

CITY OF ALEXANDER, KANSAS

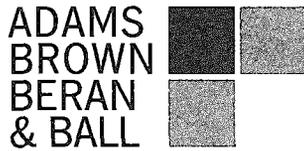
Financial Statement With Independent Auditors' Report

For the Year Ended December 31, 2012

CITY OF ALEXANDER, KANSAS
Financial Statement With Independent Auditors' Report
For the Year Ended December 31, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Summary Statement of Receipts, Expenditures and Unencumbered Cash – Regulatory Basis	4
Notes to Financial Statement	5
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	12
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133	14
Regulatory–Required Supplementary Information	
Schedule 1 – Summary of Expenditures – Actual and Budget – Regulatory Basis.....	16
Schedule 2 – Schedule of Receipts and Expenditures – Regulatory Basis Individually presented by fund	
Governmental Type Funds	
General Fund	
2-1 General Fund	17
Special Purpose Fund	
2-2 Special Highway Fund	18
Capital Project Fund	
2-3 Capital Project Fund	19
Business Funds	
2-4 Water Utility Fund	20
2-5 Sewer Utility Fund	21
2-6 Solid Waste Fund.....	22
Trust Fund	
2-7 Special Water Donations Fund	23
Supplementary Information	
Schedule of Findings and Questioned Costs	24
Summary Schedule of Prior Audit Findings	27
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Alexander, Kansas
Alexander, Kansas

We have audited the accompanying summary statement of regulatory basis receipts, expenditures, and unencumbered cash of **City of Alexander, Kansas**, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by **City of Alexander, 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 in the first paragraph does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **City of Alexander, Kansas** as of December 31, 2012, or the changes in its financial position and cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of **City of Alexander, 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* as described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures and unencumbered cash (basic financial statement) as a whole. The summary of expenditures – actual and budget, individual fund schedules of receipts and expenditures, and summary of receipts and disbursements (Schedules 1, 2 and 3 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement; however, are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of **City of Alexander, Kansas**' 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 **City of Alexander, Kansas**' internal control over financial reporting and compliance.

Adams, Brown, Beran & Ball
ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 27, 2013

CITY OF ALEXANDER, 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 Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
General Fund	\$ 36,490	-	12,496	10,447	38,539	1,099	39,638
Special Purpose Fund							
Special Highway Fund	3,768	-	1,671	1,717	3,722	-	3,722
Capital Project Fund	-	-	413,464	863,426	(249,962)	250,339	377
Business Funds							
Water Utility Fund	21,446	-	16,807	13,408	24,845	240	25,085
Sewer Utility Fund	8,461	-	4,680	3,646	9,495	-	9,495
Solid Waste Fund	575	-	5,173	4,662	1,086	430	1,516
Trust Fund							
Special Water Donations Fund	1,965	-	4,676	-	6,641	-	6,641
Total Reporting Entity	\$ 72,705	-	458,967	697,306	(165,634)	252,108	86,474
				Composition of Cash			
					Checking Accounts	\$	72,007
					Savings Account		4,467
					Certificates of Deposit		10,000
					Total Reporting Entity	\$	86,474

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

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Alexander, Kansas has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statement is presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Financial Reporting Entity

The City is a municipal corporation governed by an elected Mayor and three-member council. A related municipal entity is an entity established to benefit the City and/or its constituents. The City has no related municipal entities.

Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following types of funds comprise the financial activities of the City for the year ended December 31, 2012.

Regulatory Basis Fund Types

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

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

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

Trust Fund – fund used to report assets held in trust for the benefit 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.).

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

Basis of Accounting

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

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

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statement. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, and temporary notes are not presented in the financial statement.

Property Tax Calendar

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. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts. Also, cash is restricted in the trust fund of the City for special purposes.

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 2 – BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

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 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

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

A legal operating budget is not required for the capital project fund and the trust 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

City of Alexander, Kansas follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary statement of receipts, expenditures and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge

CITY OF ALEXANDER, KANSAS

Notes to Financial Statement

December 31, 2012

securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City does not use "peak periods". All deposits were legally secured at December 31, 2012.

