

CITY OF TOWANDA, KANSAS

**Financial Statements
December 31, 2012**

**with
Independent Auditors' Report**

CITY OF TOWANDA, KANSAS
Financial Statements
December 31, 2012

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Towanda, Kansas

We have audited the accompanying fund summary statement of regulatory basis cash receipts, expenditures, and unencumbered cash balances of City of Towanda, 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 Towanda 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 Towanda 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 Towanda 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 cash 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 cash receipts and expenditures-actual and budget, schedule of regulatory basis cash receipts and disbursements-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.

September 30, 2013

Peterson Peterson & Soss, LC

CITY OF TOWANDA, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For The Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Fund Types:						
General	\$ 2,076	\$ 477,522	\$ 479,365	\$ 233		\$ 233
Special Purpose:						
Library	-	42,791	42,791	-		-
Fire Rescue	82,810	97,329	86,793	93,346		93,346
Fire Rescue Reserve	23,438	15,500	5,263	33,675		33,675
Special Parks/Recreation	19,812	43,692	36,004	27,500		27,500
Equipment Reserve	24,216	-	7,434	16,782		16,782
Consolidated Streets	-	44,791	44,786	5		5
Street Reserve	40,066	157,995	148,375	49,686		49,686
Community Center	289	10,070	10,285	74		74
Capital Improvement	55	-	-	55		55
Capital Project:						
Lagoon Project	5	-	-	5		5
Bond and Interest	30,332	323,904	313,410	40,826		40,826
Business:						
Water Utility	17,257	315,636	312,984	19,909		19,909
Water Utility Reserve	49,188	19,077	7,057	61,208		61,208
Sewer Utility	593	157,250	157,453	390		390
Sewer Utility Reserve	62,408	45,424	32,055	75,777		75,777
Sewer Plant Reserve	136	-	136	-		-
Sewer Debt Service	2,172	82,516	54,090	30,598		30,598
Refuse Utility	10,596	100,683	110,795	484		484
Total Reporting Entity (Excluding Agency Funds)	\$ 365,449	\$ 1,934,180	\$ 1,849,076	\$ 450,553	\$ -	\$ 450,553
Composition of cash:						
Checking account - Towanda State Bank						\$ 450,181
Petty cash						450
Total Cash						450,631
Agency Funds per Statement 4						(78)
Total Reporting Entity (Excluding Agency Funds)						\$ 450,553

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

CITY OF TOWANDA, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For The Year Ended December 31, 2012

<u>Funds</u>	<u>Amended or Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
General	\$ 583,533	\$ 479,365	\$ (104,168)
Special Purpose:			
Library	43,619	42,791	(828)
Fire Rescue	94,099	86,793	(7,306)
Special Parks/Recreation	133,204	36,004	(97,200)
Consolidated Streets	52,523	44,786	(7,737)
Community Center	11,325	10,285	(1,040)
Bond and Interest	343,420	313,410	(30,010)
Business:			
Water Utility	338,877	312,984	(25,893)
Sewer Utility	223,109	157,453	(65,656)
Refuse Utility	133,800	110,795	(23,005)

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

CITY OF TOWANDA, 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	\$ 247,694	\$ 270,253	\$ (22,559)
Delinquent tax	17,877	20,000	(2,123)
Motor vehicle tax	62,333	59,852	2,481
Franchise fees	80,844	90,000	(9,156)
City and Revenue Sharing	-	5,737	(5,737)
Licenses, permits and fees	11,482	13,500	(2,018)
Swimming pool	7,759	12,700	(4,941)
Fines, forfeitures and penalties	17,359	30,000	(12,641)
Interest	1,024	8,000	(6,976)
Cemetery service charges	3,150	4,000	(850)
Donations	-	10,300	(10,300)
Other	13,000	25,000	(12,000)
Transfer from:			
Refuse Utility Fund	15,000	-	15,000
Total Cash Receipts	<u>477,522</u>	<u>549,342</u>	<u>(71,820)</u>
Expenditures:			
General government:			
Health insurance premiums	7,936	22,160	(14,224)
Mayor and council	-	2,000	(2,000)
Administration/finance	141,233	177,844	(36,611)
Municipal court	4,969	645	4,324
Legal	13,993	15,187	(1,194)
Planning and zoning	26,839	16,330	10,509
Swimming pool	62,763	39,710	23,053
Recreation	431	-	431
Library and museum	4,227	4,883	(656)
Senior Center	13,126	13,490	(364)
Neighborhood revitalization rebate	-	1,800	(1,800)
Public safety:			
Police department	159,451	173,100	(13,649)
Animal control	1,438	650	788

