

**CITY OF ROSE HILL, KANSAS**  
**Rose Hill, Kansas**

**Financial Statements**  
**December 31, 2012**

**with**  
**Independent Auditors' Report**

CITY OF ROSE HILL, KANSAS  
Financial Statements  
December 31, 2012

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**INDEPENDENT AUDITORS' REPORT**

The Mayor and City Council  
City of Rose Hill, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of City of Rose Hill, 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.

*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 of Rose Hill to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

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

*Opinion on Regulatory Basis of Accounting*

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

March 20, 2013

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

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds:						
General	\$ 446,481	\$ 1,094,558	\$ 1,190,784	\$ 350,255	\$ 33,400	\$ 383,655
Special Purpose Funds:						
Employee Benefit	86,902	318,425	277,738	127,589		127,589
Library	-	108,205	106,504	1,701		1,701
Special Street and Highway	63,786	122,363	144,126	42,023		42,023
Special Parks and Recreation	4,297	1,810	-	6,107	3,000	9,107
Equipment Reserve	47,021	5,000	40,000	12,021		12,021
Capital Improvement Reserve	22,948	7,500	20,000	10,448		10,448
Police Computer Grant	246	4,243	4,489	-		-
Veteran Memorial Fund	-	-	13,700	(13,700)		(13,700)
Street Sales Tax	587,963	266,871	258,045	596,789	9,500	606,289
Capital Projects	(273,803)	1,879,637	1,428,721	177,113	121,260	298,373
Bond and Interest	70,738	958,885	936,841	92,782		92,782
Business Funds:						
Water Utility:						
Water Utility Operating	351,787	824,572	775,621	400,738		400,738
Water Utility Reserve	116,922	-	87,436	29,486	100,000	129,486
Total Water Utility	468,709	824,572	863,057	430,224	100,000	530,224
Sewer Utility:						
Sewer Utility Operating	846,529	1,100,079	1,036,185	910,423		910,423
Sewer Utility Reserve	120,294	50,000	74,812	95,482	38,000	133,482
Waste Water Treatment Facility	(2,200)	2,200	-	-	-	-
Total Sewer Utility	964,623	1,152,279	1,110,997	1,005,905	38,000	1,043,905
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 2,489,911</u>	<u>\$ 6,744,348</u>	<u>\$ 6,395,002</u>	<u>\$ 2,839,257</u>	<u>\$ 305,160</u>	<u>\$ 3,144,417</u>

Composition of Cash:

Rose Hill Bank:		
Checking Accounts		\$ 2,260,334
Certificate of Deposit		579,197
Emprise Bank:		
Certificate of Deposit		322,536
Petty Cash		833
Total Cash		<u>3,162,900</u>
Agency Funds per Statement 4		(18,482)
Total Reporting Entity (Excluding Agency Funds)		<u>\$ 3,144,417</u>

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

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

<u>Funds</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance- Over (Under)</u>
General	\$ 1,258,255	\$ 1,190,784	\$ (67,471)
Special Purpose:			
Employee Benefit	332,519	277,738	(54,781)
Library	106,504	106,504	-
Special Street and Highway	154,010	144,126	(9,884)
Bond and Interest	978,507	936,841	(41,666)
Business:			
Water Utility Operating	835,000	775,621	(59,379)
Sewer Utility Operating	1,085,592	1,036,185	(49,407)