At December 31, 2012, the City's carrying amount of deposits was \$86,474 and the bank balance was \$87,129. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2012.

NOTE 4 – CAPITAL PROJECTS

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

	Project Authorization	Cash Disbursements and Accounts Payable To Date
Water Treatment Facility	\$ 782,700	\$ 663,426

NOTE 5 – LITIGATION

City of Alexander, Kansas is a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 6 – RISK MANAGEMENT

City of Alexander, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, umbrella, linebacker, and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – GRANTS AND SHARED REVENUES

City of Alexander, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audit, is not believed to be material.

NOTE 8 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

City of Alexander, Kansas did not maintain a record of each fund's encumbrances as required by K.S.A. 10-1117.

The City did not publish the financial statements annually, showing by fund the beginning and ending balances, receipts and expenditures, along with obligation/liability information, which is a violation of K.S.A. 12-1608.

NOTE 9 – COMPENSATED ABSENCES

City of Alexander, Kansas has no policy regarding compensated absences. All employees are part-time and do not receive benefits.

NOTE 10 – LONG-TERM DEBT

City of Alexander, Kansas has the following type of long-term debt.

General Obligation Bonds

On July 25, 2012, the City issued \$300,000 in General Obligation – Series 2012 Bonds for the purpose of building a water treatment facility.

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

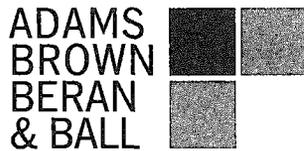
Changes in long-term liabilities for the City for the year ended December 31, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General Obligation Bonds									
Series 2012	2.75%	07/25/12	\$ 300,000	07/25/52	\$ -	300,000	-	300,000	-

CITY OF ALEXANDER, KANSAS
Notes to Financial Statement
December 31, 2012

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

	YEAR												Total
	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	2043-2047	2048-2052	
Principal													
General Obligation Bonds	\$ 5,000	5,000	5,000	5,000	5,000	25,000	25,000	25,000	45,000	50,000	50,000	55,000	300,000
Interest													
General Obligation Bonds	8,250	8,113	7,975	7,838	7,700	36,438	33,000	29,563	25,300	18,563	11,688	4,813	199,241
Total Principal and Interest	\$ 13,250	13,113	12,975	12,838	12,700	61,438	58,000	54,563	70,300	68,563	61,688	59,813	499,241



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**INDEPENDENT AUDITORS' 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**

To the City Council
City of Alexander, Kansas
Alexander, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the Kansas Municipal Accounting and Audit Guide and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of **City of Alexander, 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 September 27, 2013. The report on the audited financial statement was adverse because it was not presented in conformity with accounting principles generally accepted in the United States of America; however, it was unqualified as presented on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive 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 **City of Alexander, Kansas'** 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 **City of Alexander, Kansas'** internal control. Accordingly, we do not express an opinion on the effectiveness of **City of Alexander, Kansas'** 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 a material weakness and another deficiency that we consider to be a significant deficiency.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs (2012-1) to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs (2012-2) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **City of Alexander, Kansas'** 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*.

City of Alexander, Kansas' Response to Findings

City of Alexander, Kansas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **City of Alexander, Kansas'** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

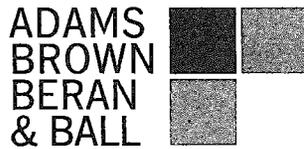
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance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

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

September 27, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY OMB CIRCULAR A-133**

To the City Council
City of Alexander, Kansas
Alexander, Kansas

Report on Compliance for Each Major Federal Program

We have audited **City of Alexander, Kansas'** 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 **City of Alexander, Kansas'** major federal programs for the year ended December 31, 2012. **City of Alexander, Kansas'** major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **City of Alexander, Kansas'** 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 *Kansas Municipal Audit Guide*; 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 **City of Alexander, Kansas'** 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 **City of Alexander, Kansas'** compliance.