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

	Actual	Budget	Variance - Over (Under)
Expenditures: (continued)			
Public works	\$ 17,628	\$ 57,868	\$ (40,240)
Transfers to:			
Street Reserve Fund	700	10,000	(9,300)
Fire Rescue Fund	16,491	25,866	(9,375)
Equipment Reserve	-	13,000	(13,000)
Community Center Fund	8,140	9,000	(860)
Total Expenditures	479,365	583,533	\$ (104,168)
Receipts Over (Under) Expenditures	(1,843)	(34,191)	
Unencumbered Cash, Beginning	2,076	34,191	
Unencumbered Cash, Ending	\$ 233	\$ -	

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

CITY OF TOWANDA, 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	\$ 34,752	\$ 35,277	\$ (525)
Delinquent tax	1,272	-	1,272
Motor vehicle tax	5,502	6,722	(1,220)
Other	1,265	-	1,265
Total Cash Receipts	42,791	41,999	792
Expenditures:			
Appropriation to Library Board	42,791	43,619	\$ (828)
Receipts Over (Under) Expenditures	-	(1,620)	
Unencumbered Cash, Beginning	-	120	
Unencumbered Cash, Ending	\$ -	\$ (1,500)	

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

CITY OF TOWANDA, KANSAS
 Fire Rescue 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:			
Township distributions	\$ 80,838	\$ 68,720	\$ 12,118
Transfer from General Fund	16,491	25,866	(9,375)
Total Cash Receipts	97,329	94,586	2,743
Expenditures:			
Personal services	6,595	14,101	(7,506)
Contractual services	5,160	10,000	(4,840)
Commodities	3,477	8,500	(5,023)
Utilities	6,895	6,300	595
Insurance	13,561	2,500	11,061
Communications	-	1,100	(1,100)
Fuels	1,308	1,800	(492)
Lease	34,297	34,298	(1)
Transfer to Fire Rescue Reserve Fund	15,500	15,500	-
Total Expenditures	86,793	94,099	\$ (7,306)
Receipts Over (Under) Expenditures	10,536	487	
Unencumbered Cash, Beginning	82,810	28,414	
Unencumbered Cash, Ending	\$ 93,346	\$ 28,901	

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

CITY OF TOWANDA, KANSAS
Fire Rescue Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Transfer from Fire Rescue Fund	\$ 15,500
Expenditures:	
Fire equipment	<u>5,263</u>
Receipts Over (Under) Expenditures	10,237
Unencumbered Cash, Beginning	<u>23,438</u>
Unencumbered Cash, Ending	<u><u>\$ 33,675</u></u>

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

CITY OF TOWANDA, KANSAS
Special Parks/Recreation 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:			
Recreation fees	\$ 38,587	\$ 100,000	\$ (61,413)
Concessions	5,105	20,000	(14,895)
Total Cash Receipts	43,692	120,000	(76,308)
Expenditures:			
Concessions	-	3,000	(3,000)
Contractual services	7,563	10,000	(2,437)
Commodities	28,441	50,000	(21,559)
Capital outlay	-	70,204	(70,204)
Total Expenditures	36,004	133,204	\$ (97,200)
Receipts Over (Under) Expenditures	7,688	(13,204)	
Unencumbered Cash, Beginning	19,812	13,204	
Unencumbered Cash, Ending	\$ 27,500	\$ -	

