CHEROKEE COUNTY, KANSAS

Annual Financial Report

For the year ended December 31, 2012

MENSE, CHURCHWELL & MENSE, P.C.
Certified Public Accountants

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MENSE, CHURCHWELL & MENSE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
427 Wall Street, P.O. Box 818
Joplin, Missouri 64802-0818
Telephone 417-623-2505
Fax 417-623-2507

EUGENE M. MENSE, JR., C.P.A. (1929 - 2006)
CHRIS D. CHURCHWELL, C.P.A.
EUGENE M. MENSE III, C.P.A.

Independent Auditor's Report

To the County Commission
Cherokee County, Kansas

Report on the Financial Statement

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Cherokee County, 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 Statement

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, the *Kansas Municipal Audit and Accounting Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 Cherokee County, Kansas 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 Cherokee County, Kansas 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 Cherokee County, Kansas 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, agency funds schedule of receipts and disbursements (Schedules 1, 2 and 3 as listed in the table of contents) and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statement, however, Schedules 1, 2 and 3 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated xxxxxxxxxx on our consideration of Cherokee County, Kansas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County, Kansas's internal control over financial reporting and compliance.

MENSE, CHURCHWELL & MENSE, P.C.
Certified Public Accountants

Joplin, Missouri
October 28, 2013

CHEROKEE COUNTY, KANSAS
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General	$ 814,285	$ -	$ 4,411,205	$ 4,446,383	$ 779,107	$ 125,617	$ 904,724
Special Purpose							
Road and Bridge	(47,205)	-	3,300,373	2,887,221	365,947	29,722	395,669
Appraisal	92,248	-	268,916	322,132	39,032	6,028	45,060
Health	1,100,784	-	721,309	618,790	1,203,303	5,537	1,208,840
Election	136,553	-	140,069	170,469	106,153	712	106,865
Noxious Weed	68,640	-	40,142	45,491	63,291	47	63,338
Extension Council	27,599	-	184,993	194,447	18,145	-	18,145
Soil Conservation	3,551	-	23,655	25,000	2,206	-	2,206
Fair	191	-	96	-	287	-	287
Ambulance	64,716	-	548,965	558,850	54,831	-	54,831
Elderly Services	16,982	-	32,163	17,676	31,469	571	32,040
Mental Health	15,100	-	102,795	108,030	9,865	-	9,865
Mental Retardation	14,946	-	102,919	108,030	9,835	-	9,835
Employee Benefits	240,960	-	2,809,786	3,012,575	38,171	1,254	39,425
Out-District Tuition Fund	1,943	-	13	-	1,956	-	1,956
Special Parks and Recreation	6,513	-	7,394	10,179	3,728	-	3,728
Special Alcohol	-	-	19,686	14,595	5,091	-	5,091
Landfill	80,323	-	-	66,580	13,743	-	13,743
Tourism and Convention Promotion	800	-	7,159	7,159	800	-	800
Special Law Enforcement Training	6,047	-	11,169	1,442	15,774	-	15,774
Emergency Telephone Tax	97,688	-	-	97,688	-	-	-
Emergency Telephone Tax Combined	-	-	499,295	208,760	290,535	1,044	291,579
County Attorney Special Law Enforcement	884	-	-	255	629	-	629
Register of Deeds Technology Fund	26,065	-	20,607	17,940	28,732	20	28,752
State Line Road Project	260	-	-	-	260	-	260
Drug Tax Stamp	1,253	-	-	-	1,253	-	1,253
Special Liability	16,874	-	5	-	16,879	-	16,879
County Building	916	-	5	-	921	-	921
Special Bridge	203,843	-	155,791	133,807	225,827	71,800	297,627
Special Highway Improvement	1,264	-	-	-	1,264	-	1,264
Special Road Machinery	100	-	-	-	100	-	100
Law Library	34,011	-	12,638	4,564	42,085	-	42,085

CHEROKEE COUNTY, KANSAS
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds (Continued):							
Special Purpose (Continued)							
Electronic Monitoring	$ 910	$ -	$ -	$ -	$ 910	$ -	$ 910
Bad Check Fee	89	-	-	-	89	-	89
Drug Free Grant	4,539	-	-	-	4,539	-	4,539
Prosecuting Attorney Training	1,360	-	1,932	1,069	2,223	-	2,223
Severe Weather Equipment	22	-	-	-	22	-	22
Spider Program	12,225	-	5,940	9,945	8,220	-	8,220
Emergency Wireless Telephone Tax	289,307	-	-	289,307	-	-	-
Justice Assistant Grant	391	-	-	-	391	-	391
EMPG Emergency Preparedness	500	-	-	-	500	-	500
Emergency Planning Grant	201	-	-	-	201	-	201
USDA Storm Siren Grant	2,271	-	-	2,271	-	-	-
COPS Grant	9,897	-	-	-	9,897	-	9,897
NSP Grant	29,268	-	-	28,685	583	-	583
No Fund Warrant	14,235	-	17,594	23,753	8,076	-	8,076
Bond and Interest	1,341	-	-	-	1,341	-	1,341
	$ 3,394,690	$ -	$ 13,446,614	$ 13,620,712	$ 3,408,211	$ 242,352	$ 3,650,563
Related Municipal Entity							
Sewer District No. 1	23,642	-	249,245	288,997	(16,110)	32,242	16,132
Total Reporting Entity (Excluding Agency Funds)	$ 3,418,332	$ -	$ 13,695,859	$ 13,909,709	$ 3,392,101	$ 274,594	$ 3,666,695

Composition of Cash	
Cash on Hand	$ 898
Checking Accounts	9,212,064
Savings Accounts	7,563
Certificates of Deposit	1,290,000
Investments	500,000
Total Cash	$ 11,010,525
Agency Funds	(7,343,829)
Total Reporting Entity (Excluding Agency Funds)	$ 3,666,695

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I.A. MUNICIPAL FINANCIAL REPORTING ENTITY

Cherokee County, Kansas (the "County") is a municipal corporation governed by an elected three member commission. This regulatory financial statement presents County (the municipality) and its related municipal entities. The related entities are included in the County's reporting entity because they were established to benefit the County and/or its constituents.

1. **Sewer District No. 1.** The District is a separate entity created by state statutes. The governing body of Cherokee County, which created the district, also serves as the districts' governing body.

I.B. REGULATORY BASIS FUND TYPES

The accounts of the County are organized into funds each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts. The following funds are used by the County:

General Fund – the main 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.

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.)

Trust Fund – funds used to report assets held in trust for the benefits of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, scholarship funds, etc.)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I.B. REGULATORY BASIS FUND TYPES (CONTINUED)

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.)

I.C. BASIS OF ACCOUNTING

Regulatory Bases 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 a 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, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

I.D. 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 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I.D. 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 budget amendments for this year.

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

All legal annual operating budgets are prepared using the 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 municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, fiduciary funds, federal and state grants, permanent funds, and the following special purpose funds:

County Building Fund
Special Bridge Fund
Special Liability Fund
Special Highway Improvement Fund
Special Machinery Fund
Recorder of Deeds Technology Fund

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.

