility system.

KDHE Revolving Loan

On September 15, 2007, the City entered into a \$596,398 revolving loan agreement with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the construction of a new three-cell continuously discharging wastewater stabilization lagoon system, force main and sanitary sewer pumping station.

Lease Obligations

The City has entered into lease agreements with an option to purchase at the expiration of the lease terms. The leases contain a fiscal funding clause.

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statement

December 31, 2012

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

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General Obligation Bonds									
Series 2001 Theater	6.00%	06/2001	\$ 54,000	11/2020	\$ 35,000	-	35,000	-	1,925
Series 2003 Building Repairs	5.00%	09/2003	63,000	09/2014	25,000	-	8,000	17,000	1,250
Series 2005 Wheatridge Addition	4.10%	08/2005	176,600	08/2021	133,000	-	133,000	-	7,088
Series 2006 North Elm St.	4.35%	10/2006	86,000	10/2022	67,137	-	67,137	-	2,920
Series 2012-1 Refunding and Improvement Bonds	4.00%	08/2012	311,000	8/2028	-	311,000	-	311,000	-
Revenue Bonds									
Series 1999	5.00%	11/2002	125,000	11/2017	53,000	-	8,000	45,000	2,550
Series 2008 Water Tower	5.25%	06/2008	23,000	05/2018	17,300	-	2,100	15,200	853
Series 2008 Sewer Line	5.45%	12/2008	62,000	12/2028	56,300	-	2,100	54,200	3,068
KDHE Loan									
Loan # C20 1399 01	2.57%	10/2007	596,398	03/2027	483,195	-	25,738	457,457	11,062
Temporary Note									
	4.00%	10/2011	75,000		75,000	-	75,000	-	2,877
Capital Leases Payable									
Golf Cart Maintenance Shed	9.00%	09/2002	27,000	08/2012	2,700	-	2,700	-	547
2006 Ford Ambulance	3.90%	06/2009	53,807	05/2014	33,510	-	10,746	22,764	1,307
2011 Pickup	4.00%	12/2010	16,587	12/2015	11,499	-	2,704	8,795	468
2002 Vibromax 265 Compactor	3.75%	04/2012	10,230	06/2014	-	10,230	3,494	6,736	68
Golf Carts	4.28%	11/2012	75,000	10/2017	-	75,000	-	75,000	-
Pretty Prairie Golf Course	4.00%	12/2012	65,611	12/2022	-	65,611	-	65,611	-
Total Contractual Indebtedness					\$ 992,641	461,841	375,719	1,078,763	35,983

CITY OF PRETTY PRAIRIE, KANSAS

Notes to Financial Statement

December 31, 2012

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

	YEAR								Total
	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	
Principal									
General Obligation Bonds	\$ 8,000	24,486	16,111	16,762	17,439	98,351	119,890	26,961	328,000
Revenue Bonds	12,500	12,700	13,000	13,200	18,400	18,800	21,000	4,800	114,400
KDHE Loan Payable	26,403	27,086	27,787	28,506	29,243	157,957	160,475	-	457,457
Capital Leases Payable	37,639	38,653	23,972	21,159	21,405	36,078	-	-	178,906
Total Principal	84,542	102,925	80,870	79,627	86,487	311,186	301,365	31,761	1,078,763
Interest									
General Obligation Bonds	13,340	12,737	11,661	11,010	10,333	40,510	18,971	812	119,374
Revenue Bonds	5,842	5,199	4,545	3,874	3,143	9,831	4,850	262	37,546
KDHE Loan Payable	10,461	9,844	9,212	8,563	7,898	28,886	9,466	-	84,330
Capital Leases Payable	7,363	6,046	4,669	3,851	2,900	2,999	-	-	27,828
Total Interest	37,006	33,826	30,087	27,298	24,274	82,226	33,287	1,074	269,078
Total Principal and Interest	\$ 121,548	136,751	110,957	106,925	110,761	393,412	334,652	32,835	1,347,841