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

CITY OF TOWANDA, KANSAS
Equipment Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Expenditures:	
Capital outlay	<u>\$ 7,434</u>
Receipts Over (Under) Expenditures	(7,434)
Unencumbered Cash, Beginning	<u>24,216</u>
Unencumbered Cash, Ending	<u><u>\$ 16,782</u></u>

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

CITY OF TOWANDA, KANSAS
 Consolidated Streets 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:			
State of Kansas gas tax	\$ 44,791	\$ 36,820	\$ 7,971
County highway distribution	-	7,290	(7,290)
Other	-	3,500	(3,500)
Total Cash Receipts	44,791	47,610	(2,819)
Expenditures:			
Personal services	42,119	38,420	3,699
Contractual services	1,336	2,153	(817)
Commodities	1,331	8,950	(7,619)
Transfer to Street Reserve	-	3,000	(3,000)
Total Expenditures	44,786	52,523	\$ (7,737)
Receipts Over (Under) Expenditures	5	(4,913)	
Unencumbered Cash, Beginning	-	4,913	
Unencumbered Cash, Ending	\$ 5	\$ -	

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

CITY OF TOWANDA, KANSAS
Street Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Temporary note	\$ 113,000
Other	31,595
Transfers from:	
General Fund	700
Refuse Utility Fund	12,700
Total Cash Receipts	<u>157,995</u>
 Expenditures:	
Contractual services	<u>148,375</u>
 Receipts Over (Under) Expenditures	9,620
 Unencumbered Cash, Beginning	<u>40,066</u>
 Unencumbered Cash, Ending	<u><u>\$ 49,686</u></u>

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

CITY OF TOWANDA, KANSAS
 Community Center 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:			
Donations	\$ -	\$ 400	\$ (400)
Rent	1,780	2,000	(220)
Miscellaneous	150	-	150
Transfer from General Fund	8,140	9,000	(860)
Total Cash Receipts	10,070	11,400	(1,330)
Expenditures:			
Contractual	3,570	4,825	(1,255)
Commodities	3,644	3,500	144
Lease	3,071	3,000	71
Total Expenditures	10,285	11,325	\$ (1,040)
Receipts Over (Under) Expenditures	(215)	75	
Unencumbered Cash, Beginning	289	1,873	
Unencumbered Cash, Ending	\$ 74	\$ 1,948	

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

CITY OF TOWANDA, KANSAS
Capital Improvement Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 55</u>
Unencumbered Cash, Ending	<u><u>\$ 55</u></u>

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

CITY OF TOWANDA, KANSAS
Lagoon Project Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 5</u>
Unencumbered Cash, Ending	<u><u>\$ 5</u></u>

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

CITY OF TOWANDA, KANSAS
 Bond and Interest 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:			
Special assessments	\$ 62,277	\$ 51,244	\$ 11,033
Bond refunding	241,000	241,000	-
Street impact fee	20,627	-	20,627
Transfer from Street Reserve Fund	-	21,000	(21,000)
Total Cash Receipts	<u>323,904</u>	<u>313,244</u>	<u>10,660</u>
Expenditures:			
Principal	282,000	312,010	(30,010)
Interest	31,410	31,410	-
Total Expenditures	<u>313,410</u>	<u>343,420</u>	<u>\$ (30,010)</u>
Receipts Over (Under) Expenditures	10,494	(30,176)	
Unencumbered Cash, Beginning	<u>30,332</u>	<u>30,176</u>	
Unencumbered Cash, Ending	<u>\$ 40,826</u>	<u>\$ -</u>	

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

CITY OF TOWANDA, KANSAS
Water Utility 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 service	\$ 314,140	\$ 314,000	\$ 140
Tapping fees	771	4,000	(3,229)
Miscellaneous	725	6,500	(5,775)
Total Cash Receipts	315,636	324,500	(8,864)
Expenditures:			
Personal services	104,830	73,696	31,134
Contractual services	190,732	173,000	17,732
Commodities	10,428	10,681	(253)
Insurance	3,674	6,500	(2,826)
Lease payments	3,320	8,000	(4,680)
Equipment	-	10,000	(10,000)
Transfers to:			-
Water Utility Reserve Fund	-	39,000	(39,000)
Consolidated Streets Fund	-	18,000	(18,000)
Total Expenditures	312,984	338,877	\$ (25,893)
Receipts Over (Under) Expenditures	2,652	(14,377)	
Unencumbered Cash, Beginning	17,257	14,377	
Unencumbered Cash, Ending	\$ 19,909	\$ -	

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

CITY OF TOWANDA, KANSAS
Water Utility Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Antenna rental	\$ 19,077
Expenditures:	
Commodities	2,007
Contractual services	<u>5,050</u>
Total Expenditures	7,057
Receipts Over (Under) Expenditures	12,020
Unencumbered Cash, Beginning	<u>49,188</u>
Unencumbered Cash, Ending	<u><u>\$ 61,208</u></u>

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

CITY OF TOWANDA, KANSAS
Sewer Utility 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 service	\$ 157,050	\$ 215,700	\$ (58,650)
Tapping fees	200	-	200
Total Cash Receipts	157,250	215,700	(58,450)
Expenditures:			
Personal services	72,438	77,336	(4,898)
Contractual services	10,675	8,500	2,175
Commodities	7,492	13,273	(5,781)
Equipment	-	2,000	(2,000)
Debt service payment	66,848	95,000	(28,152)
Transfers to:			
Equipment Reserve Fund	-	11,000	(11,000)
Sewer Utility Reserve Fund	-	16,000	(16,000)
Total Expenditures	157,453	223,109	\$ (65,656)
Receipts Over (Under) Expenditures	(203)	(7,409)	
Unencumbered Cash, Beginning	593	7,409	
Unencumbered Cash, Ending	\$ 390	\$ -	

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

CITY OF TOWANDA, KANSAS
Sewer Utility Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Sales tax	\$ 45,424
Expenditures:	
Commodities	9,279
Contractual services	<u>22,776</u>
Total Expenditures	32,055
Receipts Over (Under) Expenditures	13,369
Unencumbered Cash, Beginning	<u>62,408</u>
Unencumbered Cash, Ending	<u><u>\$ 75,777</u></u>

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

CITY OF TOWANDA, KANSAS
Sewer Plant Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Expenditures:	
Bond interest	<u>\$ 136</u>
Unencumbered Cash, Beginning	<u>136</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

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

CITY OF TOWANDA, KANSAS
Sewer Debt Service Fund
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Cash Receipts:	
Sales tax	\$ 82,516
Expenditures:	
Principal	44,974
Interest	<u>9,116</u>
Total Expenditures	<u>54,090</u>
Receipts Over (Under) Expenditures	28,426
Unencumbered Cash, Beginning	<u>2,172</u>
Unencumbered Cash, Ending	<u><u>\$ 30,598</u></u>

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

CITY OF TOWANDA, KANSAS
 Refuse Utility 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 service	\$ 100,683	\$ 133,749	\$ (33,066)
Expenditures:			
Collection service/landfill charges	83,095	130,549	(47,454)
Transfers to:			
Street Reserve Fund	12,700	3,251	9,449
General Fund	15,000	-	15,000
Total Expenditures	110,795	133,800	\$ (23,005)
Receipts Over (Under) Expenditures	(10,112)	(51)	
Unencumbered Cash, Beginning	10,596	51	
Unencumbered Cash, Ending	\$ 484	\$ -	

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

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

Funds	Beginning Cash Balance	Cash Receipts	Disbursements	Ending Cash Balance
Cemetery	\$ -	\$ 6,900	\$ 6,900	\$ -
Police forfeitures	-	78	-	78
Total	\$ -	\$ 6,978	\$ 6,900	\$ 78

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

CITY OF TOWANDA, KANSAS
Notes to the Financial Statement
December 31, 2012

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Towanda, Kansas (the City) is presented to assist in understanding the City's financial statement. 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 is a municipal corporation governed by an elected five-member council. The Towanda Public Library, a related municipal entity of the City, is 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

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 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 Towanda, 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 Funds – 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.