I.E. ASSETS AND LIABILITIES

I.E.1. Cash and Investments

The County Treasurer pools cash and investments of various funds to facilitate management. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating needs. Cash in excess of current needs in invested in time deposits. Additional cash and investments are presented in Note III.A.

I.E.2. Compensated Absences

The County's policy regarding vacation and sick pay provide employees a maximum of four weeks vacation after 12 years of employment and sick leave accumulation at one day per month with an unlimited accumulation. Employees are paid for all unused vacation days at December 31st. No vacation days are carried forward. Sick leave is carried forward at a maximum of 720 hours at December 31st. The Employee is paid for their sick leave in excess of 720 hours at December 31st. Employees are paid for ½ of their sick leave upon termination if they retire if certain requirements are met. The total hours of sick leave accumulated at December 31, 2012 were 26,533. No estimate of the value was available.

I.F. RECEIPTS AND EXPENDITURES

I.F.1. Sales Tax

Cherokee County levies a one and one-half percent (1 ½%) sales tax on taxable sales within the County. The tax is collected by the Kansas Department of Revenue and remitted to the County. The tax is placed in the general fund to provide County services. One-half percent (1/2%) or one-third (1/3) of the sales tax collected is restricted and is to be used to retire the debt incurred to construct and furnish the new law enforcement and detention facility.

I.F.2. Property Tax

Property taxes are an enforceable lien on property as of January 1. Taxes are levied on November 1 and are due and payable one-half on December 20th and one-half on May 10th the ensuing year. Unpaid taxes become delinquent after the due dates.

The assessed valuation of tangible property for the calendar year 2012 for purposes of taxation was $141,109,828.

The tax levy per $100.00 of assessed valuation of tangible property for the calendar year was $5.30. The levy is composed of the sum of the legal tax levies for all funds with authorized levies.

I.F. RECEIPTS AND EXPENDITURES (CONTINUED)

I.F.2. Property Tax (Continued)

The County bills and collects its own property taxes. Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state Statutes.

It is not practicable to apportion taxes held by the County Treasurer at the end of the audit period and, further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

I.F.3. Payments by Other Governments

The State of Kansas makes payments directly to the judges and employees of the circuit courts in Cherokee County for salaries and fringe benefits. Cherokee County is not liable for these payments. The total amount of these on-behalf payments was not available and is unable to be estimated.

I.F.4. Reimbursements

Cherokee County, Kansas records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures are properly offset by the reimbursements.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

II.A. COMPLIANCE WITH STATE STATUTES

Funds are not disbursed as provided for in state statutes in order to earn discounts and avoid penalties. (KSA 12-105a, 12-105b, 10-801 et seq)

The Clerk does not maintain records of each fund's indebtedness. (KSA 10-1117)

Records are not maintained showing budget balance available for appropriation. (KSA 79-2934)

The County Treasurer does not have custodial agreements and security agreements for all depositories. (KSA 9-1405)

The Appraisal, Special Parks and Recreation, Landfill, Emergency Telephone Tax Combined and Emergency Wireless Telephone Tax fund expenditures exceeded the budget. (KSA 79-2935)

III. DETAILED NOTES ON FUNDS AND ACCOUNTS

III. A. Deposits and Investments

As of December 31, 2012, the County had the following investments and maturities.

Investment Type	Fair Value	Cost
Financial Square Trust Treasury Obligation Fund Admin CL 469 (Mutual Fund) (Rating - Not Applicable)	$ 500,000	$ 500,000

K.S.A. 9-1401 establishes the depositories which may be used by the County. The statute requires banks eligible to hold the County's funds have a main or branch bank in the county in which the municipality 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 County has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the County'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 County has no investment policy that would further limit its investment choices. The rating of the County's investments is noted above.

Concentration of Credit Risk - State statues place no limit on the amount the County 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 County's deposits may not be returned to it. State statutes require the County's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under 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 County has not designated "peak periods". All deposits were legally secured at December 31, 2012.

III. DETAILED NOTES ON FUNDS AND ACCOUNTS (CONTINUED)

III. A. Deposits and Investments (Continued)

At December 31, 2012, the County's carrying amount of deposits was $10,509,627 and the bank balance was $11,928,753. Eighty-seven percent of the bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $2,230,358 was covered by federal depository insurance and $9,698,395 was covered by securities pledged by the financial institutions and held by the financial institution's agents.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the County 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.

The above investments are made by and held by the Commerce Trust Company, N.A., Kansas City, Missouri, trustee for the Series 2005 Refunding Certificates of Participation.

III. A.I. Restricted Assets

The following amounts recorded in the following funds were restricted as follows at December 31, 2012:

General Fund -	
Series 2005 Refunding Certificates of Participation -	
Reserve Account	$ 500,000
Total	$ 500,000

IV. LONG-TERM DEBT

Changes in long-term debt for Cherokee County for the year ended December 31, 2012, were as follows:

Issue	Amount of Issue	Interest Rates	Date of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions / Payments	Balance End of Year
Capital Leases								
John Deere Backhoes (2)	93,650	4.75%	8-15-2007	4-15-2012	20,874	-	20,874	-
John Deere Tractors (7)	462,851	3.55%	7-01-2011	8-01-2018	403,483	-	51,695	351,788
Elevator	100,000	4.00%	7-18-2011	7-18-2016	100,000	-	18,434	81,566
Road Graders (12)	1,644,800	4.40%	6-05-2007	6-05-2013	1,067,285	-	201,017	866,268
Storm Sirens	63,511	2.98%	2-07-2012	1-07-2015	-	63,511	18,910	44,601
Certificates of Participation								
Series 2005	7,150,000	2.55/5.00%	4-01-2005	11-15-2021	4,855,000	-	400,000	4,455,000
Totals					$ 6,446,642	$ 63,511	$ 710,930	$5,799,223

IV. LONG-TERM DEBT (CONTINUED)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year						
Principal	2013	2014	2015	2016	2017	2018-2021	Total
Capital Leases	$ 960,086	$ 97,165	$ 80,114	$ 81,191	$ 61,720	$ 63,947	$ 1,344,223
Certificates of Participation	415,000	430,000	445,000	465,000	485,000	2,215,000	4,455,000
Total Principal	$ 1,375,086	$ 527,165	$ 525,114	$ 546,191	$ 546,720	$ 2,278,947	$ 5,799,223
Interest							
Capital Leases	$ 27,407	$ 12,726	$ 9,512	$ 6,592	$ 3,563	$ 1,336	$ 61,136
Certificates of Participation	200,060	184,290	167,520	149,943	130,877	285,000	1,117,690
Total Interest	$ 227,467	$ 197,016	$ 177,032	$ 156,535	$ 134,440	$ 286,336	$ 1,178,826
Total Principal and Interest	$ 1,602,553	$ 724,181	$ 702,146	$ 702,726	$ 681,160	$ 2,565,283	$ 6,978,049

V. TRANSFERS

Fund	From	To
General	$ 68,782	$ 23,753
Emergency Telephone Tax	97,688	-
Emergency Wireless Telephone Tax	289,307	-
No-Fund Warrant	23,753	-
Sewer District No. 1	-	133,782
Emergency Telephone Tax Combined	-	386,995
Landfill	65,000	-

Transfers were made to close out funds, consolidate funds and to provide additional resources to funds.

VI. PENSION PLAN

Plan description

The County participates in the Kansas Public Employees Retirement System (KPERS), 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 issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 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 Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

VI. PENSION PLAN (CONTINUED)

Funding Policy (Continued)

The employer rate established for calendar year 2012 was 8.34%. Included in this rate is the contribution for Group Death and Disability Insurance of 1.0%. (From April 1, 2012 through June 30, 2012 there was a moratorium on the collection of the premium of 1.0% of the Group Death and Disability Rate). Cherokee County, Kansas employer contributions to KPERS for the years ending December 31, 2010, 2011 and 2012 were $292,804, $324,307, and $347,214, respectively, equal to the require contributions for each year as set forth by the legislature.

VII. RISK MANAGEMENT

Cherokee County, Kansas 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 County has been unable to obtain general liability insurance at a cost it considered to be economically justifiable. For this reason, the County joined together with other counties in the state to participate in the Kansas County Association Multi-Line Pool (KCAMP) and the Kansas Workers' Risk Cooperative for Counties (KWORC), public entity risk pools currently operating as common risk management and insurance programs for participating members.

The County pays an annual premium to KCAMP for its general insurance coverage. The agreement for formation of the Kansas County Association Multi-Line Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of stated amounts for each insured event. The County also participates in the Kansas Workers' Risk Cooperative for Counties (KWORC), a public entity risk pool which generates as a common risk management and insurance program for members. The County pays an annual premium to KWORC for workers' compensation coverage. Additional premiums maybe due if total claims for the pools are different than what has been anticipated by KCAMP and KWORC management.

The County continues to carry commercial insurance for all other risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

VIII. OTHER POST EMPLOYMENT BENEFITS

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

Under the Consolidated Omnibus Reconciliation Act (COBRA), the County 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.

XI. LITIGATION

The County is party to various legal proceedings which normally occur in governmental operations. While the outcome of such proceedings cannot be predicted, due to insurance maintained by the County, the County feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the County.

X. GRANT PROGRAM INVOLVEMENT

In the normal course of operations, the County participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

XI. SUBSEQUENT EVENTS

On February 21, 2013 the County received $4,387,500 which represents the net proceeds from the settlement of litigation regarding development of a casino in Cherokee County. The proceeds were placed in the General Fund. The County disbursed $1,358,450 of the proceeds to retire all capital leases to which the County was a party.

Schedule 1

CHEROKEE COUNTY, KANSAS
Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Funds:					
General Fund	$ 4,432,111	$ 63,511	$ 4,495,622	$ 4,446,383	$ (49,239)
Special Purpose Funds					
Road and Bridge	3,186,289	-	3,186,289	2,887,221	(299,068)
Appraisal	321,212	-	321,212	322,132	920
Health	811,048	-	811,048	618,790	(192,258)
Election	183,189	-	183,189	170,469	(12,720)
Noxious Weed	68,333	-	68,333	45,491	(22,842)
Extension Council	194,447	-	194,447	194,447	-
Conservation District	25,000	-	25,000	25,000	-
Fair	3,005	-	3,005	-	(3,005)
Ambulance	558,850	-	558,850	558,850	-
Elderly Services	33,924	-	33,924	17,676	(16,248)
Mental Health	108,030	-	108,030	108,030	-
Mental Retardation	108,030	-	108,030	108,030	-
Employee Benefits	3,257,000	-	3,257,000	3,012,575	(244,425)
Special Parks and Recreation	4,913	-	4,913	10,179	5,266
Special Alcohol	26,532	-	26,532	14,595	(11,937)
Landfill	50,152	-	50,152	66,580	16,428
Tourism and Promotion	8,300	-	8,300	7,159	(1,141)
Special Law Enforcement Training	6,472	-	6,472	1,442	(5,030)
Emergency Telephone Tax	143,838	-	143,838	97,688	(46,150)
Emergency Telephone Tax Combined	-	-	-	208,760	208,760
Emergency Wireless Telephone Tax	247,195	-	247,195	289,307	42,112
County Attorney Special Law Enforcement	2,384	-	2,384	255	(2,129)
Prosecuting Attorney Training Fund	3,463	-	3,463	1,069	(2,394)
No Fund Warrant	24,015	-	24,015	23,753	(262)
Bond and Interest	1,341	-	1,341	-	(1,341)
Related Municipal Entity					
Sewer District No. 1	258,829	133,782	392,611	288,997	(103,614)

Schedule 2-A

CHEROKEE COUNTY, KANSAS
General Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 1,363,841	$ 1,326,475	$ 37,366
Delinquent Tax	64,514	28,200	36,314
Motor Vehicle Tax	236,345	263,701	(27,356)
16/20 M Vehicle Tax	8,033	11,894	(3,861)
Recreational Vehicle Tax	2,947	3,646	(699)
Sales Tax	1,892,667	1,707,721	184,946
Local Alcoholic Liquor Fund	7,394	4,175	3,219
Licenses, Permits and Fees	332,319	339,800	(7,481)
Interest	120,664	215,000	(94,336)
Inmate Housing	266,175	240,000	26,175
Other	22,742	45,000	(22,258)
Rents	6,300	6,300	-
Capital Lease Proceeds	63,511	-	63,511
Transfers	23,753	25,356	(1,603)
Total Cash Receipts	$ 4,411,205	$ 4,217,268	$ 193,937
Expenditures			
Commission	$ 93,757	$ 88,687	$ 5,070
County Counselor	26,605	31,016	(4,411)
Clerk	124,014	126,003	(1,989)
Treasurer	129,584	135,696	(6,112)
Attorney	227,055	232,622	(5,567)
Register of Deeds	103,712	108,557	(4,845)
Sheriff	968,359	982,858	(14,499)
Sheriff Overtime	41,841	38,770	3,071
District Court	236,917	258,598	(21,681)
Courthouse	464,376	441,135	23,241
Emergency Preparedness	64,837	66,443	(1,606)
Human Resources	36,006	38,412	(2,406)
Economic Development	20,000	2,229	17,771
Planning Commission	5,641	6,106	(465)
Recreation	4,400	11,631	(7,231)
Jail	884,469	817,428	67,041
Data Processing	52,602	40,709	11,893
Jury Costs	6,474	9,693	(3,219)
Juvenile Detention	83,844	76,281	7,563
Genealogy Society	9,344	7,269	2,075
Emergency 911	51,270	63,002	(11,732)
Other	695	-	695
Capital Lease Payments on Jail Certificates of Participation	618,062	615,060	3,002
GIS Programming	48,433	29,078	19,355
Employee Benefits	75,095	69,369	5,726
Jail Sales Tax Reserve	209	135,459	(135,250)
Transfers	68,782	-	68,782
Adjustment for Qualifying Budget Credits	-	63,511	(63,511)
Total Expenditures	$ 4,446,383	$ 4,495,622	$ (49,239)
Cash Receipts Over (Under) Expenditures	$ (35,178)		
Unencumbered Cash, Beginning	814,285		
Unencumbered Cash, Ending	$ 779,107		

CHEROKEE COUNTY, KANSAS
Road & Bridge
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 2,226,770	$ 2,101,726	$ 125,044
Delinquent Tax	10,536	48,000	(37,464)
Motor Vehicle Tax	219,087	190,724	28,363
16/20 M Vehicle Tax	12,576	8,604	3,972
Recreational Vehicle Tax	2,759	2,636	123
Special Highway Aid and County Equalization	791,261	825,834	(34,573)
Interest and Other	37,384	5,000	32,384
Total Cash Receipts	$ 3,300,373	$ 3,182,524	$ 117,849
Expenditures			
Public works	$ 2,887,221	$ 3,186,289	$ (299,068)
Total Expenditures	$ 2,887,221	$ 3,186,289	$ (299,068)
Cash Receipts Over (Under) Expenditures	$ 413,152		
Unencumbered Cash, Beginning	(47,205)		
Unencumbered Cash, Ending	$ 365,947		

CHEROKEE COUNTY, KANSAS
Appriasal Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 224,760	$ 209,010	$ 15,750
Delinquent Tax	1,216	6,600	(5,384)
Motor Vehicle Tax	37,671	36,307	1,364
16/20 M Vehicle Tax	1,824	1,638	186
Recreational Vehicle Tax	473	502	(29)
Fees	2,972	7,000	(4,028)
Total Cash Receipts	$ 268,916	$ 261,057	$ 7,859
Expenditures			
General Government	$ 322,132	$ 321,212	$ 920
Cash Receipts Over (Under) Expenditures	$ (53,216)		
Unencumbered Cash, Beginning	92,248		
Unencumbered Cash, Ending	$ 39,032		

CHEROKEE COUNTY, KANSAS

Health Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 140,590	$ 131,006	$ 9,584
Delinquent Tax	745	4,560	(3,815)
Motor Vehicle Tax	20,742	20,555	187
16/20 M Vehicle Tax	959	927	32
Recreational Vehicle Tax	260	284	(24)
Charges for Services	144,720	60,000	84,720
Grants	413,293	-	413,293
Total Cash Receipts	$ 721,309	$ 217,332	$ 503,977
Expenditures			
Health	$ 618,790	$ 811,048	$ (192,258)
Total Expenditures	$ 618,790	$ 811,048	$ (192,258)
Cash Receipts Over (Under) Expenditures	$ 102,519		
Unencumbered Cash, Beginning	1,100,784		
Unencumbered Cash, Ending	$ 1,203,303		

CHEROKEE COUNTY, KANSAS
Election Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 123,281	$ 115,841	$ 7,440
Delinquent Tax	598	2,700	(2,102)
Motor Vehicle Tax	14,660	11,954	2,706
16/20 M Vehicle Tax	918	539	379
Recreational Vehicle Tax	185	165	20
Other	427	-	427
Total Cash Receipts	$ 140,069	$ 131,199	$ 8,870
Expenditures			
General Government	$ 170,469	$ 183,189	$ (12,720)
Total Expenditures	$ 170,469	$ 183,189	$ (12,720)
Cash Receipts Over (Under) Expenditures	$ (30,400)		
Unencumbered Cash, Beginning	136,553		
Unencumbered Cash, Ending	$ 106,153		

CHEROKEE COUNTY, KANSAS
Noxious Weed Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 17,467	$ 15,241	$ 2,226
Delinquent Tax	137	1,200	(1,063)
Motor Vehicle Tax	7,846	7,263	583
16/20 M Vehicle Tax	407	328	79
Recreational Vehicle Tax	98	100	(2)
Other	14,187	-	14,187
Total Cash Receipts	$ 40,142	$ 24,132	$ 16,010
Expenditures			
Public Works	$ 45,491	$ 68,333	$ (22,842)
Cash Receipts Over (Under) Expenditures	$ (5,349)		
Unencumbered Cash, Beginning	68,640		
Unencumbered Cash, Ending	$ 63,291		

CHEROKEE COUNTY, KANSAS

Extension Council Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 156,694	$ 145,970	$ 10,724
Delinquent Tax	842	4,080	(3,238)
Motor Vehicle Tax	25,926	25,494	432
16/20 M Vehicle Tax	1,206	1,150	56
Recreational Vehicle Tax	325	352	(27)
Total Cash Receipts	$ 184,993	$ 177,046	$ 7,947
Expenditures			
Appropriations to Extension Council Treasurer	$ 194,447	$ 194,447	$ -
Cash Receipts Over (Under) Expenditures	$ (9,454)		
Unencumbered Cash, Beginning	27,599		
Unencumbered Cash, Ending	$ 18,145		

CHEROKEE COUNTY, KANSAS
Soil Conservation Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 20,159	$ 18,825	$ 1,334
Delinquent Tax	108	540	(432)
Motor Vehicle Tax	3,199	3,138	61
16/20 M Vehicle Tax	149	142	7
Recreational Vehicle Tax	40	43	(3)
Total Cash Receipts	$ 23,655	$ 22,688	$ 967
Expenditures			
Appropriation to Conservation District Treasurer	$ 25,000	$ 25,000	$ -
Excess of Cash Receipts Over (Under) Expenditures	$ (1,345)		
Unencumbered Cash, Beginning	3,551		
Unencumbered Cash, Ending	$ 2,206		

Schedule 2-I

CHEROKEE COUNTY, KANSAS
Fair Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 92	$ -	$ 92
Delinquent Tax	2	240	(238)
Motor Vehicle Tax	-	-	-
16/20 M Vehicle Tax	2	-	2
Recreational Vehicle Tax	-	-	-
Total Cash Receipts	$ 96	$ 240	$ (144)
Expenditures			
Appropriation to Fair Treasurer	$ -	$ 3,005	$ -
Excess Cash Receipts Over (Under) Expenditures	$ 96		
Unencumbered Cash, Beginning	191		
Unencumbered Cash, Ending	$ 287		

Schedule 2-J

CHEROKEE COUNTY, KANSAS

Ambulance Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 469,747	$ 438,832	$ 30,915
Delinquent Tax	2,466	10,800	(8,334)
Motor Vehicle Tax	72,370	70,026	2,344
16/20 M Vehicle Tax	3,475	3,159	316
Recreational Vehicle Tax	907	968	(61)
Total Cash Receipts	$ 548,965	$ 523,785	$ 25,180
Expenditures			
Appropriation to Ambulance District Treasurers	$ 558,850	$ 558,850	$ -
Cash Receipts Over (Under) Expenditures	$ (9,885)		
Unencumbered Cash, Beginning	64,716		
Unencumbered Cash, Ending	$ 54,831		

CHEROKEE COUNTY, KANSAS
Elderly Services Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 27,496	$ 25,756	$ 1,740
Delinquent Tax	148	360	(212)
Motor Vehicle Tax	4,340	5,078	(738)
16/20 M Vehicle Tax	125	229	(104)
Recreational Vehicle Tax	54	70	(16)
Total Cash Receipts	$ 32,163	$ 31,493	$ 670
Expenditures			
Elderly Programs	$ 17,676	$ 33,924	$ (16,248)
Excess Cash Receipts Over (Under) Expenditures	$ 14,487		
Unencumbered Cash, Beginning	16,982		
Unencumbered Cash, Ending	$ 31,469		

CHEROKEE COUNTY, KANSAS
Mental Health Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 87,275	$ 81,353	$ 5,922
Delinquent Tax	467	2,280	(1,813)
Motor Vehicle Tax	14,204	13,867	337
16/20 M Vehicle Tax	671	626	45
Recreational Vehicle Tax	178	192	(14)
Total Cash Receipts	$ 102,795	$ 98,318	$ 4,477
Expenditures			
Public Health	$ 108,030	$ 108,030	$ -
Excess Cash Receipts Over (Under) Expenditures	$ (5,235)		
Unencumbered Cash, Beginning	15,100		
Unencumbered Cash, Ending	$ 9,865		

CHEROKEE COUNTY, KANSAS
Mental Retardation Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 87,398	$ 81,537	$ 5,861
Delinquent Tax	467	2,280	(1,813)
Motor Vehicle Tax	14,204	13,847	357
16/20 M Vehicle Tax	672	625	47
Recreational Vehicle Tax	178	191	(13)
Total Cash Receipts	$ 102,919	$ 98,480	$ 4,439
Expenditures			
Public Health	$ 108,030	$ 108,030	$ -
Total Cash Receipts Over (Under) Expenditures	$ (5,111)		
Unencumbered Cash, Beginning	14,946		
Unencumbered Cash, Ending	$ 9,835		

CHEROKEE COUNTY, KANSAS
Employee Benefits Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 1,851,553	$ 1,726,121	$ 125,432
Delinquent Tax	9,976	43,200	(33,224)
Motor Vehicle Tax	314,922	309,983	4,939
16/20 M Vehicle Tax	14,588	13,983	605
Recreational Vehicle Tax	3,947	4,284	(337)
Reimbursements and Other	614,800	793,000	(178,200)
Total Cash Receipts	$ 2,809,786	$ 2,890,571	$ (80,785)
Expenditures			
General Government	$ 3,012,575	$ 3,257,000	$ (244,425)
Total Expenditures	$ 3,012,575	$ 3,257,000	$ (244,425)
Excess Cash Receipts Over (Under) Expenditures	$ (202,789)		
Unencumbered Cash, Beginning	240,960		
Unencumbered Cash, Ending	$ 38,171		

CHEROKEE COUNTY, KANSAS
Out-District Tuition Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Delinquent Tax	$ 13	$ -	$ 13
Total Cash Receipts	$ 13	$ -	$ 13
Expenditures			
Education	$ -	$ -	$ -
Total Expenditures	$ -	$ -	$ -
Cash Receipts Over (Under) Expenditures	$ 13		
Unencumbered Cash, Beginning	1,943		
Unencumbered Cash, Ending	$ 1,956		

CHEROKEE COUNTY, KANSAS
Special Parks and Recreation Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Local Alcoholic Liquor Fund	$ 7,394	$ 4,175	$ 3,219
Expenditures			
Recreation	$ 10,179	$ 4,913	$ 5,266
Excess Cash Receipts Over (Under) Expenditures	$ (2,785)		
Unencumbered Cash, Beginning	6,513		
Unencumbered Cash, Ending	$ 3,728		

CHEROKEE COUNTY, KANSAS
Special Alcohol Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Local Alcoholic Liquor Fund	$ 19,686	$ 12,526	$ 7,160
Expenditures			
Public Health	$ 14,595	$ 26,532	$ (11,937)
Excess Cash Receipts Over (Under) Expenditures	$ 5,091		
Unencumbered Cash, Beginning	-		
Unencumbered Cash, Ending	$ 5,091		

CHEROKEE COUNTY, KANSAS

Landfill Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Host Fees	$ -	$ -	$ -
Expenditures			
Sanitation	$ 1,580	$ 50,152	$ (48,572)
Transfers	65,000		
Total Expenditures	$ 66,580	$ 50,152	$ 16,428
Excess Cash Receipts Over (Under) Expenditures	$ (66,580)		
Unencumbered Cash, Beginning	80,323		
Unencumbered Cash, Ending	$ 13,743		

CHEROKEE COUNTY, KANSAS
Tourism and Convention Promotion Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Transient Guest Tax	$ 7,159	$ 7,500	$ (341)
Expenditures			
Tourism and Promotion	$ 7,159	$ 8,300	$ (1,141)
Excess Cash Receipts Over (Under) Expenditures	$ -		
Unencumbered Cash, Beginning	800		
Unencumbered Cash, Ending	$ 800		

CHEROKEE COUNTY, KANSAS

Special Law Enforcement Training Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Fees	$ 7,844	$ -	$ 7,844
Donations	3,325	3,000	325
Total Cash Receipts	$ 11,169	$ 3,000	$ 8,169
Expenditures			
Public Safety	$ 1,442	$ 6,472	$ 1,442
	$ 1,442	$ 6,472	$ (5,030)
Cash Receipts Over (Under) Expenditures	$ 9,727		
Unencumbered Cash, Beginning	6,047		
Unencumbered Cash, Ending	$ 15,774		

CHEROKEE COUNTY, KANSAS
Emergency Telephone Tax Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Telephone Tax	$ -	$ 100,000	$ (100,000)
Interest	-	700	(700)
Total Cash Receipts	$ -	$ 100,700	$ (100,700)
Expenditures			
Public Safety	$ -	$ 143,838	$ 143,838
Transfers	97,688	-	(97,688)
Total Expenditures	$ 97,688	$ 143,838	$ 46,150
Cash Receipts Over (Under) Expenditures	$ (97,688)		
Unencumbered Cash, Beginning	97,688		
Unencumbered Cash, Ending	$ -		

CHEROKEE COUNTY, KANSAS
Emergency Telephone Tax Combined Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Telephone Tax	$ 107,092	$ -	$ 107,092
Grants	1,048		1,048
Interest	4,160		4,160
Transfers	386,995	-	386,995
Total Cash Receipts	$ 499,295	$ -	$ 499,295
Expenditures			
Public Safety	$ 208,760	$ -	$ 208,760
Cash Receipts Over (Under) Expenditures	$ 290,535		
Unencumbered Cash, Beginning	-		
Unencumbered Cash, Ending	$ 290,535		

CHEROKEE COUNTY, KANSAS
County Attorney Special Law Enforcement Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Other	$ -	$ 1,500	$ (1,500)
Expenditures			
Public Safety	$ 255	$ 2,384	$ (2,129)
Cash Receipts Over (Under) Expenditures	$ (255)		
Unencumbered Cash, Beginning	884		
Unencumbered Cash, Ending	$ 629		

Schedule 2-X

CHEROKEE COUNTY, KANSAS
Register of Deeds Technology Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Fees	$ 20,607
Expenditures	
General Government	$ 17,940
Cash Receipts Over (Under) Expenditures	$ 2,667
Unencumbered Cash, Beginning	26,065
Unencumbered Cash, Ending	$ 28,732

Schedule 2-Y

CHEROKEE COUNTY, KANSAS
State Line Road Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Interest	$ -
Expenditures	
Public Works	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	260
Unencumbered Cash, Ending	$ 260

Schedule 2-Z

CHEROKEE COUNTY, KANSAS
Drug Tax Stamp Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Drug Control Payments	$ -
Expenditures	
Public Safety	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	1,253
Unencumbered Cash, Ending	$ 1,253

Schedule 2-AA

CHEROKEE COUNTY, KANSAS
Special Liability Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Delinquent Tax	$ 5
Total Cash Receipts	$ 5
Expenditures	
General Government	$ -
Cash Receipts Over (Under) Expenditures	$ 5
Unencumbered Cash, Beginning	16,874
Unencumbered Cash, Ending	$ 16,879

Schedule 2-BB

CHEROKEE COUNTY, KANSAS
County Building Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Delinquent Tax	$ 5
Total Cash Receipts	$ 5
Expenditures	
Public Works	$ -
Cash Receipts Over (Under) Expenditures	$ 5
Unencumbered Cash, Beginning	916
Unencumbered Cash, Ending	$ 921

Schedule 2-CC

CHEROKEE COUNTY, KANSAS
Special Bridge Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

		Actual
Cash Receipts		
Ad Valorem Property Tax	$	131,392
Delinquent Tax		686
Motor Vehicle Tax		19,244
16/20 M Vehicle Tax		894
Recreational Vehicle Tax		241
Grants		3,334
Total Cash Receipts	$	155,791
Expenditures		
Public Works	$	133,807
Cash Receipts Over (Under) Expenditures	$	21,984
Unencumbered Cash, Beginning		203,843
Unencumbered Cash, Ending	$	225,827

CHEROKEE COUNTY, KANSAS
Special Highway Improvement Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Transfer from Other Funds	$ -
Expenditures	
Public Works	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	1,264
Unencumbered Cash, Ending	$ 1,264

CHEROKEE COUNTY, KANSAS
Special Road Machinery Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Transfer from Other Funds	$ -
Expenditures	
Public Works	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	100
Unencumbered Cash, Ending	$ 100

CHEROKEE COUNTY, KANSAS
Law Library Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Fees	$ 12,638
Expenditures	
Public Safety	$ 4,564
Cash Receipts Over (Under) Expenditures	$ 8,074
Unencumbered Cash, Beginning	34,011
Unencumbered Cash, Ending	$ 42,085

Schedule 2-GG

CHEROKEE COUNTY, KANSAS
Electronic Monitoring Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Federal/State Grants	$ -
Expenditures	
Public Safety	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	910
Unencumbered Cash, Ending	$ 910

CHEROKEE COUNTY, KANSAS
Bad Check Fee Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Fees	$ -
Expenditures	
General Government	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	89
Unencumbered Cash, Ending	$ 89

Schedule 2-II

CHEROKEE COUNTY, KANSAS
Drug Free Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Other	$ -
Expenditures	
Public Safety	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	4,539
Unencumbered Cash, Ending	$ 4,539

CHEROKEE COUNTY, KANSAS
Prosecuting Attorney Training Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Fees	$ 1,932	$ 2,800	$ (868)
Expenditures			
Public Safety	$ 1,069	$ 3,463	$ (2,394)
Cash Receipts Over (Under) Expenditures	$ 863		
Unencumbered Cash, Beginning	1,360		
Unencumbered Cash, Ending	$ 2,223		

CHEROKEE COUNTY, KANSAS
Severe Weather Equipment Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Charges for Services	$ -
Expenditures	
Equipment	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	22
Unencumbered Cash, Ending	$ 22

CHEROKEE COUNTY, KANSAS
Spider Program Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Fees	$ 5,940
Expenditures	
Public Safety	$ 9,945
Cash Receipts Over (Under) Expenditures	$ (4,005)
Unencumbered Cash, Beginning	12,225
Unencumbered Cash, Ending	$ 8,220

CHEROKEE COUNTY, KANSAS
Emergency Wirelesss Telephone Tax Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Telephone Tax	$ -	$ 160,000	$ (160,000)
Interest	-	900	(900)
Total Cash Receipts	$ -	$ 160,900	$ (160,900)
Expenditures			
Public Safety	$ -	$ 247,195	$ 247,195
Transfers	289,307	-	(289,307)
Total Expenditure	$ 289,307	$ 247,195	$ (42,112)
Cash Receipts Over (Under) Expenditures	$ (289,307)		
Unencumbered Cash, Beginning	289,307		
Unencumbered Cash, Ending	$ -		

CHEROKEE COUNTY, KANSAS
Justice Assistance Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Expenditures	
General Government	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	391
Unencumbered Cash, Ending	$ 391

CHEROKEE COUNTY, KANSAS
EMPG Emergency Prepardness Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Expenditures	
General Government	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	500
Unencumbered Cash, Ending	$ 500

CHEROKEE COUNTY, KANSAS
Emergency Planning Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Expenditures	
General Government	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	201
Unencumbered Cash, Ending	$ 201

CHEROKEE COUNTY, KANSAS
USDA Storm Siren Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Total Cash Receipts	$ -
Expenditures	
Capital Outlay	$ 2,271
Cash Receipts Over (Under) Expenditures	$ (2,271)
Unencumbered Cash, Beginning	2,271
Unencumbered Cash, Ending	$ -

Schedule 2-RR

CHEROKEE COUNTY, KANSAS
COPS Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Total Cash Receipts	$ -
Expenditures	
Capital Outlay	$ -
Cash Receipts Over (Under) Expenditures	$ -
Unencumbered Cash, Beginning	9,897
Unencumbered Cash, Ending	$ 9,897

CHEROKEE COUNTY, KANSAS
NSP Grant Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	Actual
Cash Receipts	
Grant	$ -
Other	-
Total Cash Receipts	$ -
Expenditures	
Capital Outlay	$ 28,685
Cash Receipts Over (Under) Expenditures	$ (28,685)
Unencumbered Cash, Beginning	29,268
Unencumbered Cash, Ending	$ 583

CHEROKEE COUNTY, KANSAS
Bond and Interest Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ -	$ -	$ -
Expenditures			
Transfers	$ -	$ 1,341	$ (1,341)
Cash Receipts Over (Under) Expenditures	$ -		
Unencumbered Cash, Beginning	1,341		
Unencumbered Cash, Ending	$ 1,341		

CHEROKEE COUNTY, KANSAS

No-Fund Warrant Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts			
Ad Valorem Property Tax	$ 650	$ -	$ 650
Delinquent Tax	3,206	1,800	1,406
Motor Vehicle Tax	13,567	12,031	1,536
16/20 M Vehicle Tax		543	(543)
Recreational Vehicle Tax	171	166	5
Total Cash Receipts	$ 17,594	$ 14,540	$ 3,054
Expenditures			
Transfers	$ 23,753	$ 24,015	$ (262)
Total Expenditures	$ 23,753	$ 24,015	$ (262)
Cash Receipts Over (Under) Expenditures	$ (6,159)		
Unencumbered Cash, Beginning	14,235		
Unencumbered Cash, Ending	$ 8,076		

CHEROKEE COUNTY, KANSAS
Sewer District No. 1 Fund
Schedule of 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	$ 78,916	$ 120,000	$ (41,084)
Taxes withheld from taxing entities	9,493	-	9,493
Other	27,054	-	27,054
Transfers	133,782	-	133,782
Total Cash Receipts	$ 249,245	$ 120,000	$ 129,245
Expenditures			
Public Works	$ 288,997	$ 258,829	$ 30,168
Qualifying Budget Credits	-	133,782	(133,782)
Total Expenditures	$ 288,997	$ 392,611	$ (103,614)
Cash Receipts Over (Under) Expenditures	$ (39,752)		
Unencumbered Cash, Beginning	23,642		
Unencumbered Cash, Ending	$ (16,110)		

CHEROKEE COUNTY, KANSAS
Agency Funds
Summary of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2012

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Kansas Educational Buildings	$ -	$ 152,670	$ 152,670	$ -
Kansas Institutions Buildings	-	76,335	76,335	-
Correctional Institutions	(118)	-	-	(118)
State General Fund	-	11	11	-
Game Licenses	2,154	9,394	9,403	2,145
Temporary Boat Permits	63	8,657	8,908	(188)
Cereal Malt Beverage Stamps	325	275	400	200
Diversion Supervision Fees	5	-	-	5
Rural Directory	15	-	-	15
Southeast Kansas Library	-	128,814	128,814	-
Unclaimed Monies	11,902	-	-	11,902
Unclaimed Estates	157,756	-	-	157,756
Payroll Tax Withholdings	(567)	533,197	532,630	-
Sheltered Workshop	13	1	-	14
Vehicle Identification Number	1,935	6,807	872	7,870
Local Alcoholic Liquor	15,543	18,932	34,475	-
Information Network of Kansas	5,072	3,212	-	8,284
Bankruptcy	1,865	-	-	1,865
Rural Water District	246	-	-	246
Townships	-	172,724	174,147	(1,423)
Cities	2,521	2,805,726	2,805,724	2,523
Schools	-	6,434,167	6,451,688	(17,521)
Current Tax	7,042,631	14,094,574	15,159,098	5,978,107
Long and Short	(106)	10	140	(236)
Partial Payments	1,373	1,895	2,020	1,248
Redemption Tax	172,332	489,927	622,866	39,393
Delinquent Personnel Tax	2,742	63,402	91,019	(24,875)
Judicial Delinquent Personal Tax	20,038	8,879	-	28,917
Foreclosure Redemption Tax	-	-	-	-
Overpayment	356	4,480	4,480	356
Protest Tax	40,850	144,542	205,562	(20,170)
Heritage Trust	1,001	6,277	6,394	884
Vehicle Tax	371,502	1,354,879	1,975,386	(249,005)
16/20 M Vehicle Tax	39,839	71,319	76,969	34,189
In Lieu of Tax	550	-	-	550
Vehicle Excise Tax	360	138	360	138

CHEROKEE COUNTY, KANSAS
Agency Funds
Summary of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2012

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Recreational Vehicle Tax	6,982	42,061	49,011	32
District Court	92,083	823,022	822,031	93,074
District Court Cases	112,105	36	96,040	16,101
Drug Forfeiture Fund	4,275	1,076	4,075	1,276
Sheriff Inmate	7,106	153,783	140,192	20,697
Special Auto	487,615	5,034,928	4,272,965	1,249,578
Total	$ 8,602,364	$ 32,646,150	$ 33,904,685	$ 7,343,829

MENSE, CHURCHWELL & MENSE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
427 Wall Street, P.O. Box 818
Joplin, Missouri 64802-0818
Telephone 417-623-2505
Fax 417-623-2507

EUGENE M. MENSE, JR., C.P.A. (1929 - 2006)
CHRIS D. CHURCHWELL, C.P.A.
EUGENE M. MENSE III, C.P.A.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the County Commission
Cherokee County, Kansas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the fund summary statement of regulatory basis, receipts, expenditures and unencumbered cash balances of Cherokee County, Kansas as of and for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated October 28, 2013. The financial statement is prepared by Cherokee County, Kansas 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Cherokee County, Kansas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County, Kansas's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County, Kansas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2012-1, 2012-4 and 2012-6.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. 2012-2, 2012-3, 2012-5 and 2012-7.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County, Kansas's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cherokee County, Kansas's Response to Findings

Cherokee County, Kansas's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Cherokee County, Kansas's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mense, Churchwell & Mense, P.C.
Certified Public Accountants

Joplin, Missouri
October 28, 2013

MENSE, CHURCHWELL & MENSE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
427 Wall Street, P.O. Box 818
Joplin, Missouri 64802-0818
Telephone 417-623-2505
Fax 417-623-2507

EUGENE M. MENSE, JR., C.P.A. (1929 - 2006)
CHRIS D. CHURCHWELL, C.P.A.
EUGENE M. MENSE III, C.P.A.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

To the County Commission
Cherokee County, Kansas

Report on Compliance for Each Major Federal Program

We have audited Cherokee County, Kansas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Cherokee County, Kansas's major federal programs for the year ended December 31, 2012. Cherokee County, Kansas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cherokee County, Kansas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee County, Kansas's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cherokee County, Kansas's compliance.

Opinion on Each Major Federal Program

In our opinion, Cherokee County, Kansas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Cherokee County, Kansas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cherokee County, Kansas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cherokee County, Kansas's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

Mense, Churchwell & Mense, P.C.
Certified Public Accountants

Joplin, Missouri
October 28, 2013

CHEROKEE COUNTY, KANSAS
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
Department of Agriculture			
Passed-through Kansas Department of Health and Environment			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557		$ 328,077
Total Department of Agriculture			$ 328,077
Department of Housing and Urban Development			
Passed-through Kansas Department of Commerce			
Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii	14.228	12-PF-036	$ 172,479
Total Department of Housing and Urban Development			$ 172,479
Department of Justice			
Direct			
Public Safety Partnership and Community Policing Grants	16.710	2010-UM-WX-0121	$ 48,905
Total Department of Justice			$ 48,905
Department of Transportation			
Passed-through Kansas Department of Transportation			
State and Community Highway Safety	20.600	OP-1152-12	$ 3,150
State and Community Highway Safety	20.600	OP-1152-13	887
Total Department of Transportation			$ 4,037
Environmental Protection Agency			
Passed-through Kansas Department of Health and Environment			
Capitalization Grants for Clean Water State Revolving Funds	66.458		$ 31,458
Total Environmental Protection Agency			$ 31,458
Election Assistance Commission			
Passed-through Kansas Secretary of State			
Help America Vote Act Requirements Payments	90.401		$ 2,709
Total Environmental Protection Agency			$ 2,709
Department of Health and Human Services			
Passed-through Kansas Department of Health and Environment			
Public Health Emergency Preparedness	93.069		$ 23,932
Immunization Grants	93.268		22,052
Maternal and Child Health Services Block Grants to the States	93.994		19,601
Total Department of Health and Human Services			$ 65,585

The accompanying notes are an integral part of this schedule.