CITY OF PRETTY PRAIRIE, KANSAS

Regulatory-Required Supplementary Information

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

	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Funds					
General Fund					
General Fund	\$ 268,183	-	268,183	209,872	(58,311)
Special Purpose Funds					
Library Fund	6,400	-	6,400	5,479	(921)
Ambulance/Police/Fire Fund	6,020	-	6,020	5,546	(474)
Civic Theater Fund	24,368	-	24,368	8,858	(15,510)
Special Highway Fund	33,204	-	33,204	25,057	(8,147)
Golf Course Fund	10,248	65,611	75,859	87,895	12,036
Wheatridge Addition Fund	17,138	-	17,138	25,161	8,023
Business Funds					
Refuse Utility Fund	51,831	-	51,831	49,980	(1,851)
Ambulance Fund	52,630	-	52,630	40,887	(11,743)
Ambulance Equipment Reserve Fund	3,519	-	3,519	-	(3,519)
Sewer Utility Fund	96,132	-	96,132	94,332	(1,800)
Water Utility Fund	105,420	-	105,420	105,420	-

CITY OF PRETTY PRAIRIE, 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	
Cash Receipts				
Taxes and Shared Revenues				
Taxes	\$ 125,099	117,549	136,695	(19,146)
Local Sales and Use Tax	67,170	72,425	60,000	12,425
Local Alcohol Liquor Tax	2,216	1,680	2,709	(1,029)
Franchise Fees	15,021	13,934	15,000	(1,066)
Fees, Permits, Rentals, Fines, and Other	612	2,310	2,195	115
Library	981	4,397	2,067	2,330
Interest	433	261	1,000	(739)
Reimbursed Expenses	11,025	2,601	7,500	(4,899)
Insurance Proceeds	6,371	105	-	105
Federal Aid	3,000	-	-	-
Grant/Loan Proceeds	-	10,230	-	10,230
Transfers In	-	4,130	-	4,130
Miscellaneous	2,958	3,314	500	2,814
Total Cash Receipts	234,886	232,936	227,666	5,270
Expenditures				
General Administrative				
Personnel	59,772	30,121	35,000	(4,879)
Contractual	95,757	60,390	30,000	30,390
Commodities	25,655	26,569	20,000	6,569
Capital Outlay	1,493	40,963	20,000	20,963
Transfers Out	3,000	4,509	9,245	(4,736)
Street Improvements	-	-	70,000	(70,000)
Employee Benefits	47,679	28,445	58,900	(30,455)
General Streetlights	7,767	8,164	7,400	764
Principal	12,352	7,326	17,638	(10,312)
Interest and Fees	4,754	3,385	-	3,385
Total Expenditures	258,229	209,872	268,183	(58,311)
Cash Receipts Over (Under) Expenditures	(23,343)	23,064		
Unencumbered Cash - Beginning	3,347	(19,996)		
Unencumbered Cash - Ending	\$ (19,996)	3,068		

