

CITY COMMISSION AGENDA MEMO
August 29, 2016

FROM: Bernie Hayen, Director of Finance

MEETING: September 6, 2016

SUBJECT: Presentation of the 2015 City Audit

PRESENTERS: Hillary Badger, Assistant Director of Finance
Michelle Crow, CPA, Varney & Associates CPAs, LLC
Dr. Eric Higgins, Chair, Municipal Audit Committee

BACKGROUND

Calendar year 2015 marks the 21st consecutive year that the City of Manhattan has prepared a Comprehensive Annual Financial Report (CAFR). This annual report is prepared, in large part, by the City Controller and contains financial statements audited by the City's auditing firm, Varney & Associates CPAs, LLC. This annual report also includes pertinent financial, economic, demographic, and statistical information related to the City of Manhattan over a ten-year period. *[Please note that the 2010 through 2015 Comprehensive Annual Financial Reports are available online to the general public on the City's website.]*

While the CAFR is not a required document, it is used by City Administration to assess internal operations, by the community to assess proper use of taxes, and, by prospective industries looking to relocate to the city of Manhattan. It also is an important tool used by national bond rating agencies to review and assign ratings to the City's general obligation bonds and temporary notes.

Each year since 1996, the City's CAFR has received the Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting awarded by the Government Finance Officers Association (GFOA). As in the past, the 2015 Comprehensive Annual Financial Report will be submitted to GFOA for award consideration.

DISCUSSION

Similar to last year, key Finance staff, under the direction of the City Controller, teamed together to form a collaborative effort to complete the 2015 CAFR.

Additionally, Varney & Associates CPAs, LLC, and a team from the firm of Berberich Trahan & Company, contributed considerable expertise in helping form the foundation for the financial reports that appear in the CAFR. The complete independent auditor's report also will appear in the annual CAFR once it is published. Please recall that responsibility for both the accuracy of the data provided and the completeness and fairness of the presentation of the financial statements, including all disclosures, rests with management for the City of Manhattan.

On February 15, 2011, the City Commission approved Resolution No. 021511-G, which re-established a Municipal Audit Committee comprised of four members, one of which is a seated commissioner. This Committee, chaired by Dr. Eric Higgins, Chair of the Finance Department at Kansas State University, provides oversight and suggestions regarding the annual audit process and the internal financial controls used by City Administration. The Municipal Audit Committee carefully reviewed the draft of the management letter issued for the 2015 audit and visited with both the auditing team and Finance staff.

Also attached to this memorandum is the 2015 management letter from Varney & Associates CPAs, LLC. City Administration is pleased that no significant findings were noticed during the 2015 City audit. In the recent past, auditors made several recommendations to City staff about processes and policies and the City has implemented successfully. These recommendations are reiterated in the 2015 management letter.

FINANCING

On March 4, 2014, the City entered into an engagement contract with Varney & Associates CPAs, LLC, based on prior City Commission approval to provide annual auditing services at a cost of \$38,000 annually beginning with the 2013 City Audit. This amount is the contractual agreement for such services during the duration of the five-year auditing agreement with Varney & Associates and includes an additional fee of \$1,500 for annual STAR bond audits required by the state of Kansas. The 2015 City Audit marks the third audit under this five-year agreement.

In addition, the City consults with Berberich Trahan & Company at a cost of \$8,000 annually regarding the changes to the financial statement as a result of new GASB pronouncements.

ALTERNATIVES

It appears the Commission has the following alternatives concerning the issue at hand. The Commission may:

1. Receive and accept the Auditor's reports for the 2015 City Audit.
2. Receive but do not accept Auditor's reports for the 2015 City Audit.
3. Request that changes be made to the Auditor's reports for the 2015 City Audit.
4. Table the issue.

RECOMMENDATION

City Administration recommends the City Commission receive and accept the Auditor's reports for the 2015 City Audit.

POSSIBLE MOTION

Receive and accept the Auditor's reports for the 2015 City Audit.

BNH/bnh

Enclosures:

1. Management Letter for the 2015 City Audit
2. Independent Auditor's Report
3. STAR Bond Agreed Upon Procedures Report
4. Federal Awards Reporting Package
5. Passenger Facility Charge Reporting Package



August 19, 2016

Honorable Mayor, City Commission, and Municipal Audit Committee
City of Manhattan, Kansas
11th & Poyntz
Manhattan, KS 66502

We have audited the financial statements of the City of Manhattan, Kansas (the City) as of and for the year ended December 31, 2015, and have issued our report thereon dated August 19, 2016. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of the Entity's Significant Accounting Practices (Continued)

Significant Accounting Policies (Continued)

As described in the notes to the financial statements, the City changed its method of accounting for its participation in the KPERS defined benefit plan by implementing the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68. Accordingly, the cumulative effect of the accounting change as of the beginning of the 2015 year has been reported in the financial statements as a prior period adjustment.

We are not aware of any other significant accounting policy changes that have occurred during 2015.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements relate to the following accounts:

- *Accumulated Depreciation of Capital Assets.* This account represents a valuation of the total economic benefit received by the City for all current and prior purchases of property and equipment. Each capital asset of the City is individually accounted with respect to the date placed in service, original cost, and the expected useful life. The expected useful life represents a significant estimate made by management because the benefit period that the City receives for each asset could be shorter or longer than that which was originally expected.
- *Allowance for Uncollectible Accounts for Municipal Court Receivables.* This account represents an estimate of municipal court fines and fees which remain uncollected and are more likely than not to remain delinquent for an indefinite period of time. The municipal court receivable consists of a voluminous number of individual accounts which does not allow for specific review of each delinquent account. For this reason, management has developed the allowance estimate primarily through an analysis of all accounts which remain uncollected by aging category and the historical collection rates thereof.
- *Allowance for Uncollectible Accounts for Economic Development Loan Receivables.* This account represents an estimate of economic development loans which remain outstanding at the reporting date and which are in doubt as to collectibility. Management has developed this estimate through a review of the age of each receivable account, the going concern and creditworthiness of each loan recipient, the historical collections made on each loan account, and on advice from the City's legal counsel.
- *Compensated Absences Liability.* This account represents a valuation of the expected future costs of providing paid time off to the City's employees in accordance with the City's employee benefit policies. Management has developed this estimate using the number of sick and vacation hours earned by each employee multiplied by the employee's effective rate of pay as of the reporting date. This method of determining the valuation of expected future costs of paid time off is an estimate because (1) employee rates of pay are likely to increase in each future year which automatically and retroactively increases the value of each earned but unused hour of paid time off and (2) as employees earn years of service, the benefit policy provides for an increase in the rate at which employees accrue earned hours and increases the maximum allowed.

Qualitative Aspects of the Entity's Significant Accounting Practices (Continued)

- *Estimated Insurance Claims Liability.* This account represents a valuation of the costs expected to be incurred by the City in the future for providing medical, dental and worker's compensation insurance for employees. Management has developed this estimate primarily on advice of the City's third party benefit administrators. In addition to *known but unpaid* claims, these benefit administrators develop an estimate of *unknown and unpaid* claims using a series of actuarial techniques which consider statistical information about the City's employees along with the historical experience of the City in providing these benefits.
- *Net Pension Liability.* Management's estimate of the net pension liability is based on the KPERS GASB 68 Report for fiscal year 2015 which is publicly available at www.kpers.org.

We evaluated the key factors and assumptions used to develop these estimates and determined that each is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements are as follows:

- *Note 4: Other Information – Risk Management.* This note discloses information about the City's self-insured health care fund and self-insured worker's compensation fund. As a provider of insurance, the City is automatically at risk for the costs of providing benefits and must maintain fund assets sufficient to service current and future claims incurred, the amounts of which are uncertain and subject to significant judgment. Management has relied primarily on the benefit administrators, who utilize industry best practices and techniques to develop estimates of the City's projected costs.
- *Note 4: Other Information – Postemployment Benefits Other Than Pensions.* This note discusses the City's costs of providing health insurance to retirees and their dependents in accordance with Kansas law. The City contracts with an actuary to estimate the unpaid benefit obligations of the City as of the reporting date. This note provides the detail of the actuary's evaluation and the status of the unfunded cost of providing future benefits to current and future retirees.
- *Note 4: KPERS Pension Plan.* This note provides full detail regarding the KPERS pension plan, including the net pension liability and the various inputs used to estimate the liability at the reporting date.

Identified or Suspected Fraud

We did not identify any actual or suspected fraud as a result of our audit.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. We did not identify any such misstatements.

Uncorrected and Corrected Misstatements (Continued)

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any material misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which principally affirm (1) that management acknowledges its responsibility for the fair presentation of the financial statements and (2) that management has provided us with all information that is necessary and relevant to the fair presentation of the financial statements.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Management's Consultations with Us

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Limitation on the Use of this Report

This report is intended solely for the information and use of the Mayor, Commissioners, Municipal Audit Committee, and management of the City of Manhattan, Kansas and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants



August 19, 2016

The Honorable Mayor and City Commission
City of Manhattan, Kansas

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manhattan, Kansas (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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 City'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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manhattan, Kansas, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Riley County Police Department Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. In our opinion, the required supplementary information, as listed above, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. As listed in the table of contents, the following are presented for purposes of additional analysis and are not a required part of the basic financial statements:

- Financial Section
 - Other Supplementary Information
 - Nonmajor Governmental Funds
 - Budgetary Schedules
 - Internal Service Funds

As listed in the table of contents, the following are not a required part of the basic financial statements but are required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and are presented for purposes of additional analysis:

- Single Audit Section
 - Schedule of Expenditures of Federal Awards
 - Notes to Schedule of Expenditures of Federal Awards
 - Schedule of Findings and Questioned Costs
 - Summary Schedule of Prior Audit Findings

This additional 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

August 19, 2016
City of Manhattan, Kansas
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2016 on our consideration of the City'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 the City's internal control over financial reporting and compliance.

Vainey & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas



Independent Accountant's Report

August 19, 2016

Management and the City Commission
City of Manhattan, Kansas

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by management and the City Commission of the City of Manhattan (the City) for the purpose of assisting the City in evaluating whether bond financing obtained pursuant to K.S.A. 12-17,169 and amendments thereto was used only for authorized purposes for the year ended December 31, 2015. The City is responsible for expending the proceeds of bond financing from K.S.A. 12-17,169 for authorized purposes. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report, namely the State of Kansas and management and City Commission of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedure: Determination of whether bond financing obtained under K.S.A. 12-17,169 is being used only for authorized purposes. We obtained a detailed listing of expenditures for the year ended December 31, 2015 from proceeds of bonds issued under K.S.A. 12-17,169. One expenditure was made during the 2015 fiscal year.

Findings: No exceptions were found as a result of applying the procedures.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the State of Kansas and the City, and should not be used by anyone other than these specified parties.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas



August 19, 2016

The Honorable Mayor and City Commission
City of Manhattan, Kansas

**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**

We have audited the compliance of the City of Manhattan, Kansas (the City) with the compliance requirements described in the Passenger Facility Charge (PFC) Audit Guide for Public Agencies, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended December 31, 2015 and have issued our report thereon dated August 19, 2016. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit of the PFC Project Activity Report Summary, we considered the City'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 opinions on the PFC Project Activity Report Summary, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

August 19, 2016
City of Manhattan, Kansas
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PFC Project Activity Report Summary is free of material misstatement, we performed tests of the City's 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 the PFC Project Activity Report Summary 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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Manhattan, Kansas



August 19, 2016

The Honorable Mayor and City Commission
City of Manhattan, Kansas

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
THE PASSENGER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

Compliance

We have audited the compliance of the City of Manhattan, Kansas (the City) with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended December 31, 2015 and have issued our report thereon dated August 19, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's passenger facility charge program 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 the Guide. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended December 31, 2015.

August 19, 2016
City of Manhattan, Kansas
(Continued)

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the City'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.

Schedule of Expenditures of Passenger Facility Charges

We have audited the basic financial statements of the City as of and for the year ended December 31, 2015 and have issued our report thereon dated August 19, 2016. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying PFC Project Activity Report Summary is presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration. Accordingly, this report is not suitable for any other purpose.

Vannoy & Associates, CPAs, LLC

Certified Public Accountants



August 19, 2016

The Honorable Mayor and City Commission
City of Manhattan, Kansas

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited the City of Manhattan, Kansas (the City) and its compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City'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 the City'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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the City's compliance with those requirements and performing such other procedures as we considered 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 the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City has 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, 2015.

Report on Internal Control over Compliance

Management of the City 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 the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 the Uniform Guidance, 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 the City'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vainey & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF MANHATTAN, KANSAS
 Manhattan, Kansas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Passthrough Grant Number</u>	<u>Federal Award Expenditures</u>	<u>Subrecipient Expenditures</u>
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants Passed through the Kansas Housing Resources Corp.	14.218	-	\$ 825,360	\$ -
HOME Investments Partnership Program	14.239	HR10-0101	4,939	-
Emergency Shelter Grants Program	14.231	ESG FFY201X	308,060	-
Total U.S. Department of Housing and Urban Development			<u>\$ 1,138,359</u>	<u>\$ -</u>
Environmental Protection Agency:				
Passed through the Kansas Department of Health and Environment Capitalization Grants for Drinking Water State Revolving Funds (ARRA)	66.468	2743	<u>\$ 291,564</u>	<u>\$ -</u>
U.S. Department of Transportation				
Airport Improvement Program	20.106	-	<u>\$ 1,919,902</u>	<u>\$ -</u>
TOTAL			<u><u>\$ 3,349,825</u></u>	<u><u>\$ -</u></u>

See notes to schedule of expenditures of federal awards.

CITY OF MANHATTAN, KANSAS
Manhattan, Kansas
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2015

Note 1: General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City of Manhattan, Kansas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements.

Note 2: Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting modified to include accounts payable. Additionally, this schedule reports only the federally funded portion of qualifying program expenditures.

Note 3: Noncash Assistance, Insurance, Loans or Loan Guarantees

The City did not receive any Federal awards in the form of noncash assistance, insurance or loan guarantees for the year ended December 31, 2015.

The City did expend Federal awards in the form of loans as part of the Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468). During 2015, the City received \$381,785 of loan proceeds as reimbursement for qualifying program expenditures originally paid for by the City during 2014. In accordance with the basis of accounting as described in note 2 above, the City reports 2015 expenditures of \$291,564 which represents the Federal portion of qualifying program expenditures actually incurred during 2015, regardless of the timing of reimbursement from the Kansas Department of Health and Environment.

Note 4: Indirect Cost Rate

The City does not allocate indirect costs to its federal award programs. Accordingly, use of the 10% de minimis cost rate provisioned by the Uniform Guidance, section 414, is not applicable.

CITY OF MANHATTAN, KANSAS
 Manhattan, Kansas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	___ Yes	<u>X</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	<u>X</u> None reported
Noncompliance material to financial statements noted?	___ Yes	<u>X</u> No

Federal Awards

Internal controls over major programs:		
Material weaknesses identified?	___ Yes	<u>X</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes	<u>X</u> None reported

Type of auditor's report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	<u>X</u> No
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Identification of major programs:	
Name of Federal program	<u>CFDA Number</u>

Airport Improvement Program	20.106
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
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Auditee qualified as a low-risk auditee?	<u>X</u> Yes	___ No
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Section II - Financial Statement Findings

No matters were reported

Section III - Federal Award Findings and Questioned Costs

No matters were reported

CITY OF MANHATTAN, KANSAS
Manhattan, Kansas
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2015

None.

CITY OF MANHATTAN, KANSAS

PASSENGER FACILITY CHARGE PROGRAM

December 31, 2015

PFC PROJECT ACTIVITY REPORT SUMMARY
MANHATTAN REGIONAL AIRPORT
For the Quarter Ending March 31, 2015

Project	Approval of Use Date	Project Start Date	Project Stop Date	PFC Revenue to Date	PFC Interest Earned to Date	PFC Related Expenditures for Current Quarter	PFC Related Expenditures to Date	Amount of Use Approval	Latest Estimate of Project Costs
Terminal Expansion Design (AIP #3-20-0052-012)	May-14	Jun-12	Sep-13	272,543	-	39,254	272,543	429,371	429,371
Terminal Expansion Phase 1 (AIP #3-20-0052-044)	May-14	Oct-13	Aug-14	-	-	-	-	2,445,890	2,445,890
Install Wildlife Fence (AIP #3- 20-0052-045)	May-14	Oct-13	May-14	-	-	-	-	97,435	97,435
Totals				\$ 272,543	\$ -	\$ 39,254	\$ 272,543	\$ 2,972,696	\$ 2,972,696

PFC PROJECT ACTIVITY REPORT SUMMARY
MANHATTAN REGIONAL AIRPORT
For the Quarter Ending June 30, 2015

Project	Approval of Use Date	Project Start Date	Project Stop Date	PFC Revenue to Date	PFC Interest Earned to Date	PFC Related Expenditures for Current Quarter	PFC Related Expenditures to Date	Amount of Use Approval	Latest Estimate of Project Costs
Terminal Expansion Design (AIP #3-20-0052-042)	May-14	Jun-12	Sep-13	\$ 343,744	\$ -	\$ 71,201	\$ 343,744	\$ 429,371	\$ 429,371
Terminal Expansion Phase 1 (AIP #3-20-0052-044)	May-14	Oct-13	Aug-14	-	-	-	-	2,445,890	2,445,890
Install Wildlife Fence (AIP #3-20-0052-0045)	May-14	Oct-13	May-14	-	-	-	-	97,435	97,435
Totals				\$ 343,744	\$ -	\$ 71,201	\$ 343,744	\$ 2,972,696	\$ 2,972,696

PFC PROJECT ACTIVITY REPORT SUMMARY
MANHATTAN REGIONAL AIRPORT
For the Quarter Ending September 30, 2015

Project	Approval of Use Date	Project Start Date	Project Stop Date	PFC Revenue to Date	PFC Interest Earned to Date	PFC Related Expenditures for Current Quarter	PFC Related Expenditures to Date	Amount of Use Approval	Latest Estimate of Project Costs
Terminal Expansion Design (AIP #3-20-0052-042)	May-14	Jun-12	Sep-13	\$ 406,013	\$ -	\$ 62,269	\$ 406,013	\$ 429,371	\$ 429,371
Terminal Expansion Phase 1 (AIP #3-20-0052-044)	May-14	Oct-13	Aug-14	-	-	-	-	2,445,890	2,445,890
Install Wildlife Fence (AIP #3- 20-0052-0045)	May-14	Oct-13	May-14	-	-	-	-	97,435	97,435
Totals				\$ 406,013	\$ -	\$ 62,269	\$ 406,013	\$ 2,972,696	\$ 2,972,696

PFC PROJECT ACTIVITY REPORT SUMMARY
MANHATTAN REGIONAL AIRPORT
For the Quarter Ending December 31, 2015

Project	Approval of Use Date	Project Start Date	Project Stop Date	PFC Revenue to Date	PFC Interest Earned to Date	PFC Related Expenditures for Current Quarter	PFC Related Expenditures to Date	Amount of Use Approval	Latest Estimate of Project Costs
Terminal Expansion Design (AIP #3-20-0052-042)	May-14	Jun-12	Sep-13	\$ 429,371	\$ -	\$ 23,358	\$ 429,371	\$ 429,371	\$ 429,371
Terminal Expansion Phase 1 (AIP #3-20-0052-044)	May-14	Oct-13	Aug-14	52,268	-	52,268	52,268	2,445,890	2,445,890
Install Wildlife Fence (AIP #3-20-0052-0045)	May-14	Oct-13	May-14	-	-	-	-	97,435	97,435
Totals				\$ 481,639	\$ -	\$ 75,626	\$ 481,639	\$ 2,972,696	\$ 2,972,696

CITY OF MANHATTAN, KANSAS
Manhattan, Kansas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

There are no current year findings.

CITY OF MANHATTAN, KANSAS
Manhattan, Kansas
SUMMARY OF PRIOR YEAR FINDINGS
December 31, 2014

There were no prior year findings.