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

CITY OF ROSE HILL, KANSAS  
 General Fund  
 Schedule of Cash Receipts and Expenditures - Actual and Budget  
 Regulatory Basis  
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
Cash Receipts:			
Taxes and Shared Revenue:			
Ad valorem property tax	\$ 557,228	\$ 557,077	\$ 151
Delinquent tax	15,995	2,000	13,995
Motor vehicle tax	106,096	103,514	2,582
Liquor tax	982	1,051	(69)
Franchise fees	171,546	180,000	(8,454)
Court costs	8,930	8,500	430
Licenses, permits and fees	53,756	15,000	38,756
Fines, forfeitures and penalties	54,940	40,000	14,940
Rents	29,609	23,000	6,609
Interest	4,044	3,500	544
Other	2,212	1,000	1,212
Reimbursed expense, etc.	88,672	48,000	40,672
E911 reimbursed from AT&T	548	4,900	(4,352)
Total Cash Receipts	<u>1,094,558</u>	<u>987,542</u>	<u>107,016</u>
Expenditures:			
General administration	337,419	326,880	10,539
Police	510,998	589,220	(78,222)
Streets	73,420	71,800	1,620
Parks	161,824	143,115	18,709
Planning	34,326	37,500	(3,174)
Other	60,297	89,740	(29,443)
Transfer to:			
Equipment Reserve Fund	7,500	-	7,500
Capital Improvement Reserve Fund	5,000	-	5,000
Total Expenditures	<u>1,190,784</u>	<u>1,258,255</u>	<u>(67,471)</u>
Receipts Over (Under) Expenditures	(96,226)	(270,713)	
Unencumbered Cash, Beginning	<u>446,481</u>	<u>270,713</u>	
Unencumbered Cash, Ending	<u>\$ 350,255</u>	<u>\$ -</u>	

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

CITY OF ROSE HILL, KANSAS  
Employee Benefit Fund  
Schedule of Cash Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
Cash Receipts:			
Taxes and Shared Revenue:			
Ad valorem property tax	\$ 254,710	\$ 254,630	\$ 80
Delinquent tax	5,938	500	5,438
Motor vehicle tax	39,837	39,106	731
Other	17,940	7,500	10,440
Total Cash Receipts	318,425	301,736	16,689
Expenditures:			
Social security	56,295	63,000	6,705
Unemployment	447	1,500	1,053
KPERs	56,469	60,000	3,531
Worker compensation insurance	17,706	19,000	1,294
Insurance	144,290	172,000	27,710
Other	2,531	17,019	14,488
Total Expenditures	277,738	332,519	54,781
Receipts Over (Under) Expenditures	40,687	(30,783)	
Unencumbered Cash, Beginning	86,902	30,783	
Unencumbered Cash, Ending	\$ 127,589	\$ -	

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

CITY OF ROSE HILL, KANSAS  
 Library Fund  
 Schedule of Cash Receipts and Expenditures - Actual and Budget  
 Regulatory Basis  
 For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
Cash Receipts:			
Taxes and Shared Revenue:			
Ad valorem property tax	\$ 93,965	\$ 93,570	\$ 395
Delinquent tax	2,007	1,000	1,007
Motor vehicle tax	12,233	11,941	292
Total Cash Receipts	108,205	106,511	1,694
Expenditures:			
Appropriation to Rose Hill Public Library	106,504	106,504	-
Receipts Over (Under) Expenditures	1,701	7	
Unencumbered Cash, Beginning	-	1,355	
Unencumbered Cash, Ending	\$ 1,701	\$ 1,362	

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

CITY OF ROSE HILL, KANSAS  
Special Street and Highway Fund  
Schedule of Cash Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
Cash Receipts:			
Taxes and Shared Revenue:			
County gas tax	\$ 19,629	\$ 21,470	\$ (1,841)
State gas tax	101,800	108,460	(6,660)
Other	934	200	734
Total Cash Receipts	122,363	130,130	(7,767)
 Expenditures:			
Personnel services	63,485	59,000	4,485
Commodities	41,223	36,900	4,323
Contractual services	34,485	35,110	(625)
Capital outlay	4,933	23,000	(18,067)
Total Expenditures	144,126	154,010	(9,884)
 Receipts Over (Under) Expenditures	(21,763)	(23,880)	
 Unencumbered Cash, Beginning	63,786	60,856	
 Unencumbered Cash, Ending	\$ 42,023	\$ 36,976	

