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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council Members
City of Westwood Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Westwood, Kansas as of and for the year ended December 31, 2014, and the related notes to the financial statements.

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 1 of the financial statement, the financial statement is prepared by the City to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United State of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2014, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2014, 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.

Higdon & Hale C.P.A's P.C.

Higdon & Hale C.P.A.'s PC
September 25, 2015

City of Westwood
Kansas
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2014

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	$ 302,233	$ -	$ 2,247,435	$ 2,185,352	$ 364,316	$ 30,498	$ 394,814
Woodside TIF	$ 38,019	$ -	$ 1,821	$ 36,336	$ 3,504	$ -	$ 3,504
Capital Improvements	$ -		$ 256,916	$ 42,746	$ 214,170		$ 214,170
Equipment Reserve			$ 84,080	$ 76,130	$ 7,950		$ 7,950
Special Highway			$ 39,880	$ 4,090	$ 35,790		$ 35,790
Storm Water Fund			$ 94,596	$ 78,409	$ 16,187		$ 16,187
							$ 672,415

COMPOSITION OF CASH

General Fund - 1st National Bank	$ 644,243
Bond Deposit Account - 1st National Bank	$ 27,910
Westwood Village -1st National Bank	$ 12
Petty Cash	$ 250
	$ 672,415

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

Summary of Significant Accounting Policies

Note 1 – Reporting Entity

The City of Westwood, Kansas is a municipal corporation governed by an elected Mayor and five-member council. These financial statements present the City of Westwood, Kansas and do not include the Westwood Foundation as a component unit. Separate financial statements on the Westwood Foundation can be obtained from the City Clerk.

The City of Westwood, Kansas for purposes of budgetary comparisons, has offset expenditures (or expenses) by any reimbursements that were received.

Basis of Accounting

Regulatory Basis of Accounting. The regulatory basis of accounting, as used in the preparation of these regulatory basis financial statements, are designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an Interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, the expenditure would be charged in the fund from which the transfer is made.

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 statutory 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 expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

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

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

Woodside Project Fund – Used to account for tax financing generated by the Woodside redevelopment project.

Special Highway Fund – Used to account for revenue received from the State of Kansas for Highway maintenance and repairs.

Capital Improvement Fund – Used to account for transfers from the general fund and any taxes that maybe levied for capital improvement projects.

Storm Water Fund - Used to account for revenue received from the Storm Water Utility Fee and subsequent expenditures.

Equipment Reserve Funds – Used to account for transfers from the general fund and subsequewnt expenditures for equipment purchases.

Note 2 – Budgetary Information

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

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. 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 statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds, and special revenue funds. The City has no such funds.

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

Note 3 – Deposits and Investments

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 Government'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%. All deposits were legally secured at December 31, 2014.

At December 31, 2014, the Government's carrying amount of deposits was $672,415. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance; $422,415 was collateralized with securities held by the pledging financial institution's agents in the Government's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Government 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.

Note 4 – Interfund Transfers

Operating transfers were as follows:

From	To	Amount
Westwood Foundation	City of Westwood	$220,000

Note 5 – Defined Benefit Pension Plan

Plan description. The City of Westwood contributes to the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are cost-sharing multiple-employer defined benefit pension plans as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603-3869) of by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 6.00% of covered salary. K.S.A. 74-4975 establishes KPP&F member-employee contribution rate at 7.00% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established for calendar year 2014 is 9.69% The City of Westwood employer contributions to KPERS for the year ending December 31, 2014, 2013, and

2012, were $26,756, $25,790, and $22,967, respectively, equal to the required contributions for each year. The KP&F employer rate established for fiscal years beginning in 2014 is 19.92% Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City of Westwood's contributions to KP&F for the years ending December 31, 2014, 2013, and 2012 were $76,750, $82,612, and $71,867, respectively, equal to the required contributions for each year as set forth by the legislature.

Other Post Employment Benefits. As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

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

Note 6- Lease with the Westwood Foundation

Effective January 1, 2014 the City and its component unit The Westwood Foundation agreed to terminate the sub-lease from the City to the Foundation on certain property and improvements at the Woodside Health and Tennis Club. The Foundation had been receiving annual rental income of $240,000 from the Club. The Foundation had then been transferring $220,000 to the City's operating fund on an annual basis. With the termination of the sub-lease the City will now receive the rental income directly from the Club effective January 2014.

Note 7 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters and other events for which the City carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 8 – Subsequent Events

Management has reviewed subsequent transactions up to and including November 12, 2015 which was the first day the financial statements were available for release.

Note 9 - Woodside Village Project

In July of 2014 the City issued $1,700,000 of Taxable Special Obligation Improvement District Revenue Bonds for the Woodside CID Project. The principal and interest on these bonds are payable from the revenue generated in the CID District and do not represent a general obligation of the City of Westwood.

In July of 2014 the City issued $3,150,000 of Taxable Special Obligation Improvement District Revenue Bonds for the Woodside CID Project. The principal and interest on these bonds are payable from

the revenue generated in the CID District and do not represent a general obligation of the City of Westwood.

In January of 2014 the City issued $8,000,000 of Industrial Revenue Revenue Bonds for the Midwest Transplant Project. The principal and interest on these bonds are payable from the revenue generated by the Project and do not represent a general obligation of the City of Westwood.

Note 10- Purchase of 5050 Rainbow

During 2014 the City entered into an agreement to purchase the real estate located at 5050 Rainbow. The purchase price of the real estate totaled $400,000 plus $13,440 in associated transaction costs for a total cost of $413,440. The City and Security Bank of Kansas City entered into a lease purchase arrangement to finance the purchase. Security Bank advanced $425,000 for the acquisition of the property as outlined above with the amount above the purchase price deposited into the City's general fund. The City leased the property under a lease purchase arrangement that calls for interest at 3.95% per year with a maturity date of February 1, 2017. Annual Interest payments under the agreement are as follows:

2014	$ 5,782
2015	$ 16,788
2016	$ 16,788
2017	$ 8,394
Total	$47,752

In February of 2017 the principal amount of $425,000 will become due and payable.

Note 11 – Leases

The City has entered into the following lease purchase obligations with First Bank in Sterling, Kansas. Ownership will transfer at the end of each lease in exchange for the payment of $1.00 per lease.

2012 Caterpillar Skid Steer Loader with bucket and Grasshopper Mower with 52 inch mowing deck. The cost of the loader totaled $46,836 and the mower cost $13,893 for a total of $60,729. The lease calls for 5 annual payments of $12,861 for a total of $64,305. The bears interest at the rate of $2.90% annually for a total interest cost of $3,577. The lease payments are outlined below:

	Principal	Interest	Total
2012	$12,861	$ 0.00	$12,861
2013	$11,450	$1,411	$12,861
2014	$11,790	$1,071	$12,861
2015	$12,137	$ 724	$12,861
2016	$12,491	$ 370	$12,861
	$64,305	$3,577	$60,729

Two trucks a 2012 Ford F350 Truck and a Ford F550 Truck. The equipment costs totaled $104,638 with 5 annual payments of $22,101 with interest cost of $5,867.

	Principal	Interest	Total
2012	$22,101	$ 0.00	$22,101
2013	$19,786	$2,315	$22,101
2014	$20,341	$1,189	$22,101
2015	$20,912	$1,189	$22,101
2016	$21,498	$ 603	$22,101
	$104,368	$5,867	$104,638

SCHEDULE 1

City of Westwood Kansas
Summary of Expenditures- Actual and Budget
For the Year Ended December 31, 2014

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year Budget	Variance Positive [Negative]
General Fund	$ 2,279,243	$ -	$ 2,279,243	$ 2,185,352	$ 93,891

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

City of Westwood
Kansas
General Fund
Statement of Cash Receipts and Expenditures-Actual and Budget
For the Year Ended December 31, 2014

	Actual	Budget	Variance Positive (Negative)
Cash Reciepts			
Taxes	$ 1,006,593	$ 913,354	$ 93,239
Intergovernmental	$ 288,358	$ 301,754	$ (13,396)
Charges for Services	$ 557,366	$ 511,735	$ 45,631
Special Assesements, Court Fines, Interest	$ 395,117	$ 552,400	$ (157,283)
Total Cash Receipts	$ 2,247,434	$ 2,279,243	$ (77,440)
Expenditures and Transfers Subject to Budget			
Adminsitration	$ 847,188	$ 1,312,828	$ (465,640)
Public Works	$ 394,066	$ 384,060	$ 10,006
Public Safety	$ 902,686	$ 892,788	$ 9,898
Parks and Recreation	$ 41,411	$ 51,350	$ (9,939)
Total Expenditures and Transfers Subject to Budget	$ 2,185,351	$ 2,641,026	$ (455,675)
Receipts Over [Under] Expenditures	$ 62,083		
Lapsed Encumbrances	$ -		
Unencumbered Cash, Beginning	$ 302,233		
Unencumbered Cash, Ending	$ 364,316		

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

City of Westwood
Kansas
Woodside TIF Fund
Statement of Cash Receipts and Expenditures-Actual
For the Year Ended December 31, 2014

	Actual
Taxes	$ 1,821
Total Cash Receipts	$ 1,821
Expenditures and Transfers	
Return of Prior Tax Assesement	36,336
Total Expenditures and Transfers	36,336
Receipts Over [Under] Expenditures	$ (34,515)
Unencumbered Cash, Beginning	38,019
Unencumbered Cash, Ending	$ 3,504

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

City of Westwood
Kansas
Capital Improvement Funds
Statement of Cash Receipts and Expenditures-Actual
For the Year Ended December 31, 2014

SCHEDULE 2-C

	Actual
Capital Improvement Funds	$ 256,916
Total Cash Receipts	$ 256,916
Expenditures and Transfers	
Capital Projects	42,746
Total Expenditures and Transfers Subject to Budget	42,746
Receipts Over [Under] Expenditures	$ 214,170
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 214,170

SCHEDULE 2-D

City of Westwood
Kansas
Equipment Reserve Funds
Statement of Cash Receipts and Expenditures-Actual
For the Year Ended December 31, 2014

	Actual
Transfers From General Fund	$ 84,080
Total Cash Receipts	$ 84,080
Expenditures and Transfers	
Capital Projects	76,130
Total Expenditures and Transfers Subject to Budget	76,130
Receipts Over [Under] Expenditures	$ 7,950
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 7,950

SCHEDULE 2-E

City of Westwood
Kansas
Special Highway Funds
Statement of Cash Receipts and Expenditures-Actual
For the Year Ended December 31, 2014

	Actual
Special Highway Funds - State of Kansas	$ 39,880
Total Cash Receipts	$ 39,880
Expenditures and Transfers	
Capital Projects	4,090
Total Expenditures and Transfers Subject to Budget	4,090
Receipts Over [Under] Expenditures	$ 35,790
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 35,790

SCHEDULE 2-F

City of Westwood
Kansas
Storm Water Fund
Statement of Cash Receipts and Expenditures-Actual
For the Year Ended December 31, 2014

	Actual
Storm Water Fund - Fee	$ 94,596
Total Cash Receipts	$ 94,596
Expenditures and Transfers	
Transfer to Capital Projects	75,000
Capital Projects	3,409
Total Expenditures and Transfers Subject to Budget	78,409
Receipts Over [Under] Expenditures	$ 16,187
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 16,187