CITY OF PRETTY PRAIRIE, KANSAS
Library 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	
Cash Receipts				
Taxes	\$ 5,941	5,488	<u>6,141</u>	<u>(653)</u>
Expenditures				
Contractual	5,946	5,479	<u>6,400</u>	<u>(921)</u>
Cash Receipts Over (Under) Expenditures	(5)	9		
Unencumbered Cash - Beginning	<u>425</u>	<u>420</u>		
Unencumbered Cash - Ending	\$ <u>420</u>	<u>429</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance/Police/Fire 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	
Cash Receipts				
Taxes	\$ 5,883	5,337	6,126	(789)
Transfers In	-	172	-	172
Total Receipts	<u>5,883</u>	<u>5,509</u>	<u>6,126</u>	<u>(617)</u>
Expenditures				
Personnel	1,955	-	-	-
Contractual	850	5,362	1,300	4,062
Commodities	136	184	-	184
Capital Outlay	-	-	1,300	(1,300)
Transfers Out	575	-	3,420	(3,420)
Total Expenditures	<u>3,516</u>	<u>5,546</u>	<u>6,020</u>	<u>(474)</u>
Cash Receipts Over (Under) Expenditures	2,367	(37)		
Unencumbered Cash - Beginning	<u>107</u>	<u>2,474</u>		
Unencumbered Cash - Ending	\$ <u>2,474</u>	<u>2,437</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Civic Theater 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	
Cash Receipts				
Taxes	\$ 6,362	6,100	6,768	(668)
Contributions	1,120	5,140	4,000	1,140
Concessions	-	160	-	160
Gate Receipts	3,650	1,907	10,000	(8,093)
Total Cash Receipts	11,132	13,307	20,768	(7,461)
Expenditures				
Contractual	4,235	4,461	14,000	(9,539)
Commodities	3,481	3,347	3,200	147
Capital Outlay	-	-	2,068	(2,068)
Principal	3,000	-	5,100	(5,100)
Interest and Fees	2,280	1,050	-	1,050
Total Expenditures	12,996	8,858	24,368	(15,510)
Cash Receipts Over (Under) Expenditures	(1,864)	4,449		
Unencumbered Cash - Beginning	4,113	2,249		
Unencumbered Cash - Ending	\$ 2,249	6,698		

CITY OF PRETTY PRAIRIE, 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	
Cash Receipts				
City-County Highway Fund	\$ 18,515	17,630	26,258	(8,628)
County Gas Tax	644	2,338	2,130	208
Miscellaneous	455	-	-	-
Total Cash Receipts	<u>19,614</u>	<u>19,968</u>	<u>28,388</u>	<u>(8,420)</u>
Expenditures				
Personnel	5,348	4,972	6,000	(1,028)
Contractual	4,888	5,412	2,000	3,412
Commodities	4,959	6,673	5,000	1,673
Street Improvements	-	8,000	20,204	(12,204)
Total Expenditures	<u>15,195</u>	<u>25,057</u>	<u>33,204</u>	<u>(8,147)</u>
Cash Receipts Over (Under) Expenditures	4,419	(5,089)		
Unencumbered Cash - Beginning	<u>844</u>	<u>5,263</u>		
Unencumbered Cash - Ending	<u>\$ 5,263</u>	<u>174</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Golf Course 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	
Cash Receipts				
Fees	\$ 5,793	6,565	10,000	(3,435)
Lease Proceeds	-	65,611	-	65,611
Transfers In	-	627	-	627
Total Receipts	<u>5,793</u>	<u>72,803</u>	<u>10,000</u>	<u>62,803</u>
Expenditures				
Commodities	2,479	9,484	-	9,484
Capital Outlay	-	78,411	10,248	68,163
Principal	2,700	-	-	-
Interest and Fees	547	-	-	-
(a) Adjustment for Qualifying Budget Credit	-	-	65,611	(65,611)
Total Expenditures	<u>5,726</u>	<u>87,895</u>	<u>75,859</u>	<u>12,036</u>
Cash Receipts Over (Under) Expenditures	67	(15,092)		
Unencumbered Cash - Beginning	<u>847</u>	<u>914</u>		
Unencumbered Cash - Ending	<u>\$ 914</u>	<u>(14,178)</u>		
(a) Adjustment for Qualifying Budget Credit				
Loan Proceeds			\$ <u>65,611</u>	

CITY OF PRETTY PRAIRIE, KANSAS
Wheatridge Addition 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 (Under)
		Actual	Budget	
Cash Receipts				
Special Assessments	\$ 6,880	6,880	8,569	(1,689)
Transfers In	13,560	-	8,570	(8,570)
Total Cash Receipts	<u>20,440</u>	<u>6,880</u>	<u>17,139</u>	<u>(10,259)</u>
Expenditures				
Principal	11,000	11,000	17,138	(6,138)
Transfers Out	-	8,021	-	8,021
Interest and Fees	6,562	6,140	-	6,140
Total Expenditures	<u>17,562</u>	<u>25,161</u>	<u>17,138</u>	<u>8,023</u>
Cash Receipts Over (Under) Expenditures	2,878	(18,281)		
Unencumbered Cash - Beginning	<u>15,403</u>	<u>18,281</u>		
Unencumbered Cash - Ending	<u>\$ 18,281</u>	<u>-</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Municipal Equipment Reserve 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 3,000	-
Expenditures		
Contractual	-	2,000
Capital Outlay	-	1,187
Total Expenditures	-	3,187
Cash Receipts Over (Under) Expenditures	3,000	(3,187)
Unencumbered Cash - Beginning	1,134	4,134
Unencumbered Cash - Ending	\$ 4,134	947

