

CITY OF BUFFALO, KANSAS

Financial Statement and
Independent Auditors' Report with
Supplemental Information

For the Year Ended December 31, 2012

CITY OF BUFFALO, KANSAS

December 31, 2012

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Buffalo, Kansas

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

Management's Responsibility for the Financial Statement

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

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, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Buffalo, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Buffalo, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Buffalo, Kansas as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and disbursements-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

April 19, 2013
Chanute, Kansas

CITY OF BUFFALO, KANSAS

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Cash Balances December 31, 2012
Governmental Type Funds:						
General	\$ 11,473.32	\$ 81,382.91	\$ 74,772.28	\$ 18,083.95	\$ 660.80	\$ 18,744.75
Special Purpose Funds:						
Special Highway	8,396.19	6,899.15	7,871.96	7,423.38	49.83	7,473.21
Special Highway Improvement Reserve	17,000.00	7,000.00	-	24,000.00	-	24,000.00
Bond and Interest Funds:						
G.O. Bond & Interest	9,608.25	14,535.04	24,143.29	-	-	-
G.O. Sewer Utility Bond & Interest	3,455.97	18,052.08	18,029.97	3,478.08	-	3,478.08
Business Funds:						
Water Utility	21,374.15	102,868.40	100,437.63	23,804.92	324.22	24,129.14
Water Utility Bond & Interest	11,693.82	22,217.04	21,950.00	11,960.86	-	11,960.86
Water Utility Lease Purchase						
Principal & Interest	19,184.03	11,163.00	8,007.43	22,339.60	-	22,339.60
Water Utility Reserve	22,500.00	-	-	22,500.00	-	22,500.00
Sewer Utility	10,426.68	29,330.23	29,928.03	9,828.88	176.82	10,005.70
Total Reporting Entity (Excluding Agency Funds)	\$ 135,112.41	\$ 293,447.85	\$ 285,140.59	\$ 143,419.67	\$ 1,211.67	\$ 144,631.34

Composition of Cash

Cash on Hand	\$ 50.00
Community National Bank	153,116.30
Total Cash	153,166.30
Less: Agency Funds per Schedule 3	(8,534.96)
Total Reporting Entity (Excluding Agency Funds)	\$ 144,631.34

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

CITY OF BUFFALO, KANSAS

Notes to Financial Statement
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement and schedule of the City of Buffalo, Kansas, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies follow. Note 1 describes how the City's accounting policies differ from accounting policies generally accepted in the United States of America.

Financial Reporting Entity

The City of Buffalo, Kansas, is a municipal corporation governed by an elected five-member council.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the City exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the City. Related municipal entities are not required to be included in the City's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The City has determined that no outside agency meets the above criteria and, therefore, no outside agency has been include as a related municipal entity in this financial statement.

Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the City of Buffalo, Kansas, for the year of 2012:

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

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

Bond and Interest funds - used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

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

Agency fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, etc.).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis 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 municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

Comparative Data

Comparative data for the prior year have been presented in the accompanying financial statement in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data in each of the statement have not been presented since their inclusion would make the statement unduly complex and difficult to read.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than cash receipts. In the financial statement and budget schedule comparisons presented in this report, reimbursements and refunds are recorded as cash receipts. The reimbursements are recorded as cash receipts when received by the city treasurer and are often difficult to identify the exact expenditure which they are reimbursing. In funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half of the full amount of taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

Pension Plan

Substantially all full-time City employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The City's policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

1. Preparation of the budget for the succeeding calendar year on or before August 1.
2. Publication in local newspaper on or before August 5 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of the 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 statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, and permanent funds.

In addition, an operating budget is not required for enterprise principal and interest funds and enterprise reserve funds.