Opinion on Each Major Federal Program

In our opinion, **City of Alexander, 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 **City of Alexander, 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 **City of Alexander, Kansas'** 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 **City of Alexander, Kansas'** 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 purpose.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

September 27, 2013

CITY OF ALEXANDER, KANSAS

Regulatory-Required Supplementary Information

CITY OF ALEXANDER, 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 Fund Category					
General Fund	\$ 60,828	-	60,828	10,447	(50,381)
Special Purpose Fund					
Special Highway Fund	3,115	-	3,115	1,717	(1,398)
Business Funds					
Water Utility Fund	30,492	-	30,492	13,408	(17,084)
Sewer Utility Fund	12,117	-	12,117	3,646	(8,471)
Solid Waste Fund	5,901	-	5,901	4,662	(1,239)

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

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Property Taxes			
Ad Valorem Tax	\$ 6,025	6,135	(110)
Delinquent Tax	145	-	145
Motor Vehicle Tax	2,138	2,368	(230)
Recreational Vehicle Tax	-	42	(42)
16/20M Vehicle Tax	-	108	(108)
Gross Earnings (Intangible) Tax	430	430	-
Franchise Tax	2,195	2,400	(205)
Rent	1,500	-	1,500
Other Income	-	1,040	(1,040)
Interest	63	-	63
Total Cash Receipts	<u>12,496</u>	<u>12,523</u>	<u>(27)</u>
Expenditures			
Personal Services	2,528	2,375	153
Commodities	774	750	24
Contractual Services	7,145	14,150	(7,005)
Capital Outlay	-	43,553	(43,553)
Total Expenditures	<u>10,447</u>	<u>60,828</u>	<u>(50,381)</u>
Cash Receipts Over (Under) Expenditures	<u>2,049</u>		
Unencumbered Cash - Beginning	<u>36,490</u>		
Unencumbered Cash - Ending	<u>\$ 38,539</u>		

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

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
State Aid	\$ 1,671	<u>1,790</u>	<u>(119)</u>
Expenditures			
Commodities	<u>1,717</u>	<u>3,115</u>	<u>(1,398)</u>
Cash Receipts Over (Under) Expenditures	(46)		
Unencumbered Cash - Beginning	<u>3,768</u>		
Unencumbered Cash - Ending	<u>\$ 3,722</u>		

CITY OF ALEXANDER, KANSAS
 Capital Project Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2012

	Current Year Actual
Cash Receipts	
Federal Aid - CDBG Funds	\$ 66,100
USDA Funds	47,364
GO Bond Proceeds	<u>300,000</u>
Total Cash Receipts	<u>413,464</u>
Expenditures	
Commodities	86
Contractual	112,965
Capital Outlay	<u>550,375</u>
Total Expenditures	<u>663,426</u>
Cash Receipts Over (Under) Expenditures	(249,962)
Unencumbered Cash - Beginning	<u>-</u>
Unencumbered Cash - Ending	<u>\$ (249,962)</u>

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

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Water Sales	\$ 16,132	13,750	2,382
Late Fees	675	-	675
Total Cash Receipts	<u>16,807</u>	<u>13,750</u>	<u>3,057</u>
Expenditures			
Personal Services	-	2,400	(2,400)
Commodities	4,222	8,500	(4,278)
Contractual	9,186	2,325	6,861
Capital Outlay	-	17,267	(17,267)
Total Expenditures	<u>13,408</u>	<u>30,492</u>	<u>(17,084)</u>
Cash Receipts Over (Under) Expenditures	3,399		
Unencumbered Cash - Beginning	<u>21,446</u>		
Unencumbered Cash - Ending	<u>\$ 24,845</u>		