CITY OF PRETTY PRAIRIE, KANSAS
2012 Redemption 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Refunding Bond Proceeds	\$ -	232,459
Expenditures		
Principal	-	224,137
Interest and Fees	-	3,285
Contractual	-	11
Transfers Out	-	5,026
Total Expenditures	-	232,459
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	\$ -	-

CITY OF PRETTY PRAIRIE, KANSAS
2012 Debt Service for GO Bonds Series 2012-1
 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ -	5,026
Accrued Interest	-	2,108
Total Cash Receipts	-	7,134
Expenditures	-	-
Cash Receipts Over (Under) Expenditures	-	7,134
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	<u>\$ -</u>	<u>7,134</u>

CITY OF PRETTY PRAIRIE, KANSAS
CDBG 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Grant Revenue	\$ -	297,000
Refunding Bond Proceeds	-	78,541
Temporary Note Proceeds	75,000	-
Transfers In	-	3,882
Total Cash Receipts	<u>75,000</u>	<u>379,423</u>
Expenditures		
Cost of Issuance	-	6,700
Capital Outlay	349,397	20,450
Principal	-	75,000
Interest and Fees	-	2,876
Total Expenditures	<u>349,397</u>	<u>105,026</u>
Cash Receipts Over (Under) Expenditures	(274,397)	274,397
Unencumbered Cash - Beginning	-	(274,397)
Unencumbered Cash - Ending	<u>\$ (274,397)</u>	<u>-</u>

CITY OF PRETTY PRAIRIE, KANSAS
Refuse 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	
Cash Receipts				
Refuse Charges	\$ 48,076	49,776	49,008	768
Expenditures				
Contractual	51,973	49,980	48,000	1,980
Commodities	-	-	3,831	(3,831)
Total Expenditures	51,973	49,980	51,831	(1,851)
Cash Receipts Over (Under) Expenditures	(3,897)	(204)		
Unencumbered Cash - Beginning	3,344	(553)		
Unencumbered Cash - Ending	\$ (553)	(757)		

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance 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	
Cash Receipts				
Ambulance Runs	\$ 41,156	42,270	45,000	(2,730)
Interest	1	-	-	-
Miscellaneous	-	543	3,500	(2,957)
Total Cash Receipts	<u>41,157</u>	<u>42,813</u>	<u>48,500</u>	<u>(5,687)</u>
Expenditures				
Personnel	8,542	3,892	10,000	(6,108)
Contractual	13,826	14,414	15,000	(586)
Commodities	4,759	10,356	5,000	5,356
Capital Outlay	-	-	10,577	(10,577)
Principal	10,343	10,746	12,053	(1,307)
Interest and Fees	1,710	1,307	-	1,307
Miscellaneous	141	-	-	-
Transfers Out	-	172	-	172
Total Expenditures	<u>39,321</u>	<u>40,887</u>	<u>52,630</u>	<u>(11,743)</u>
Cash Receipts Over (Under) Expenditures	1,836	1,926		
Unencumbered Cash - Beginning	<u>2,683</u>	<u>4,519</u>		
Unencumbered Cash - Ending	<u>\$ 4,519</u>	<u>6,445</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Ambulance Equipment Reserve 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	
Cash Receipts				
Transfers In	\$ 575	-	<u>3,420</u>	<u>(3,420)</u>
Expenditures				
Capital Outlay	<u>800</u>	-	<u>3,519</u>	<u>(3,519)</u>
Cash Receipts Over (Under) Expenditures	(225)	-		
Unencumbered Cash - Beginning	<u>1,199</u>	<u>974</u>		
Unencumbered Cash - Ending	\$ <u>974</u>	<u>974</u>		