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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Revenue Bond Requirements

The City is required, under ordinances of the Waterworks System Revenue Bonds, to maintain in its Enterprise Fund certain restricted accounts. The ordinances provide that the following reserve accounts be set up in amounts as described below:

<u>RESERVE ACCOUNT</u>	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
1983 Waterworks Utility Bond and Interest – requires transfers monthly of 1/6 of next maturing interest, beginning July 25, 1986, and 1/12 of next maturing principal, beginning July 25, 1983.	\$ 10,675.00	\$ 11,960.86
1983 Waterworks Utility Bond Reserve Account – requires monthly transfers of \$187.50 per month beginning July 25, 1983, until a maximum of \$22,500.00 is reached.	<u>22,500.00</u>	<u>22,500.00</u>
Total Reserves at December 31, 2012	<u>\$ 33,175.00</u>	<u>\$ 34,460.86</u>

The City agrees to fix, establish, maintain and collect such rates, fees or charges for water service furnished by or through the waterworks system which will be sufficient to enable the City to have, in each fiscal year, a net income in an amount that will be not less than 125% of the amount required to be paid by the City in the next succeeding fiscal year on account of both principal and interest of all waterworks system bonds of the City at the time outstanding. Net income is defined as gross income less operating expenses but before any transfers, depreciation and capital expense.

For the year ended December 31, 2012, the Water Utility Fund had a net income of \$43,310.81, which is 202.86% of the principal and interest requirements for 2012 of \$21,350.00.

Compliance with Kansas Statutes

Statement 1 has been prepared in order to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the City was in apparent compliance with the cash basis laws of Kansas. Schedule 1 has been prepared to show compliance with the budget laws of Kansas. As shown in Schedule 1, the City was in apparent violation of K.S.A. 79-2934, as the City has obligated expenditures in excess of budgetary limits in the G.O. Bond & Interest Fund. However, K.S.A. 10-117a requires upon completely retiring a bond issue, that all unexpended funds must be transferred to the General Fund, therefore, eliminating the budget law violation in the G.O. Bond & Interest Fund.

3. DEPOSITS AND INVESTMENTS

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 branch 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 bank provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

3. DEPOSITS AND INVESTMENTS (Continued)

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 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.

Deposits: At year-end the carrying amount of the City's deposits was \$153,116.30 and the bank balance was \$151,190.02. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$151,190.02 was covered by the Federal Deposit Insurance Corporation (FDIC) insurance.

4. CAPITAL LEASES

The City has entered into a capital lease agreement dated February 11, 2008, to partially finance a waterline project at a cost of \$91,617.00. The City agreed to make twenty semi-annual payments of \$4,003.71, including interest at 6.125%.

2013	\$	8,007.42
2014		8,007.42
2015		8,007.42
2016		8,007.42
2017		8,007.42
2018-2022		40,037.10
2023-2027		40,037.10
2028		<u>4,003.70</u>
Total Net Minimum Lease Payments		124,115.00
Less: Imputed Interest		<u>(45,509.69)</u>
Net Present Value		78,605.32
Less: Current Maturities		<u>(3,191.33)</u>
Long-Term Capital Lease Obligations	\$	<u><u>75,413.99</u></u>

5. OPERATING LEASES

On September 25, 2009, the City entered into an operating lease with A.B.C. Leasing Co., Inc. to lease a Savin copier for a term of 48 months at \$96.40 per month. Minimum lease payments on the long-term operating lease by year, and in aggregate at December 31, 2012, are as follows:

Year ending December 31,

2013 \$ 771.20

6. LONG-TERM DEBT COMMITMENTS

Changes in long-term debt commitments 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									
Paid By Tax Levies:									
Main Trafficway Bonds									
Series 1989 - A	8.000%	July 1, 1989	\$ 90,000.00	September 1, 2012	\$ 12,000.00	\$ -	\$ 12,000.00	\$ -	\$ 960.00
Paid By Utility Revenues:									
Sewer Utility System Bonds									
Series 2000	4.875%	December 21, 2000	315,800.00	December 21, 2040	277,800.00	-	4,500.00	273,300.00	13,543.87
Revenue Bonds									
Waterworks Utility System Bonds									
Series 1983 - A	5.000%	July 25, 1983	373,000.00	July 25, 2023	199,000.00	-	12,000.00	187,000.00	9,950.00
Capital Leases									
Waterline Project	6.125%	February 11, 2008	91,617.00	January 16, 2028	81,672.71	-	3,067.39	78,605.32	4,940.04
Total Long-Term Debt Commitments					\$ 570,472.71	\$ -	\$ 31,567.39	\$ 538,905.32	\$ 29,393.91