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.

CITY OF TOWANDA, KANSAS
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1. Summary of Significant Accounting Policies (continued)

Business Funds – 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.).

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, 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 TOWANDA, KANSAS
Notes to the Financial Statement
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 including 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:

- Fire Rescue Reserve
- Equipment Reserve
- Street Reserve
- Water Utility Reserve
- Sewer Utility Reserve
- Sewer Plant Reserve
- Sewer Debt Reserve

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 TOWANDA, KANSAS
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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. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects: (1) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (2) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

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.

The difference between the Plan's actuarial value of Plan assets and the actuarial accrued liability (the unfunded accrued actuarial liability) reported in the Plan's audited financial statements as of June 30, 2012 and 2011 was approximately \$9.2 billion and \$8.2 billion, which represents a funded status of approximately 59% and 62%, respectively. In the event of a plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. The City represents less than 5% of the total contributions into this multi-employer plan.

CITY OF TOWANDA, KANSAS
Notes to the Financial Statement
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4. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Fire Rescue Fund	\$16,491
General Fund	Street Reserve Fund	700
General Fund	Community Center Fund	8,140
Fire Rescue Fund	Fire Rescue Equipment Reserve Fund	15,500
Refuse Utility Fund	General Fund	15,000
Refuse Utility Fund	Street Reserve Fund	12,700

5. Compensated Absences

Full-time employees may earn between 10-20 vacation days during a calendar year, depending on their years of service, but no more than 5 days may be carried over from one year to the next. Upon termination or retirement, employees shall be compensated for all unused vacation days at their final pay rate. The cost of accumulated vacation is recorded at the time the benefits are paid to the employees. The estimated liability at December 31, 2012, if all employees with accumulated vacation were to terminate employment, would be \$3,154.

6. Capital Projects

At year-end, there were no significant city-funded capital project authorizations outstanding.

7. Deposits

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.

At year-end, the carrying amounts of the City's deposits, including certificates of deposit, were \$450,553. The bank statement balances were \$462,346. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining amount was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is 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 TOWANDA, KANSAS
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8. Risk Management

The City continues to carry commercial insurance for all other risks of loss, including property, liability, crime, inland marine, automobile, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. Compliance with Kansas Statutes

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

10. Subsequent Events

Subsequent events have been evaluated through September 30, 2013, which is the date the financial statement was available to be issued. Events requiring disclosure were identified and disclosed.

CITY OF TOWANDA, KANSAS
Notes to the Financial Statement
December 31, 2012

11. Long-term Debt

Changes in long-term debt for the year ended December 31, 2012 and future debt payments are as follows:

Changes in Long-term Debt

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 2002A	3.30% - 5.00%	7/15/2002	\$ 542,909	10/1/2017	\$ 270,000	\$ -	\$ 270,000	\$ -	\$ -	\$ 12,055
Internal improvements - Series 2007A	3.85% - 4.05%	6/15/2007	315,000	10/1/2022	255,000	-	20,000	-	235,000	10,725
Internal improvements - Series 2009A	1.75% - 4.40%	5/15/2009	209,000	10/1/2024	190,000	-	10,000	-	180,000	7,033
Internal improvements - Series 2009B	3.50% - 5.25%	11/4/2009	66,400	9/1/2025	65,000	-	2,000	-	63,000	2,900
Refunding bonds - Series A, 2012	.80% - 1.60%	7/27/2012	241,000	10/1/2017	-	241,000	-	-	241,000	-
Total General Obligation Bonds					\$ 780,000	\$ 241,000	\$ 302,000	\$ -	\$ 719,000	\$ 32,713
Revolving Loan Program:										
KWPCRLF Project No. C20-1446-01	3.32%	9/1/1997	776,788	3/1/2017	266,730	-	44,974	-	221,756	7,846
KWPCRLF Project No. C20-1737-01	2.52%	4/4/2007	1,700,000	9/1/2029	1,044,532	-	10,000	-	1,034,532	23,654
Total Revolving Loan Program					\$ 1,311,262	\$ -	\$ 54,974	\$ -	\$ 1,256,288	\$ 31,500
Temporary Note:										
Temporary note - Series 2012	1.50%	9/12/2012	113,000	9/1/2016	\$ -	\$ 113,000	\$ -	\$ -	\$ 113,000	\$ -
Capital Leases:										
Community Center	4.00%	11/19/1999	32,000	11/19/2014	8,856	-	2,761	-	6,095	310
Telemetry Equipment	5.50%	6/1/2002	51,000	6/1/2012	3,269	-	3,269	-	-	52
Fire Truck	4.85%	2/6/2003	270,483	1/1/2013	49,048	-	32,306	-	16,742	1,992
Total Capital Leases					\$ 61,173	\$ -	\$ 38,336	\$ -	\$ 22,837	\$ 2,354
Total Contractual Indebtedness					\$ 2,152,435	\$ 354,000	\$ 395,310	\$ -	\$ 2,111,125	\$ 66,567

CITY OF TOWANDA, KANSAS
Notes to the Financial Statement
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11. Long-term Debt, continued

Future Debt Payments

	YEAR								
	2013	2014	2015	2016	2017	2018-2022	2022-2026	2027-thereafter	Total
Principal:									
General obligation bonds	\$ 79,000	\$ 90,000	\$ 85,000	\$ 90,000	\$ 95,000	\$ 230,000	\$ 50,000	\$ -	\$ 719,000
Revolving loan program	99,711	102,617	105,609	108,690	85,129	317,350	359,682	77,500	1,256,288
Temporary note	-	-	-	113,000	-	-	-	-	113,000
Capital leases	19,661	3,176	-	-	-	-	-	-	22,837
Total Principal	<u>\$ 198,372</u>	<u>\$ 195,793</u>	<u>\$ 190,609</u>	<u>\$ 311,690</u>	<u>\$ 180,129</u>	<u>\$ 547,350</u>	<u>\$ 409,682</u>	<u>\$ 77,500</u>	<u>\$ 2,111,125</u>
Interest:									
General obligation bonds	23,017	21,008	19,150	17,215	14,955	42,645	3,995	-	141,985
Revolving loan program	32,717	29,811	26,819	23,738	29,050	77,490	35,159	1,468	256,252
Temporary note	1,573	1,695	1,695	1,695	-	-	-	-	6,658
Capital leases	558	59	-	-	-	-	-	-	617
Total Interest	<u>\$ 57,865</u>	<u>\$ 52,573</u>	<u>\$ 47,664</u>	<u>\$ 42,648</u>	<u>\$ 44,005</u>	<u>\$ 120,135</u>	<u>\$ 39,154</u>	<u>\$ 1,468</u>	<u>\$ 405,512</u>
Total Principal and Interest	<u><u>\$ 256,237</u></u>	<u><u>\$ 248,366</u></u>	<u><u>\$ 238,273</u></u>	<u><u>\$ 354,338</u></u>	<u><u>\$ 224,134</u></u>	<u><u>\$ 667,485</u></u>	<u><u>\$ 448,836</u></u>	<u><u>\$ 78,968</u></u>	<u><u>\$ 2,516,637</u></u>