CITY OF PRETTY PRAIRIE, 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	
Cash Receipts				
Service Charges	\$ 92,023	92,124	90,000	2,124
Transfers In	4,887	400	5,000	(4,600)
Total Cash Receipts	96,910	92,524	<u>95,000</u>	<u>(2,476)</u>
Expenditures				
Personnel	10,266	23,914	14,000	9,914
Contractual	21,486	15,367	12,000	3,367
Commodities	2,840	3,875	5,000	(1,125)
Capital Outlay	-	-	3,132	(3,132)
Transfers Out	60,511	51,176	62,000	(10,824)
Total Expenditures	95,103	94,332	<u>96,132</u>	<u>(1,800)</u>
Cash Receipts Over (Under) Expenditures	1,807	(1,808)		
Unencumbered Cash - Beginning	1,132	2,939		
Unencumbered Cash - Ending	\$ <u>2,939</u>	<u>1,131</u>		

CITY OF PRETTY PRAIRIE, 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	
Cash Receipts				
Water Sales	\$ 98,626	94,627	98,000	(3,373)
Sales Tax	999	969	912	57
Connections	500	1,075	500	575
Transfers In	2,461	1,169	1,000	169
Total Cash Receipts	<u>102,586</u>	<u>97,840</u>	<u>100,412</u>	<u>(2,572)</u>
Expenditures				
Personnel	17,312	49,408	30,000	19,408
Contractual	17,377	21,405	20,000	1,405
Commodities	5,975	5,169	8,000	(2,831)
Capital Outlay	-	-	12,216	(12,216)
Transfers Out	52,972	29,438	35,204	(5,766)
Total Expenditures	<u>93,636</u>	<u>105,420</u>	<u>105,420</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	8,950	(7,580)		
Unencumbered Cash - Beginning	<u>3,701</u>	<u>12,651</u>		
Unencumbered Cash - Ending	<u>\$ 12,651</u>	<u>5,071</u>		

CITY OF PRETTY PRAIRIE, KANSAS
Water and Sewer Reserve 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 65,033	40,655
Expenditures		
Contractual	-	33,191
Commodities	614	1,787
Capital Outlay	17,780	5,927
Transfers Out	32,862	16,364
Total Expenditures	<u>51,256</u>	<u>50,811</u>
Cash Receipts Over (Under) Expenditures	13,777	(10,156)
Unencumbered Cash - Beginning	<u>10,255</u>	<u>24,032</u>
Unencumbered Cash - Ending	<u>\$ 24,032</u>	<u>13,876</u>

CITY OF PRETTY PRAIRIE, KANSAS
1999 Revenue Bond 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 11,040	10,800
Expenditures		
Principal	7,600	8,000
Interest and Fees	3,353	2,550
Total Expenditures	<u>10,953</u>	<u>10,550</u>
Cash Receipts Over (Under) Expenditures	87	250
Unencumbered Cash - Beginning	<u>7,491</u>	<u>7,578</u>
Unencumbered Cash - Ending	<u>\$ 7,578</u>	<u>7,828</u>

CITY OF PRETTY PRAIRIE, KANSAS
2006 Sewer Revenue Bond Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 38,400	39,600
Expenditures		
Principal	24,456	25,738
Interest and Fees	13,535	12,253
Total Expenditures	<u>37,991</u>	<u>37,991</u>
Cash Receipts Over (Under) Expenditures	409	1,609
Unencumbered Cash - Beginning	<u>409</u>	<u>818</u>
Unencumbered Cash - Ending	<u>\$ 818</u>	<u>2,427</u>