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

Issue	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2039	Total
Principal											
General Obligation Bonds											
Paid By Utility Revenues:											
Sewer Utility System Bonds											
Series 2000	\$ 4,800.00	\$ 5,000.00	\$ 5,200.00	\$ 5,500.00	\$ 5,800.00	\$ 33,400.00	\$ 42,400.00	\$ 53,600.00	\$ 68,300.00	\$ 49,300.00	\$ 273,300.00
Revenue Bonds											
Waterworks Utility System Bonds											
Series 1983 - A	12,000.00	14,000.00	14,000.00	14,000.00	16,000.00	92,000.00	25,000.00	-	-	-	187,000.00
Capital Lease											
Waterline Project	3,191.33	3,389.79	3,600.60	3,824.52	4,062.35	24,430.41	33,032.21	3,074.11	-	-	78,605.32
Total Principal Payments	19,991.33	22,389.79	22,800.60	23,324.52	25,862.35	149,830.41	100,432.21	56,674.11	68,300.00	49,300.00	538,905.32
Interest											
General Obligation Bonds											
Paid By Utility Revenues:											
Sewer Utility System Bonds											
Series 2000	13,322.28	13,089.38	12,845.63	12,593.16	12,322.98	57,100.92	48,126.02	36,758.06	22,322.21	4,879.95	233,360.59
Revenue Bonds											
Waterworks Utility System Bonds											
Series 1983 - A	9,350.00	8,750.00	8,050.00	7,350.00	6,650.00	20,550.00	1,250.00	-	-	-	61,950.00
Capital Lease											
Waterline Project	4,816.09	4,617.63	4,406.82	4,182.90	3,945.07	15,606.69	7,004.89	929.60	-	-	45,509.69
Total Interest Payments	27,488.37	26,457.01	25,302.45	24,126.06	22,918.05	93,257.61	56,380.91	37,687.66	22,322.21	4,879.95	340,820.28
Total Principal and Interest	\$ 47,479.70	\$ 48,846.80	\$ 48,103.05	\$ 47,450.58	\$ 48,780.40	\$ 243,088.02	\$ 156,813.12	\$ 94,361.77	\$ 90,622.21	\$ 54,179.95	\$ 879,725.60

7. DEFINED BENEFIT PENSION PLAN

Plan description. The City participates in the Kansas Public Employees Retirement System (KPERS). A cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establishes the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. K.S.A. 74-4975 establishes KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

8. COMPENSATED ABSENCES

Regular employees earn and accumulate vacation leave as follows:

- After One Full Year of Employment – 40 hours
- After Two Full Years of Employment – 80 hours
- After Five Full Years of Employment (if hired prior to 8/6/2012) – 120 hours
- After Ten Full Years of Employment (if hired after 8/6/2012) – 120 hours

Vacation is not earned for partial years worked. Employees must use vacation time in the year earned, as carryover is not allowed. Vacation time cannot be sold back to the City for more than one week, and only for employees eligible for 120 hours, as the employee must use at least two weeks. Upon resignation, quitting, termination, or lay-off, all earned vacation time will be paid to the employee.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of one day per two months worked, after a sixty (60) day probation period. The first year benefits are not to exceed five days. After the first year of employment, full-time employees will receive one day of sick leave for each month worked, and may accumulate up to twenty-four days of sick leave. Upon resignation, quitting, termination, or lay-off, all earned sick leave will be paid to the employee.

8. COMPENSATED ABSENCES (Continued)

The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and, is material.

In accordance with the above criteria, the City has estimated a liability for vacation pay of \$807.71. The City has not accrued a liability for sick pay, which has been earned, but not taken by City employees, as the amounts cannot be reasonably estimated.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these risks of loss through the purchase of various insurance policies.

10. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority:</u>	<u>Amount:</u>
Water Utility	Water Utility Bond & Interest	K.S.A. 12-825d	\$ 22,217.04
Water Utility	Water Utility Lease Purchase Principal & Interest	K.S.A. 12-825d	11,163.00
Water Utility	Special Highway Improvement Reserve	K.S.A. 12-825d	5,000.00
Water Utility	General	K.S.A. 12-825d	2,500.00
Sewer Utility	G.O. Sewer Utility Bond & Interest	K.S.A. 12-825d	18,052.08
Sewer Utility	Special Highway Improvement Reserve	K.S.A. 12-825d	2,000.00

Residual transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority:</u>	<u>Amount:</u>
G.O. Bond and Interest	General	K.S.A. 10-117a	\$ 11,182.04

11. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

CITY OF BUFFALO, KANSAS
 Summary of Expenditures - Actual and Budget
 (Budgeted Funds Only)
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
Governmental Type Funds:			
General	\$ 89,202.00	\$ 74,772.28	\$ (14,429.72)
Special Purpose Funds:			
Special Highway	16,478.00	7,871.96	(8,606.04)
Special Highway Improvement Reserve	34,720.00	-	(34,720.00)
Bond and Interest Funds:			
G.O. Bond & Interest	21,681.00	24,143.29	2,462.29
G.O. Sewer Utility Bond & Interest	21,482.00	18,029.97	(3,452.03)
Business Type Funds:			
Enterprise Funds:			
Water Utility	115,718.00	100,437.63	(15,280.37)
Sewer Utility	41,791.00	29,928.03	(11,862.97)

CITY OF BUFFALO, KANSAS
GENERAL FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 34,156.44	\$ 29,260.24	\$ 32,781.00	\$ (3,520.76)
Delinquent Tax	3,429.60	3,167.37	1,474.00	1,693.37
Motor Vehicle Tax	8,189.67	7,009.54	8,175.00	(1,165.46)
Recreational Vehicle Tax	113.78	160.33	193.00	(32.67)
16/20M Vehicle Tax	136.69	120.80	123.00	(2.20)
Franchise Tax	520.00	520.00	520.00	-
Charges for Services	506.90	199.20	822.00	(622.80)
Solid Waste Collections	20,176.38	20,867.84	20,240.00	627.84
Use of Money and Property				
Interest Income	471.65	287.94	556.00	(268.06)
Other Revenues				
Donations	904.00	17.00	665.00	(648.00)
Miscellaneous	1,325.83	1,006.23	1,060.00	(53.77)
Reimbursed Expense	1,155.44	834.33	-	834.33
Parks & Recreation	58.50	1,735.05	277.00	1,458.05
Community Bldg. Rent	3,590.00	2,515.00	3,780.00	(1,265.00)
Operating Transfer from				
Water Utility Fund	-	2,500.00	5,000.00	(2,500.00)
Residual Transfer from				
G.O. Bond and Interest Fund	-	11,182.04	8,720.00	2,462.04
Total Receipts	74,734.88	81,382.91	\$ 84,386.00	\$ (3,003.09)
Expenditures				
General Administration				
Personal Services	27,010.45	25,119.71	\$ 30,518.00	\$ (5,398.29)
Contractual Services	11,615.75	13,245.95	12,325.00	920.95
Commodities	4,690.07	3,476.03	5,300.00	(1,823.97)
Capital Outlay	-	2,500.00	-	2,500.00
Street Lights				
Contractual Services	5,655.06	5,274.49	5,500.00	(225.51)