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

CITY OF ROSE HILL, KANSAS  
Special Parks and Recreation Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
State of Kansas - liquor tax	<u>\$ 1,810</u>
Receipts Over (Under) Expenditures	1,810
Unencumbered Cash, Beginning	<u>4,297</u>
Unencumbered Cash, Ending	<u><u>\$ 6,107</u></u>

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

CITY OF ROSE HILL, KANSAS  
Equipment Reserve Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
Transfer from General Fund	\$ 5,000
Expenditures:	
Capital outlay	<u>40,000</u>
Receipts Over (Under) Expenditures	(35,000)
Unencumbered Cash, Beginning	<u>47,021</u>
Unencumbered Cash, Ending	<u><u>\$ 12,021</u></u>

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

CITY OF ROSE HILL, KANSAS  
Capital Improvement Reserve Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
Transfer from General Fund	\$ 7,500
Expenditures:	
Capital outlay	<u>20,000</u>
Receipts Over (Under) Expenditures	(12,500)
Unencumbered Cash, Beginning	<u>22,948</u>
Unencumbered Cash, Ending	<u>\$ 10,448</u>

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

CITY OF ROSE HILL, KANSAS  
Police Computer Grant Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
Grant awards - federal	\$ 4,243
Expenditures:	
Capital outlay	<u>4,489</u>
Receipts Over (Under) Expenditures	(246)
Unencumbered Cash, Beginning	<u>246</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

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

CITY OF ROSE HILL, KANSAS  
Veteran Memorial Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Expenditures:	
Capital outlay	<u>\$      13,700</u>
Receipts Over (Under) Expenditures	(13,700)
Unencumbered Cash, Beginning	<u>                  -</u>
Unencumbered Cash, Ending	<u><u>\$      (13,700) *</u></u>

\* Reimbursement made after year-end.

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

CITY OF ROSE HILL, KANSAS  
Street Sales Tax Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
Sales tax - state	\$ 266,871
Total Cash Receipts	<u>266,871</u>
Expenditures:	
Street repairs	82,673
Principal payments	111,456
Interest payments	60,328
Fees and commissions	3,588
Total Expenditures	<u>258,045</u>
Receipts Over (Under) Expenditures	8,826
Unencumbered Cash, Beginning	<u>587,963</u>
Unencumbered Cash, Ending	<u><u>\$ 596,789</u></u>

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

CITY OF ROSE HILL, KANSAS  
 Bond and Interest Fund  
 Schedule of Cash Receipts and Expenditures - Actual and Budget  
 Regulatory Basis  
 For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
Cash Receipts:			
Taxes and Shared Revenue:			
Ad valorem property tax	\$ 146,495	\$ 146,455	\$ 40
Delinquent tax	3,040	-	3,040
Motor vehicle tax	16,088	15,629	459
Special assessments	559,262	539,977	19,285
Interest	3,000	2,000	1,000
Transfers from:			
Water Utility Operating Fund	156,000	156,000	-
Sewer Utility Operating Fund	75,000	75,000	-
Total Cash Receipts	958,885	935,061	23,824
Expenditures:			
Principal payments	616,037	624,011	(7,974)
Additional debt reduction	-	15,000	(15,000)
Interest expense	320,269	309,486	10,783
Fiscal fees and commissions	-	20,000	(20,000)
Other	535	10,010	(9,475)
Total Expenditures	936,841	978,507	(41,666)
Receipts Over (Under) Expenditures	22,044	(43,446)	
Unencumbered Cash, Beginning	70,738	43,446	
Unencumbered Cash, Ending	\$ 92,782	\$ -	