CITY OF PRETTY PRAIRIE, KANSAS
2008 Water Tower Revenue Bond 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 3,300	3,120
Expenditures		
Principal	2,000	2,100
Interest	962	854
Total Expenditures	2,962	2,954
Cash Receipts Over (Under) Expenditures	338	166
Unencumbered Cash - Beginning	2,953	3,291
Unencumbered Cash - Ending	\$ 3,291	3,457

CITY OF PRETTY PRAIRIE, KANSAS
2008 Sewer Line Revenue Bond 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 8,200	5,400
Expenditures		
Principal	1,897	2,100
Interest	3,282	3,070
Total Expenditures	<u>5,179</u>	<u>5,170</u>
Cash Receipts Over (Under) Expenditures	3,021	230
Unencumbered Cash - Beginning	<u>1,326</u>	<u>4,347</u>
Unencumbered Cash - Ending	<u>\$ 4,347</u>	<u>4,577</u>

CITY OF PRETTY PRAIRIE, KANSAS
Water Meter Capital Lease 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers In	\$ 1,350	-
Expenditures		
Principal	7,654	-
Interest	412	-
Transfers Out	103	-
Total Expenditures	<u>8,169</u>	<u>-</u>
Cash Receipts Over (Under) Expenditures	(6,819)	-
Unencumbered Cash - Beginning	<u>6,819</u>	<u>-</u>
Unencumbered Cash - Ending	<u>\$ -</u>	<u>-</u>

CITY OF PRETTY PRAIRIE, KANSAS
Water Deposit 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)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Deposits	\$ 1,500	2,525
Expenditures		
Refunds	596	691
Transfers Out	1,783	275
Total Expenditures	<u>2,379</u>	<u>966</u>
Cash Receipts Over (Under) Expenditures	(879)	1,559
Unencumbered Cash - Beginning	<u>10,251</u>	<u>9,372</u>
Unencumbered Cash - Ending	<u>\$ 9,372</u>	<u>10,931</u>



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Hutchinson, Kansas 67502

Certified
Public
Accountants

October 07, 2013

To the Mayor, City Council and Management
City of Pretty Prairie, Kansas
Pretty Prairie, Kansas

Management Letter

In planning and performing our audit of the primary government financial statement of **City of Pretty Prairie, 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 the City's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 a material weakness and another deficiency that we consider to be a significant deficiency.

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 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 deficiency in the City's internal control to be a material weakness.

- **City of Pretty Prairie, Kansas** does not have proper segregation of duties necessary to establish a good system of internal control. We understand that the size of the City's accounting and administrative staff and related budget constraints preclude management from hiring additional personnel to achieve proper segregation of duties. However, limited segregation can and should be implemented to reduce the risk of errors or fraud. Where possible, duties should be segregated. Involvement by the Council can also mitigate the risks of error or fraud. The Council should remain involved in the financial affairs of the City to provide oversight and independent review functions.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City's internal control to be a significant deficiency.

City of Pretty Prairie, Kansas

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October 07, 2013

- Currently, the City utilizes too many software packages to track financial information. QuickBooks is used to calculate payroll and pay invoices, and JayHawk is used for utility billing. All of this information is manually combined on Lotus spreadsheets. The current process is an extremely labor intensive process that leaves opportunities for multiple input errors. We recommend that the City utilize the QuickBooks software that they already own for all financial record keeping except the utility billing. QuickBooks can easily be used to record and pay invoices along with calculating and recording payroll. After deposits are entered, all bank reconciliations can be performed in QuickBooks. We encourage management to research the compatibility of the Jay Hawk utility billing software to interface with QuickBooks. Reports can also be exported from QuickBooks to Excel. The City has already purchased Microsoft Excel software, which is the required format for State reporting. The benefits of eliminating multiple accounting software packages include decreased potential for human error, increased staff efficiency, quicker turnaround of financial information, more complete financial records, and more flexibility in generating reports that can be used for timely and accurate decision making by management.

We would like to express our appreciation for the opportunity to perform the December 31, 2012 audit for **City of Pretty Prairie, Kansas** and to the employees for the cooperation and assistance given to us during the audit.

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

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants