

CITY OF LAKE QUIVIRA, KANSAS

Financial Statements

For the Year Ended December 31, 2012

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CITY OF LAKE QUIVIRA, KANSAS
Financial Statements
For the Year Ended December 31, 2012

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MIZE & HOUSER
COMPANY P.A.

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Lake Quivira, Kansas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Report on Supplementary Information

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

Mike Houser : Company PA

August 12, 2013

CITY OF LAKE QUIVIRA, KANSAS
 Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash
 For the Year Ended December 31, 2012

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Type Funds:							
General Funds:							
General Fund	\$ 639,775	\$ -	\$ 850,408	\$ 667,941	\$ 822,242	\$ 40,226	\$ 862,468
Special Purpose Funds:							
Special Highway	5,103	-	23,655	15,514	13,244	1,619	14,863
Special Parks and Recreation	<u>1,844</u>	<u>-</u>	<u>7,264</u>	<u>9,000</u>	<u>108</u>	<u>-</u>	<u>108</u>
Total	<u>\$ 646,722</u>	<u>\$ -</u>	<u>\$ 881,327</u>	<u>\$ 692,455</u>	<u>\$ 835,594</u>	<u>\$ 41,845</u>	<u>\$ 877,439</u>

COMPOSITION OF CASH:

Community First Bank	
Checking	\$ 426,767
Outstanding Checks	[16,196]
Certificate of Deposit	<u>107,395</u>
Total Community First Bank Checking	517,966
Equity Bank	
Certificate of Deposit	107,537
Enterprise Bank	
Certificate of Deposit	<u>251,936</u>
Total	<u>\$ 877,439</u>

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

CITY OF LAKE QUIVIRA, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Lake Quivira (the City) is a municipal corporation governed by a mayor and a five member council. As required by accounting principles generally accepted in the United States of America, these financial statements should present the City and its related municipal entities for which the government is considered to be financially accountable. The city has no related municipal entities.

Basis of Accounting

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

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the 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, cash disbursements, 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 accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the City to use the statutory basis of accounting.

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 balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

CITY OF LAKE QUIVIRA, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Regulatory Basis Fund Types (Continued)

The following types of funds comprise the financial activities of the City for the year ended June 30, 2012:

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

Special Purpose 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.

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), debt service funds, and business funds. 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 of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the city council to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between accounts 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. 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. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

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 city council.

CITY OF LAKE QUIVIRA, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Ad Valorem Tax Revenues

The determination of assessed valuations and 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 as of November 1 and become a lien on the property as of that date. Payments are due November 1, becoming 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 County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the City, is on or before January 20 of the ensuing year. Additional amounts are distributed on four (4) subsequent dates throughout the calendar year.

NOTE 2 - Deposits and Investments

Deposits. 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.

Investments. 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. As of December 31, 2012, the City held no such investments.

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has no designated "peak periods". All deposits were legally secured at December 31, 2012.

At December 31, 2012, the City's carrying amount of deposits was \$877,439 and the bank balance was \$895,258. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$891,698 was collateralized with securities held by the pledging financial institutions' agents in the City's name, the balance of \$3,560 was unsecured, which is a violation of K.S.A. 9-1402.

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.

CITY OF LAKE QUIVIRA, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 3 - Retirement Plan

Plan Description. The City participates in the Kansas Public Employees Retirement System (KPERS). KPERS is a part of a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-419 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. The employer contributions to KPERS for years ending December 31, 2012, 2011 and 2010 were \$3,096, \$3,125 and \$2,793 respectively, equal to the required contributions for each year. The City did not contribute to KP&F for the year ended December 31, 2012, because all law enforcement officers are now on a part time basis.

NOTE 4 – Long-term Debt

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

<u>Issue</u>	<u>Interest Rate</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>Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Capital Lease: Fire Truck	4.97%	10/26/2006	\$ 170,000	10/13/2015	\$ 74,314	\$ -	\$ 17,249	\$ 57,065	\$ 3,693

Current maturities of long-term debt are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 18,107	\$ 2,836	\$ 20,943
2014	19,007	1,936	20,943
2015	19,951	992	20,943
Total	\$ 57,065	\$ 5,764	\$ 62,829

CITY OF LAKE QUIVIRA, KANSAS
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 5 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss. The City's insurance coverage does not cover the risk of loss to the electrical distribution system due to wind or ice storms. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 - Interfund Transfers

A reconciliation of transfers by fund type for 2012 follows:

	<u>From</u>	<u>To</u>	
General	\$ 1,000	\$ -	
Special Parks and Recreation	-	1,000	
	\$ 1,000	\$ 1,000	

NOTE 7 - Compensated Absences

Full-time employees accrue vacation by pay period and by the employee's years of service. The employee shall not accumulate more than one hundred sixty hours of vacation beyond the last day of the calendar year for employees that have zero to nine years of service and two hundred and forty hours for employees with more than ten years of service. Upon termination, an employee shall be compensated for all earned but unused vacation leave at their final rate of pay. Total accrued vacation leave was \$2,422 at December 31, 2012.

NOTE 8 - Commitments and Contingencies

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the City as of December 31, 2012.

NOTE 9 - 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 this financial statement.

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 10 - Subsequent Event

On January 18, 2013, the City received bids for retaining wall improvements. The City selected Engineered Systems Company to perform the improvements.

CITY OF LAKE QUIVIRA, KANSAS
 Summary of Expenditures - Actual and Budget
 For the Year Ended December 31, 2012

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year Budget</u>	<u>Variance Positive [Negative]</u>
Governmental Type Funds:					
General Fund	\$ 1,283,252	\$ -	\$ 1,283,252	\$ 667,941	\$ 615,311
Special Purpose Funds:					
Special Highway	35,000	-	35,000	15,514	19,486
Special Parks and Recreation	8,000	-	8,000	9,000	[1,000]

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS
 General Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 649,367	\$ 629,143	\$ 20,224
Licenses and permits	71,459	68,400	3,059
Intergovernmental	6,264	5,500	764
Fines and fees	107,734	70,000	37,734
Use of money and property	<u>15,584</u>	<u>13,600</u>	<u>1,984</u>
Total Cash Receipts	<u>850,408</u>	<u>\$ 786,643</u>	<u>\$ 63,765</u>
Expenditures and Transfers Subject to Budget			
Personal services	296,082	\$ 328,120	\$ 32,038
Contractual	286,298	296,160	9,862
Commodities	57,108	72,972	15,864
Capital outlay	27,453	586,000	558,547
Transfer out	<u>1,000</u>	<u>-</u>	<u>[1,000]</u>
Total Expenditures and Transfers Subject to Budget	<u>667,941</u>	<u>\$ 1,283,252</u>	<u>\$ 615,311</u>
Receipts Over [Under] Expenditures	182,467		
Unencumbered Cash, Beginning	<u>639,775</u>		
Unencumbered Cash, Ending	<u>\$ 822,242</u>		

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS
 Special Highway Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Intergovernmental	\$ 23,655	\$ 23,300	\$ 355
Total Cash Receipts	<u>23,655</u>	<u>\$ 23,300</u>	<u>\$ 355</u>
 Expenditures			
Highways and streets	<u>15,514</u>	\$ 35,000	\$ 19,486
Total Expenditures	<u>15,514</u>	<u>\$ 35,000</u>	<u>\$ 19,486</u>
 Receipts Over [Under] Expenditures	8,141		
 Unencumbered Cash, Beginning	<u>5,103</u>		
 Unencumbered Cash, Ending	<u>\$ 13,244</u>		

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS
 Special Parks and Recreation Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Transfer in	\$ 1,000	\$ -	\$ 1,000
Intergovernmental	<u>6,264</u>	<u>5,500</u>	<u>764</u>
Total Cash Receipts	<u>7,264</u>	<u>\$ 5,500</u>	<u>\$ 1,764</u>
 Expenditures			
Culture and recreation	<u>9,000</u>	<u>\$ 8,000</u>	<u>\$ [1,000]</u>
Total Expenditures	<u>9,000</u>	<u>\$ 8,000</u>	<u>\$ [1,000]</u>
 Receipts Over [Under] Expenditures	 [1,736]		
 Unencumbered Cash, Beginning	 <u>1,844</u>		
 Unencumbered Cash, Ending	 <u>\$ 108</u>		

See independent auditor's report on the financial statements.