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

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Water Sales	\$ 4,680	3,400	1,280
Expenditures			
Personal Services	-	2,250	(2,250)
Commodities	698	1,000	(302)
Contractual	2,948	700	2,248
Capital Outlay	-	8,167	(8,167)
Total Expenditures	3,646	12,117	(8,471)
Cash Receipts Over (Under) Expenditures	1,034		
Unencumbered Cash - Beginning	8,461		
Unencumbered Cash - Ending	\$ 9,495		

CITY OF ALEXANDER, KANSAS
Solid Waste Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

	Current Year		Variance Over (Under)
	Actual	Budget	
Cash Receipts			
Collections	\$ 5,173	<u>5,200</u>	<u>(27)</u>
Expenditures			
Waste Pickup Charges	<u>4,662</u>	<u>5,901</u>	<u>(1,239)</u>
Cash Receipts Over (Under) Expenditures	511		
Unencumbered Cash - Beginning	<u>575</u>		
Unencumbered Cash - Ending	<u>\$ 1,086</u>		

CITY OF ALEXANDER, KANSAS
Special Water Donations Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012

	<u>Current Year Actual</u>
Cash Receipts	
Donations	\$ 2,174
Other Income	2,500
Interest	<u>2</u>
Total Cash Receipts	4,676
Expenditures	<u>-</u>
Cash Receipts Over (Under) Expenditures	4,676
Unencumbered Cash - Beginning	<u>1,965</u>
Unencumbered Cash - Ending	<u><u>\$ 6,641</u></u>

CITY OF ALEXANDER, KANSAS
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? X Yes No
- Significant deficiency identified? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness identified? Yes X No
- Significant deficiency identified? Yes X None reported

Type of auditors' 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 OMB Circular A-133? Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee? Yes X No

CITY OF ALEXANDER, KANSAS
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

A. Material Weakness in Internal Control

2012-1

Criteria or specific requirement

Client personnel responsible for the accounting and reporting function should have the necessary skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions, especially when recording encumbrances.

Condition

At year end, client personnel did not record the capital project encumbrances.

Context

When reviewing year end encumbrances, we noted that the City did not have \$100,551 recorded as encumbrances. This was a material unrecorded amount that underreported the amount of expenditures in the Capital Project Fund.

Effect

Financial transactions and financial statements may not properly reflect financial information in accordance with generally accepted accounting principles.

Cause

The City had a change in accounting personnel after year end. The new personnel was not aware of the unrecorded encumbrances.

Recommendation

Procedures should be established and implemented at year end to record unrecorded encumbrances for the capital project fund and other funds.

Views of responsible officials and planned corrective actions

The City has since hired more qualified personnel to handle the encumbrances at year end.

B. Significant Deficiency in Internal Control

2012-2

Criteria or specific requirement

Internal controls should be in place to insure that employees do not have incompatible duties.

Condition

Proper segregation of duties does not exist in the accounting system.

Effect

Management may not become aware of problems or irregularities within a timely manner.

Cause

The City is unable to hire additional personnel due to its size.

CITY OF ALEXANDER, KANSAS
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

2012-2 (continued)

Recommendation

Procedures should be established and implemented where the City implements segregation of duties in the receipts and expenditures cycles and implements additional internal control.

Views of responsible officials and planned corrective actions

The City is aware that employees have incompatible duties; however, due to the size of the City, it would not be feasible to hire additional personnel.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No material findings or questioned costs are required to be disclosed under OMB Circular A-133.

CITY OF ALEXANDER, KANSAS
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2012

No material findings or questioned costs for the year ended December 31, 2011 are required to be disclosed under OMB Circular A-133.

CITY OF ALEXANDER, KANSAS
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass- through Number	Federal Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 480,478
U.S. Department of Commerce			
Passed Through Kansas Department of Commerce Community Development Block Grant	14.228	11-PF-001	<u>85,360</u>
Total Expenditures of Federal Awards			\$ <u>565,838</u>

CITY OF ALEXANDER, KANSAS
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **City of Alexander, Kansas**, and is presented on the basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.