CITY OF BUFFALO, KANSAS
GENERAL FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Expenditures (Continued)				
Parks and Recreation				
Contractual Services	\$ 76.32	\$ 52.79	\$ 1,000.00	\$ (947.21)
Commodities	1,073.70	474.95	1,000.00	(525.05)
Solid Waste				
Personal Services	2,820.57	2,281.96	3,253.00	(971.04)
Contractual Services	16,747.57	18,075.65	17,500.00	575.65
Commodities	556.45	555.64	800.00	(244.36)
Streets				
Commodities	-	-	4,656.00	(4,656.00)
Community Building				
Personal Services	218.66	174.32	600.00	(425.68)
Contractual Services	2,592.07	3,358.10	2,750.00	608.10
Commodities	668.03	182.69	1,000.00	(817.31)
Demolition				
Contractual Services	-	-	3,000.00	(3,000.00)
Total Expenditures	<u>73,724.70</u>	<u>74,772.28</u>	<u>\$ 89,202.00</u>	<u>\$ (9,031.43)</u>
Receipts Over(Under) Expenditures	1,010.18	6,610.63		
Unencumbered Cash, Beginning	<u>10,463.14</u>	<u>11,473.32</u>		
Unencumbered Cash, Ending	<u>\$ 11,473.32</u>	<u>\$ 18,083.95</u>		

CITY OF BUFFALO, KANSAS
SPECIAL HIGHWAY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Intergovernmental				
Special Highway Tax	\$ 6,497.07	\$ 5,984.13	\$ 7,440.00	\$ (1,455.87)
Other Revenues				
Miscellaneous	480.12	915.02	375.00	540.02
Total Receipts	<u>6,977.19</u>	<u>6,899.15</u>	<u>\$ 7,815.00</u>	<u>\$ (915.85)</u>
Expenditures				
General Government				
Personal Services	3,200.78	2,768.29	\$ 4,500.00	\$ (1,731.71)
Contractual Services	1,995.10	2,305.97	4,500.00	(2,194.03)
Commodities	1,197.13	2,797.70	7,478.00	(4,680.30)
Total Expenditures	<u>6,393.01</u>	<u>7,871.96</u>	<u>\$ 16,478.00</u>	<u>\$ (8,606.04)</u>
Receipts Over(Under) Expenditures	584.18	(972.81)		
Unencumbered Cash, Beginning	<u>7,812.01</u>	<u>8,396.19</u>		
Unencumbered Cash, Ending	<u>\$ 8,396.19</u>	<u>\$ 7,423.38</u>		

CITY OF BUFFALO, KANSAS
SPECIAL HIGHWAY IMPROVEMENT RESERVE FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Transfer from				
Water Utility Fund	\$ 2,000.00	\$ 5,000.00	\$ 5,000.00	\$ -
Sewer Utility Fund	3,000.00	2,000.00	2,000.00	-
Total Receipts	<u>5,000.00</u>	<u>7,000.00</u>	<u>\$ 7,000.00</u>	<u>\$ -</u>
Expenditures				
General Government				
Capital Outlay	-	-	\$ 34,720.00	\$ (34,720.00)
Total Expenditures	<u>-</u>	<u>-</u>	<u>\$ 34,720.00</u>	<u>\$ (34,720.00)</u>
Receipts Over(Under) Expenditures	5,000.00	7,000.00		
Unencumbered Cash, Beginning	<u>12,000.00</u>	<u>17,000.00</u>		
Unencumbered Cash, Ending	<u>\$ 17,000.00</u>	<u>\$ 24,000.00</u>		

CITY OF BUFFALO, KANSAS
G.O. BOND & INTEREST FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
Ad Valorem Property Tax	\$ 12,661.77	\$ 10,693.59	\$ 11,980.00	\$ (1,286.41)
Delinquent Tax	1,229.71	1,143.46	528.00	615.46
Motor Vehicle Tax	2,823.31	2,596.25	3,031.00	(434.75)
Recreational Vehicle Tax	39.17	60.16	71.00	(10.84)
16/20M Vehicle Tax	49.72	41.58	45.00	(3.42)
Total Receipts	<u>16,803.68</u>	<u>14,535.04</u>	<u>\$ 15,655.00</u>	<u>\$ (1,119.96)</u>
Expenditures				
Debt Service				
Principal	12,000.00	12,000.00	\$ 12,000.00	\$ -
Interest	1,920.00	960.00	960.00	-
Commission and Other	1.25	1.25	1.00	0.25
Residual Transfer to General Fund	-	11,182.04	8,720.00	2,462.04
Total Expenditures	<u>13,921.25</u>	<u>24,143.29</u>	<u>\$ 21,681.00</u>	<u>\$ 2,462.29</u>
Receipts Over(Under) Expenditures	2,882.43	(9,608.25)		
Unencumbered Cash, Beginning	<u>6,725.82</u>	<u>9,608.25</u>		
Unencumbered Cash, Ending	<u>\$ 9,608.25</u>	<u>\$ -</u>		