CHEROKEE COUNTY, KANSAS
Schedule of Expenditures of Federal Awards (Continued)
For the year ended December 31, 2012

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
Department of Homeland Security			
Passed-through Kansas Adjutant General			
Hazard Mitigation Grant	97.039	1675-HM	10,627
Hazard Mitigation Grant	97.039	HM-1741-0035	150,000
Emergency Management Performance Grants	97.042		20,236
Citizens - Community Resilence Innovation Challenge	97.053		3,520
Total U.S. Department of Homeland Security			$ 184,383
Total Expenditures of Federal Awards			$ 837,633

The accompanying notes are an integral part of this schedule.

CHEROKEE COUNTY, KANSAS
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures federal awards (the "Schedule") includes the federal grant activity of Cherokee County, Kansas under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cherokee County, Kansas, it is not intended to and does not present the financial position, changes in net assets or cash flows of Cherokee County, Kansas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* to meet the requirements of the State of Kansas. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

CHEROKEE COUNTY, KANSAS
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion on financial statements prepared on the basis of the financial reporting provisions of the Kansas *Municipal Audit and Accounting Guide* and to meet the requirements of the State of Kansas.

Internal control over financial reporting:

- Material weakness(es) identified? ___X___ yes _____ no
- Significant deficiency(ies) identified? ___X___ yes _____ no

Noncompliance material to financial statements noted? _____ yes ___X___ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes ___X___ no
- Significant deficiency(ies) identified? _____ yes ___X___ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? _____ yes ___X___ no

Identification of major programs:

CFDA Number	Name of Federal Program
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualifies as a low-risk auditee? _____ yes ___X___ no

CHEROKEE COUNTY, KANSAS
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

Section II - Financial Statement Findings

2012-1 Segregation of Duties

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records.

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records.

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: The Board of County Commissioners has contacted a consultant to review internal control and make recommendations to segregate duties.

2012-2 Accounting Manual

Criteria: The County should prepare an accounting manual that would inform all employees of desired operating procedures and policies.

Condition: Cherokee County does not have an accounting manual.

Effect: Employee duties are not adequately segregated which may lead to errors or misappropriation of assets.

Cause: County employees do not have the time to internally develop a manual. It is not economically feasible at the present time to contract with an outside entity to prepare an accounting manual.

Recommendation: The County should develop an accounting manual as time and expenses allow.

Response: The Board of County Commissions will consult with the consultants retained to study internal controls about development of an accounting manual.

Section II - Financial Statement Findings (Continued)

2012-3	Accounts Payable/Encumbrances
Criteria:	The County should maintain a record of encumbrances/ accounts payable for each fund.
Condition:	No record of encumbrances/accounts payable are maintained.
Effect:	Over expenditure of the budget and violation of state statutes.
Cause:	Current accounting program does not provide for the recording of encumbrances/accounts payable.
Recommendation:	County should purchase or develop a program.
Response:	Management will inquire about such a program and will evaluate feasibility.
2012-4	Fixed Assets
Criteria:	The County should maintain a record of fixed assets.
Condition:	No record of Fixed Assets owned by the County exists.
Effect:	County may lose control of the item(s) and this could result in the loss or misappropriation of assets.
Cause:	County employees do not have sufficient time to develop and maintain such records nor is it feasible to develop such records at this time.
Recommendation:	The County should prepare and develop fixed asset accounting records.
Response:	The consultant retained by the Board of County Commissioners will review this finding and make recommendations.

Section II - Financial Statement Findings (Continued)

2012-5 Internal Control Over Federal Awards

Criteria: Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations" states that it is the auditee responsibility to identify all federal awards received and expended and the programs under which they were received. This shall include the C.F.D.A. title and number, award year and number, federal agency name and name of the pass-through entity.

Condition: No centralized record of Federal Financial Awards exists.

Effect: Risk that federal awards and expenditures will go undetected and not be recorded in County's records.

Cause: Lack of appropriate written procedures.

Recommendation: The County Commission establish written procedures. The procedures should include a requirement that all grant applications be brought before the County Commission at the weekly meeting and the Commission formally approve or reject the application. If approved and the County is successful in obtaining the grant, the Commission should formally accept the grant at the Commission's weekly meeting. At the time of acceptance, the C.F.D.A. title and number should be obtained and recorded in the minutes. Copies of all grant agreements should then be copied and filed in a central location. In addition, responsibility should be assigned to one employee to oversee that the necessary records and information are retained and filed.

Response: This matter will be studied as a part of the consulting agreement to review internal controls.

Section II - Financial Statement Findings (Continued)

2012-6	Reconciliation of Bank Accounts
Criteria:	Bank accounts should be reconciled monthly.
Condition:	The Special Auto – Motor Vehicle account, County Treasurer's account and Inmate accounts are not being reconciled.
Effect:	Condition could result in errors going undetected and possible understatement or misappropriation of assets.
Cause:	Unknown
Recommendation:	Bank accounts should be reconciled to the ledger and subsidiary journals and accounts monthly.
Response:	The Board of County Commissioners has retained a consultant to study the problem and reconcile the accounts.
2012-7	Design of internal control system for preparation of the basic financial statements
Criteria:	A properly designed system of internal control, which includes preparation of financial statements in conformity with Governmental Accounting Standards and the Kansas Municipal Audit Guide, includes having accounting professionals as part of the system to perform that function.
Condition:	The County has personnel in place to perform all bookkeeping functions necessary to maintain a general ledger and prepare internal use statements for management and the County Commission. However, the County does not have the resources to have accounting professional with the knowledge, experience and training to prepare governmental financial statements in conformity with Governmental Accounting Standards and the Kansas Municipal Audit Guide as part of their internal control system.
Effect:	The County employs the auditors that perform the annual audit of the financial statements to prepare the annual financial statements.

Section II - Financial Statement Findings (Continued)

Recommendation: We recognize that the County does not have the resources to have an accounting professional with the knowledge, experience and training to prepare governmental financial statements in conformity with the *Kansas Municipal Accounting and Audit Guide*. We recommend that management continue to prepare internal financial statements and accept responsibility for the annual financial report.

Response: County personnel will take responsibility for the financial statement, will review all proposed adjustments and the draft financial statement.

CHEROKEE COUNTY, KANSAS
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

Section III – Federal Awards Findings and Questioned Costs

No findings related to Federal Awards reported.

CHEROKEE COUNTY, KANSAS

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2012

Item	Program Finding	Resolution
2011-1	Segregation of duties	Condition still exists
2011-2	Accounting Manual	Condition still exists
2011-3	Accounts Payable/Encumbrances	Condition still exists
2011-4	Fixed Assets	Condition still exists
2011-5	Internal Control over Federal Awards	Condition still exists
2011-6	Reconciliation of Bank Accounts	Condition still exists
2011-7	Preparation of Financial Statements	Condition still exists

CHEROKEE COUNTY, KANSAS
Corrective Action Plan
For the year ended December 31, 2012

Finding 2012-1, 2012-2, 2012-4, 2012-5 and 2012-6

The Board of County Commissioners have retained a consultant to study these findings and make recommendations.

Finding 2012-3

Management will inquire about such program modifications or programs to purchase and will evaluate the feasibility of implementation.

Finding 2012-7

The County does not have personnel with the expertise to prepare the financial statements, the schedule of federal financial assistance expended and the related notes to the financial statements in accordance with professional standards. The County personnel will review the statements and related notes and take responsibility for them.