

**CITY OF LAKE QUIVIRA, KANSAS**

**Financial Statements**

**For the Year Ended December 31, 2014**

CITY OF LAKE QUIVIRA, KANSAS  
Financial Statements  
For the Year Ended December 31, 2014

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## **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, 2014 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; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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.

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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 of Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2014, or the 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, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

*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*

Certified Public Accountants  
Lawrence, Kansas

February 21, 2015

CITY OF LAKE QUIVIRA, KANSAS  
Summary Statement of Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2014

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Adjustments</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>
General Funds:							
General	\$ 507,407	\$ 3,508	\$ 944,903	\$ 809,964	\$ 645,854	\$ 89,367	\$ 735,221
Special Purpose Funds:							
Special Highway	7,897	-	24,087	9,960	22,024	-	22,024
Special Parks and Recreation	<u>[2,453]</u>	<u>-</u>	<u>9,081</u>	<u>10,000</u>	<u>[3,372]</u>	<u>-</u>	<u>[3,372]</u>
Total	<u>\$ 512,851</u>	<u>\$ 3,508</u>	<u>\$ 978,071</u>	<u>\$ 829,924</u>	<u>\$ 664,506</u>	<u>\$ 89,367</u>	<u>\$ 753,873</u>

COMPOSITION OF CASH:

Community First Bank	
Checking	\$ 531,775
Outstanding Checks	<u>[33,717]</u>
Total Community First Bank Checking	498,058
Enterprise Bank	
Certificate of Deposit	<u>255,815</u>
Total	<u>\$ 753,873</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, 2014

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. These financial statements 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 receipts 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.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the City for the year ended December 31, 2014:

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 regulatory receipt 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), 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 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.

CITY OF LAKE QUIVIRA, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

The statutes allow for the city council to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts 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 budget was not amended for the year ending December 31, 2014.

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 regulatory basis of accounting, in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements begin adjusted for the 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.

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.

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, 2014, 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, 2014.

At December 31, 2014, the City's carrying amount of deposits was \$753,873 and the bank balance was \$787,589. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance, \$281,774 was collateralized with securities held by the pledging financial institutions' agents in the City's name, the balance of \$5,815 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, 2014

NOTE 3 - Retirement Plan

*Plan Description.* The City participates in the Kansas Public Employees Retirement System (KPERS). KPERS is 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. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

NOTE 4 - Long-term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2014 were as 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>
Fire Truck	4.97%	10/26/2006	\$ 170,000	10/13/2015	\$ 38,958	\$ -	\$ 19,007	\$ 19,951	\$ 1,936

Current maturities of long-term debt are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 19,951	\$ 992	\$ 20,943
Total	\$ 19,951	\$ 992	\$ 20,943

NOTE 5 - Material Contractual Obligation

On March 25, 2005, the City entered into an agreement with Johnson County, Kansas, as part of the County's sewer upgrade project. The City agreed to reimburse the County for the actual expense incurred for the completion of the sewer upgrade project, including principal and interest payments on the bonds to be issued by the County to finance the improvements. On March 7, 2013, the project was considered substantially completed and the payment schedule was finalized. The City is responsible for repaying the County \$1,753,528 in principal and \$734,166 in interest over a 20 year period. The final payment by the City is scheduled to be made on September 1, 2031. The current principal balance remaining as of December 31, 2014, is \$1,600,525.

NOTE 6 - 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



CITY OF LAKE QUIVIRA, KANSAS  
Notes to the Financial Statements  
For the Year Ended December 31, 2014

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 \$1,166 at December 31, 2014.

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, 2014.

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 City 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 - Statutory Violation

The Special Parks and Recreation Fund had negative ending unencumbered cash, which is a violation of K.S.A. 10-1113.

NOTE 11 – Restatement of Beginning Unencumbered Cash

In 2014, it was determined that an adjustment to beginning unencumbered cash in the General Fund was required. The effect of the adjustment is as follows:

Unencumbered Cash, Beginning	\$ 507,407
Prior Period Adjustment	<u>3,508</u>
Unencumbered Cash, Beginning, Restated	<u>\$ 510,915</u>

NOTE 12 – Related Party Transaction

During the year ended December 31, 2014, the City paid \$24,377 to a construction company owned by a council member's husband.

CITY OF LAKE QUIVIRA, KANSAS  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2014

<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>
General Funds:					
General	\$ 1,353,999	\$ -	\$ 1,353,999	\$ 809,964	\$ 544,035
Special Purpose Funds:					
Special Highway	15,000	-	15,000	9,960	5,040
Special Parks and Recreation	10,000	-	10,000	10,000	-

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS  
General Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Taxes	\$ 689,179	\$ 660,774	\$ 28,405
Licenses and permits	123,835	70,500	53,335
Intergovernmental	9,081	6,500	2,581
Fines and fees	111,262	100,000	11,262
Use of money and property	<u>11,546</u>	<u>13,600</u>	<u>[2,054]</u>
Total Receipts	<u>944,903</u>	<u>\$ 851,374</u>	<u>\$ 93,529</u>
Expenditures			
Personal services	303,652	\$ 383,330	\$ 79,678
Contractual	288,095	340,275	52,180
Commodities	14,661	25,300	10,639
Capital outlay	<u>203,556</u>	<u>605,094</u>	<u>401,538</u>
Total Expenditures	<u>809,964</u>	<u>\$ 1,353,999</u>	<u>\$ 544,035</u>
Receipts Over [Under] Expenditures	<u>134,939</u>		
Unencumbered Cash, Beginning	507,407		
Prior Period Adjustment	<u>3,508</u>		
Unencumbered Cash, Beginning, Restated	<u>510,915</u>		
Unencumbered Cash, Ending	<u>\$ 645,854</u>		

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS  
Special Highway Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Intergovernmental	\$ 24,087	\$ 24,578	\$ [491]
Total Receipts	<u>24,087</u>	<u>\$ 24,578</u>	<u>\$ [491]</u>
Expenditures			
Highways and streets	<u>9,960</u>	<u>\$ 15,000</u>	<u>\$ 5,040</u>
Total Expenditures	<u>9,960</u>	<u>\$ 15,000</u>	<u>\$ 5,040</u>
Receipts Over [Under] Expenditures	14,127		
Unencumbered Cash, Beginning	<u>7,897</u>		
Unencumbered Cash, Ending	<u>\$ 22,024</u>		

See independent auditor's report on the financial statements.

CITY OF LAKE QUIVIRA, KANSAS  
Special Parks and Recreation Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Receipts			
Intergovernmental	\$ 9,081	\$ 6,500	\$ 2,581
Total Receipts	<u>9,081</u>	<u>\$ 6,500</u>	<u>\$ 2,581</u>
Expenditures			
Culture and recreation	<u>10,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>
Total Expenditures	<u>10,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>
Receipts Over [Under] Expenditures	[919]		
Unencumbered Cash, Beginning	<u>[2,453]</u>		
Unencumbered Cash, Ending	<u>\$ [3,372]</u>		

See independent auditor's report on the financial statements.