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

CITY OF ROSE HILL, KANSAS  
Water Utility Operating Fund  
Schedule of Cash Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
Cash Receipts:			
Charges for services	\$ 762,340	\$ 643,000	\$ 119,340
Connection fees	37,930	7,500	30,430
Interest	2,961	8,000	(5,039)
Other	21,341	-	21,341
Total Cash Receipts	<u>824,572</u>	<u>658,500</u>	<u>166,072</u>
Expenditures:			
Personnel services	211,104	247,900	(36,796)
Commodities	50,927	41,100	9,827
Contractual services	61,382	132,350	(70,968)
Professional division	5,245	5,150	95
Capital outlay	110	7,500	(7,390)
Water purchases	290,853	220,000	70,853
Transfer to:			
Bond and Interest Fund	156,000	156,000	-
Water Reserve Fund	-	25,000	(25,000)
Total Expenditures	<u>775,621</u>	<u>835,000</u>	<u>(59,379)</u>
Receipts Over (Under) Expenditures	48,951	(176,500)	
Unencumbered Cash, Beginning	<u>351,787</u>	<u>287,599</u>	
Unencumbered Cash, Ending	<u>\$ 400,738</u>	<u>\$ 111,099</u>	

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

CITY OF ROSE HILL, KANSAS  
Water Utility Reserve Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Expenditures:	
Capital outlay	<u>87,436</u>
Receipts Over (Under) Expenditures	(87,436)
Unencumbered Cash, Beginning	<u>116,922</u>
Unencumbered Cash, Ending	<u><u>\$ 29,486</u></u>

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

CITY OF ROSE HILL, KANSAS  
 Sewer Utility Operating Fund  
 Schedule of Cash Receipts and Expenditures - Actual and Budget  
 Regulatory Basis  
 For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
Cash Receipts:			
Charges for services	\$ 559,888	\$ 547,000	\$ 12,888
Sewer system improvement fee	511,037	504,000	7,037
Connection fees	19,050	2,500	16,550
Interest	7,149	10,000	(2,851)
Reimbursed expense	2,955	-	2,955
Total Cash Receipts	1,100,079	1,063,500	36,579
Expenditures:			
Personnel services	193,466	219,200	(25,734)
Commodities	69,570	33,500	36,070
Contractual services	138,118	176,100	(37,982)
Professional division	13,837	12,700	1,137
Capital outlay	2,110	25,000	(22,890)
Debt service	494,084 *	494,092	(8)
Transfer to:			-
Bond and Interest Fund	75,000	75,000	-
Sewer Utility Reserve Fund	50,000	50,000	-
Total Expenditures	1,036,185	1,085,592	(49,407)
Receipts Over (Under) Expenditures	63,894	(22,092)	
Unencumbered Cash, Beginning	846,529	813,193	
Unencumbered Cash, Ending	\$ 910,423	\$ 791,101	

* Principal	322,792
Interest	171,292
Total	\$ 494,084

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

CITY OF ROSE HILL, KANSAS  
Sewer Utility Reserve Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
Transfer from Sewer Utility Operating Fund	\$ 50,000
Expenditures:	
Capital outlay	<u>74,812</u>
Receipts Over (Under) Expenditures	(24,812)
Unencumbered Cash, Beginning	<u>120,294</u>
Unencumbered Cash, Ending	<u><u>\$ 95,482</u></u>

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

CITY OF ROSE HILL, KANSAS  
Waste Water Treatment Facility Fund  
Schedule of Cash Receipts and Expenditures  
Regulatory Basis  
For the Year Ended December 31, 2012

Cash Receipts:	
KDHE Loan Funds	<u>\$ 2,200</u>
Receipts Over (Under) Expenditures	2,200
Unencumbered Cash, Beginning	<u>(2,200)</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

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

CITY OF ROSE HILL, KANSAS  
 Capital Projects Fund  
 Schedule of Cash Receipts and Expenditures  
 Regulatory Basis  
 For the Year Ended December 31, 2012

	Sunflower Trails Grant	Arterial Street Improvements	Sunrise Addition	Berlin Drainge Project	Strode Force Main Project	Insurance Proceeds	Total
Cash Receipts:							
Temporary notes proceeds	\$ -	\$ -	\$ 1,205,000	\$ -	\$ -	\$ -	\$ 1,205,000
Grant proceeds	63,650	-	-	124,279	-	-	187,929
Bond proceeds	-	-	-	460,000	-	-	460,000
Insurance proceeds	-	-	-	-	-	23,658	23,658
Interest income	-	-	-	45	-	-	45
Prepaid specials and deposit	-	-	311	-	2,694	-	3,005
Total Cash Receipts	<u>63,650</u>	<u>-</u>	<u>1,205,311</u>	<u>584,324</u>	<u>2,694</u>	<u>23,658</u>	<u>1,879,637</u>
Expenditures:							
Construction and engineering	<u>50,815</u>	<u>68,127</u>	<u>1,050,016</u>	<u>54,430</u>	<u>-</u>	<u>205,333</u>	<u>1,428,721</u>
Receipts Over (Under) Expenditures	12,835	(68,127)	155,295	529,894	2,694	(181,675)	450,916
Unencumbered Cash, Beginning	<u>-</u>	<u>133,290</u>	<u>(67,327)</u>	<u>(497,941)</u>	<u>(2,694)</u>	<u>160,869</u>	<u>(273,803)</u>
Unencumbered Cash, Ending	<u>\$ 12,835</u>	<u>\$ 65,163</u>	<u>\$ 87,968</u>	<u>\$ 31,953</u>	<u>\$ -</u>	<u>\$ (20,806) *</u>	<u>\$ 177,113</u>

\* - Capital construction fund not subject to cash basis law

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

CITY OF ROSE HILL, KANSAS  
 Agency Funds  
 Summary of Cash Receipts and Disbursements  
 Regulatory Basis  
 For the Year Ended December 31, 2012

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Customer meter deposits	\$ 12,504	\$ 61	\$ 12,565	\$ -
Payroll withholding	7,993	90,336	87,371	10,958
ADSAP Court	2,015	-	-	2,015
Community Policing	4,867	1,310	2,267	3,910
Veterans Memorial	3,729	4,170	6,300	1,599
Total	<u>\$ 31,108</u>	<u>\$ 95,877</u>	<u>\$ 108,503</u>	<u>\$ 18,482</u>

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

CITY OF ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Rose Hill, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statement and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statement.

Reporting Entity

The City of Rose Hill is a municipal corporation governed by an elected five-member council. A related municipal entity, The Public Building Commission, is not included in these financials since its operations are not material in respect to the operations of the City as a whole. The Rose Hill Public Library, a related municipal entity of the City of Rose Hill, is also not included in these financials since its operations are not material in respect to the operations of the City as a whole. The Library taxes are levied under the taxing authority of the City and are included as part of the City's total tax levy.

Basis of Presentation

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

The following types of funds comprise the financial activities of the City of Rose Hill, Kansas for the year 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.

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 ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies (continued)

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

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

Basis of Accounting

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

The 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.

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:

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 on the budget.
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.

CITY OF ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

2. Budgetary Information (continued)

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

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

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

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose funds:

- Equipment Reserve
- Capital Improvements
- Grant Programs
- Payroll Clearing
- Electric Reserve
- Water Reserve
- Sewer Reserve
- Special Parks and Recreation
- Police Computer Grant
- Veteran Memorial
- Street Sales Tax
- Waste Water Treatment Facility

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 ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

3. Defined Benefit Pension Plan

*Plan description.* The City participates in the Kansas Public Employees Retirement System (KPERS). It is part of a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide 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 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. 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.

4. Special Assessments

Projects, financed in part by special assessments, are financed through general obligation bonds of the City and are retired from the Debt Service Fund. Special assessments paid prior to the issuance of the bonds are recorded as revenue in the appropriate project account. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund.

5. Capital Projects

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

<u>Current Projects</u>	<u>Project Authorization</u>	<u>Expenditures to Date</u>
Sunrise Addition	1,232,000	1,117,344
Berlin Drainage Project	935,801	931,492
Sunflower Trails	63,650	50,815

CITY OF ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

6. Temporary Notes

Upon authorization for the issuance of general obligation bonds for certain improvements, Kansas law permits the temporary financing of such improvements by the issuance of temporary notes. Temporary notes issued may not exceed the aggregate amount of bonds authorized, are interest bearing and have a maturity date no later than four years from the date of issuance. Temporary notes outstanding are retired from proceeds received from the sale of general obligation bonds.

7. Compensated Absences

All employees of the City, except temporary and part-time employees, accumulate vacation leave at a rate of 6.67 hours per month during their first five years of employment. The rate of accumulation increases to 8 hours per month after five years of employment, 10 hours per month after ten years of employment, and 12 hours per month after fifteen years of employment. An employee can carry over to a new year only that amount of vacation leave that was accumulated during the year. Employees are paid for all accumulated vacation leave, at their current wage rate, upon termination of employment. All employees except temporary and part-time employees accumulate sick leave at a rate of 8 hours per month. Sick leave can be accumulated up to 720 hours. Sick leave is paid out upon termination, with two weeks notice, at the rate of one-fourth, up to 50 hours of credited sick leave for employees with at least two years of service. Upon retirement, with six months notice and five years of service, one-half, up to 100 hours of credited sick leave, will be paid out. The cost of accumulated vacation and sick leave are recorded in the financial statements at the time payments are made to employees. The estimated liability at December 31, 2012 if all employees with accumulated vacation and sick leave were to terminate employment would be \$80,571.

8. Deposits

At December 31, 2012, the City's carrying amount of deposits including certificates of deposit was \$3,162,900 and the bank balance was \$3,242,836. The bank balance was held by Rose Hill Bank and Emprise Bank. The differences between the carrying amounts and the bank balances were outstanding checks. Of the bank balances, \$500,000 was covered by federal depository insurance and \$2,742,836 was collateralized by pledged securities held under joint custody receipts issued by third party banks in the City's name. The third party bank holding the pledged securities are independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank and the independent third-party bank holding the pledged securities.

CITY OF ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

9. Compliance with Kansas Statutes

Management is aware of no statutory violations for the year ended December 31, 2012.

10. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Capital Improvement Reserve Fund	\$ 7,500
General Fund	Equipment Reserve Fund	5,000
Water Utility Operating Fund	Bond and Interest Fund	156,000
Sewer Utility Operating Fund	Sewer Equity Replacement Reserve	50,000
Sewer Utility Operating Fund	Bond and Interest Fund	75,000

Residual equity transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
Sewer Equity Replacement Reserve	Capital Projects – Strode Force Main	\$ 2,694

11. Operating Leases

The City leases a postage machine from Pitney Bowes at a cost of \$70 per month.

The City receives monthly payments of \$2,132 for a water tower lease.

The City receives an annual payment of \$637 for property it owns and leases for agricultural purposes.

12. Water Utility Concentration

All water sold is purchased from the City of Wichita, Kansas under contract.

13. Risk Management

The City manages risk primarily through the purchase of insurance coverage from commercial insurers.

CITY OF ROSE HILL, KANSAS

Notes to Financial Statements

December 31, 2012

14. Public Building Commission

The City is acting as trustee for funds of The Public Building Commission (PBC). The Commission is a related municipal entity of the City and is a municipal corporation organized pursuant to K.S.A. 12-1757 et seq. The related municipal entity is not required to be audited under Kansas law.

The PBC constructed the new City Hall/Police Department building in 2003, using the proceeds of PBC revenue bonds in the amount of \$1,315,000. The bonds and interest are payable in annual and semi-annual installments beginning in 2004, with final maturities due in the year 2023. The City is leasing the building/facilities with annual payments that equal the bond and interest maturities of the PBC revenue bonds. The PBC has no other operations at the present time.

As of December 31, 2012, the principal amount payable was \$865,000.

15. Subsequent Events

Subsequent events have been evaluated through March 20, 2013, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

CITY OF ROSE HILL, KANSAS  
Schedule of Changes in Long-Term Debt  
For the Year Ended December 31, 2012

16. Long Term Debt Schedule

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

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds:										
Internal improvements - Series 1999	4.6% to 6.0%	8/1/1999	1,531,000	10/1/2014	\$ 195,000	\$ -	\$ 60,000	\$ -	\$ 135,000	\$ 10,148
Internal improvements - Series 2002	3.9% to 5.5%	5/1/2002	800,000	10/1/2017	400,000	-	60,000	-	340,000	18,351
Internal improvements - Series 2004	3.15% to 4.2%	2/1/2004	1,445,000	10/1/2019	875,000	-	105,000	-	770,000	33,330
Internal improvements - Series 2004-2	4.25% to 5.0%	7/1/2004	437,000	10/1/2019	275,000	-	30,000	-	245,000	12,256
Internal improvements - Series 2005-1	0%	1/15/2005	252,000	1/15/2014	84,000	-	28,000	-	56,000	-
Internal improvements - Series 2006	3.5% to 5.4%	2/1/2006	590,000	10/1/2021	445,000	-	35,000	-	410,000	17,445
Internal improvements - Series 2008	3.75% to 4.75%	7/1/2008	762,000	10/1/2023	655,000	-	40,000	-	615,000	26,839
Internal improvements - Series 2009	4.15% to 5.90%	8/1/2009	455,000	10/1/2024	415,000	-	25,000	-	390,000	20,168
Water utility system refunding - Series 2009-2	1.6% to 3.00%	12/7/2009	835,000	9/1/2015	580,000	-	140,000	-	440,000	15,048
Taxable - Series 2009-3	5.75% to 6.75%	12/1/2009	460,000	10/1/2030	460,000	-	15,000	-	445,000	29,400
Internal improvements - Series 2010	2.75% to 5.25%	11/1/2010	956,000	10/1/2031	956,000	-	-	-	956,000	70,059
Internal improvements - Series 2011	3.25% to 4.25%	4/15/2011	575,000	10/1/2026	575,000	-	20,000	-	555,000	33,606
Internal improvements - Series 2012	2.00% to 5.00%	3/1/2012	460,000	10/1/2032	-	460,000	-	-	460,000	-
Total General Obligation Bonds					5,915,000	460,000	558,000	-	5,817,000	286,650
Temporary Notes:										
Sunrise Addition - Series 2012-1	1.86%	2/1/2012	1,205,000	7/15/2016	-	1,205,000	-	-	1,205,000	-
Revolving Loans:										
KWPCRF Project No. C20-1228-01	3.6%	11/30/1996	667,047	9/1/2017	239,431	-	36,470	-	202,961	8,867
KWPCRF Project No. C20-1630-01	2.86%	5/1/2003	814,460	9/1/2024	515,424	-	33,249	-	482,175	15,854
KWPCRF Project No. C20-1720-01	2.50%	10/25/2007	6,055,074 *	9/1/2029	5,473,651	-	253,073	-	5,220,578	148,585
TRF Project No. TR 0007	3.62%	1/20/2004	562,925	8/1/2024	422,021	-	26,056	-	395,965	16,332
TRF Project No. TR 0083	3.74%	9/2/2008	400,000	8/1/2018	319,972	-	40,537	-	279,435	12,767
TRF Project No. TR 0123	3.41%	12/7/2009	690,120	8/1/2024	588,925	-	36,062	-	552,863	21,554
Total Revolving Loans					7,559,424	-	425,447	-	7,133,977	223,959
Capital Leases:										
Historical building	4.25%	12/19/2008	50,000	1/1/2016	29,149	-	6,837	-	22,312	1,582
WWTF telephone system		5/31/2009	8,304	6/1/2013	2,941	-	2,076	-	865	-
Konica Copier Machine	6.361%	12/10/2011	12,984	4/1/2017	-	12,984	1,889	-	11,095	643
Two Grasshopper Mowers	3.29%	4/30/2012	25,635	4/30/2014	-	25,635	8,823	-	16,812	-
Total Capital Leases					32,090	38,619	19,625	-	51,084	2,225
Total Contractual Indebtedness					13,506,514	1,703,619	1,003,072	-	14,207,061	512,834
Public Building Commission Revenue Bonds:										
City Hall/Police Department - Series 2003	2.0% to 5.0%	5/1/2003	1,315,000 **	10/1/2023	\$ 925,000	\$ -	\$ 60,000	\$ -	\$ 865,000	\$ 45,050

\* The full amount of the revolving loan has not been advanced, this statement shows the amount advanced, the schedule of maturities reflects the full amount of the revolving loan due.

\*\* Presented for supplemental information only.

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

CITY OF ROSE HILL, KANSAS  
Schedule of Maturity of Long-Term Debt  
For the Year Ended December 31, 2012

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018-2022</u>	<u>2023-2027</u>	<u>2028-2032</u>	<u>Total</u>
Principal:									
General obligation bonds	\$ 629,000	\$ 653,000	\$ 575,000	\$ 450,000	\$ 465,000	\$ 1,635,000	\$ 885,000	\$ 525,000	\$ 5,817,000
Temporary note	-	-	-	1,205,000	-	-	-	-	1,205,000
Revolving loan program*	436,287	449,863	463,870	478,324	493,239	2,238,580	2,065,795	508,019	7,133,977
Capital leases	18,665	18,532	10,473	2,912	502	-	-	-	51,084
Total Principal - City	<u>\$ 1,083,952</u>	<u>\$ 1,121,395</u>	<u>\$ 1,049,343</u>	<u>\$ 2,136,236</u>	<u>\$ 958,741</u>	<u>\$ 3,873,580</u>	<u>\$ 2,950,795</u>	<u>\$ 1,033,019</u>	<u>\$ 14,207,061</u>
Public Building Commission revenue bonds**	<u>\$ 60,000</u>	<u>\$ 65,000</u>	<u>\$ 65,000</u>	<u>\$ 70,000</u>	<u>\$ 75,000</u>	<u>\$ 430,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 865,000</u>
Interest:									
General obligation bonds	\$ 247,616	\$ 215,029	\$ 189,938	\$ 167,306	\$ 148,054	\$ 493,210	\$ 220,630	\$ 58,963	\$ 1,740,746
Temporary note	-	-	-	89,652	-	-	-	-	89,652
Revolving loan program	211,106	197,531	183,524	169,069	154,154	561,706	232,329	16,197	1,725,616
Capital leases	2,481	1,748	984	476	4	-	-	-	5,693
Total Interest - City	<u>\$ 461,203</u>	<u>\$ 414,308</u>	<u>\$ 374,446</u>	<u>\$ 426,503</u>	<u>\$ 302,212</u>	<u>\$ 1,054,916</u>	<u>\$ 452,959</u>	<u>\$ 75,160</u>	<u>\$ 3,561,707</u>
Public Building Commission revenue bonds**	<u>\$ 42,650</u>	<u>\$ 40,250</u>	<u>\$ 37,000</u>	<u>\$ 33,750</u>	<u>\$ 30,250</u>	<u>\$ 92,500</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 281,400</u>
Total Principal and Interest - City	<u>\$ 1,545,155</u>	<u>\$ 1,535,703</u>	<u>\$ 1,423,789</u>	<u>\$ 2,562,739</u>	<u>\$ 1,260,953</u>	<u>\$ 4,928,496</u>	<u>\$ 3,403,754</u>	<u>\$ 1,108,179</u>	<u>\$ 17,768,768</u>

\* Full amount has not been advanced as reflected on the long-term debt payment schedule, this reflects the full amount due at maturity.

\*\*Presented for supplemental information only.

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