CITY OF BUFFALO, KANSAS
G.O. SEWER UTILITY BOND & INTEREST FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Transfers from Sewer Utility Fund	\$ 18,052.08	\$ 18,052.08	\$ 18,052.00	\$ 0.08
Total Receipts	<u>18,052.08</u>	<u>18,052.08</u>	<u>\$ 18,052.00</u>	<u>\$ 0.08</u>
Expenditures				
Debt Service				
Principal	4,300.00	4,500.00	\$ 4,500.00	\$ -
Interest	13,726.80	13,529.97	13,544.00	(14.03)
Cash Basis Reserve	-	-	3,438.00	(3,438.00)
Total Expenditures	<u>18,026.80</u>	<u>18,029.97</u>	<u>\$ 21,482.00</u>	<u>\$ (3,452.03)</u>
Receipts Over(Under) Expenditures	25.28	22.11		
Unencumbered Cash, Beginning	<u>3,430.69</u>	<u>3,455.97</u>		
Unencumbered Cash, Ending	<u>\$ 3,455.97</u>	<u>\$ 3,478.08</u>		

CITY OF BUFFALO, KANSAS
WATER UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
Water Sales	\$ 93,222.39	\$ 98,333.32	\$ 94,000.00	\$ 4,333.32
Penalties	3,043.13	3,011.83	3,260.00	(248.17)
Sales Tax	138.44	107.92	190.00	(82.08)
Other Revenues				
Reimbursed Expense	50.00	-	-	-
Miscellaneous	681.58	1,415.33	-	1,415.33
Total Receipts	<u>97,135.54</u>	<u>102,868.40</u>	<u>\$ 97,450.00</u>	<u>\$ 5,418.40</u>
Expenditures				
Operating Expenditures				
Personal Services	24,228.40	21,256.64	\$ 24,126.00	\$ (2,869.36)
Contractual Services	31,328.61	33,357.07	28,000.00	5,357.07
Commodities	4,287.39	4,943.88	6,000.00	(1,056.12)
Capital Outlay	-	-	14,212.00	(14,212.00)
Operating Transfers to:				
General Fund	-	2,500.00	5,000.00	(2,500.00)
Water Utility Bond & Interest Fund	22,217.04	22,217.04	22,217.00	0.04
Water Utility Lease Purchase Principal & Interest Fund	11,163.00	11,163.00	11,163.00	-
Special Highway Improvement Reserve Fund	2,000.00	5,000.00	5,000.00	-
Total Expenditures	<u>95,224.44</u>	<u>100,437.63</u>	<u>\$ 115,718.00</u>	<u>\$ (15,280.37)</u>
Receipts Over(Under) Expenditures	1,911.10	2,430.77		
Unencumbered Cash, Beginning	<u>19,463.05</u>	<u>21,374.15</u>		
Unencumbered Cash, Ending	<u>\$ 21,374.15</u>	<u>\$ 23,804.92</u>		

CITY OF BUFFALO, KANSAS
WATER UTILITY BOND & INTEREST FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfers from Water Utility Fund	\$ 22,217.04	\$ 22,217.04
Total Receipts	22,217.04	22,217.04
Expenditures		
Debt Service		
Principal	12,000.00	12,000.00
Interest	10,550.00	9,950.00
Total Expenditures	22,550.00	21,950.00
Receipts Over(Under) Expenditures	(332.96)	267.04
Unencumbered Cash, Beginning	12,026.78	11,693.82
Unencumbered Cash, Ending	\$ 11,693.82	\$ 11,960.86

CITY OF BUFFALO, KANSAS
WATER UTILITY LEASE PURCHASE
PRINCIPAL & INTEREST FUND

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfers from Water Utility Fund	\$ 11,163.00	\$ 11,163.00
Total Receipts	<u>11,163.00</u>	<u>11,163.00</u>
Expenditures		
Debt Service		
Principal	5,200.26	3,067.39
Interest	<u>2,807.16</u>	<u>4,940.04</u>
Total Expenditures	<u>8,007.42</u>	<u>8,007.43</u>
Receipts Over(Under) Expenditures	3,155.58	3,155.57
Unencumbered Cash, Beginning	<u>16,028.45</u>	<u>19,184.03</u>
Unencumbered Cash, Ending	<u>\$ 19,184.03</u>	<u>\$ 22,339.60</u>

CITY OF BUFFALO, KANSAS
WATER UTILITY RESERVE FUND

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfer From Water Utility Fund	\$ -	\$ -
Total Receipts	-	-
Expenditures		
Debt Service		
Principal	-	-
Interest	-	-
Total Expenditures	-	-
Receipts Over(Under) Expenditures	-	-
Unencumbered Cash, Beginning	22,500.00	22,500.00
Unencumbered Cash, Ending	\$ 22,500.00	\$ 22,500.00

CITY OF BUFFALO, KANSAS
SEWER UTILITY FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
User Fees	\$ 27,374.80	\$ 27,201.14	\$ 32,000.00	\$ (4,798.86)
Other Revenues				
Miscellaneous	180.23	2,129.09	-	2,129.09
Total Receipts	<u>27,555.03</u>	<u>29,330.23</u>	<u>\$ 32,000.00</u>	<u>\$ (2,669.77)</u>
Expenditures				
Operating Expenditures				
Personal Services	3,759.01	3,185.16	\$ 4,324.00	\$ (1,138.84)
Contractual Services	4,017.82	4,858.60	5,500.00	(641.40)
Commodities	1,160.37	1,832.19	4,000.00	(2,167.81)
Capital Outlay	-	-	7,915.00	(7,915.00)
Operating Transfers to:				
Special Highway Improvement Reserve Fund	3,000.00	2,000.00	2,000.00	-
G.O. Sewer Utility Bond & Interest Fund	18,052.08	18,052.08	18,052.00	0.08
Total Expenditures	<u>29,989.28</u>	<u>29,928.03</u>	<u>\$ 41,791.00</u>	<u>\$ (11,862.97)</u>
Receipts Over(Under) Expenditures	(2,434.25)	(597.80)		
Unencumbered Cash, Beginning	<u>12,860.93</u>	<u>10,426.68</u>		
Unencumbered Cash, Ending	<u>\$ 10,426.68</u>	<u>\$ 9,828.88</u>		

CITY OF BUFFALO, KANSAS
AGENCY FUNDS
Schedule of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2012

Agency Funds	Beginning Cash Balances	Receipts	Disbursements	Ending Cash Balances
Meter Deposits Fund	\$ 2,860.00	\$ 2,175.00	\$ 1,725.00	\$ 3,310.00
Community Fire Fund	14,076.77	17,831.96	26,683.77	5,224.96
Total Agency Funds	<u>\$ 16,936.77</u>	<u>\$ 20,006.96</u>	<u>\$ 28,408.77</u>	<u>\$ 8,534.96</u>



Communication of Material Weaknesses

The Honorable Mayor and City Council
City of Buffalo, Kansas

In planning and performing our audit of the financial statement of the City of Buffalo, Kansas, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Buffalo, Kansas' internal control over financial reporting (internal control) as a basis for designing our auditing 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in City of Buffalo, Kansas' internal control to be material weaknesses:

Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the City staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a City your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Council should continually be aware of the financial reporting of the City and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

412 W. MAIN, P.O. BOX 97
NEODESHA, KANSAS 66757
(620) 325-3430

1815 S. SANTA FE, P.O. BOX 779
CHANUTE, KANSAS 66720
(620) 431-6342

16 W. JACKSON
IOLA, KANSAS 66749
(620) 365-3125

www.jgppa.com

Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the City's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the City. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

April 19, 2013
Chanute, Kansas