

CITY OF CHASE, KANSAS

DECEMBER 31, 2012

CITY OF CHASE, KANSAS

TABLE OF CONTENTS

December 31, 2012

INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENT	
Summary of Cash Receipts, Expenditures, and Unencumbered Cash - Regulatory Basis.....	3-4
NOTES TO THE FINANCIAL STATEMENT.....	5-10
SCHEDULE 1	
Schedule of Expenditures - Regulatory Basis (Actual and Budget).....	11
SCHEDULE 2	
Schedule of Cash Receipts and Expenditures - Regulatory Basis (Actual and Budget)	
General Fund.....	12-13
Special Highway Fund.....	14
Special Parks Fund.....	15
Local Sales Tax Fund.....	16
Bond and Interest Fund.....	17
Water Fund.....	18
Sewer Fund.....	19
Schedule of Cash Receipts and Expenditures - Regulatory Basis (Actual)	
Special Purpose Funds - Nonbudgeted.....	20
Business Funds - Nonbudgeted.....	21
REPORT AND SCHEDULE REQUIRED BY GAO	
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.....	22-23
Schedule of Findings and Responses.....	24-25

INDEPENDENT AUDITORS' REPORT

Michael E. Evans, CPA
Roger W. Field, CPA
Gregory D. Daughhetee, CPA
Clark R. Cowl, CPA
Todd V. Pflughoeft, CPA
Steven R. Stoecklein, CPA
Kenneth D. Hamby, CPA
John W. Denney, CPA
Michael R. Meisenheimer, CPA
Nick L. Mueiting, CPA
Billy J. Klug, CPA
Randall R. Hofmeier, CPA
Brent L. Knoche, CPA

The Mayor and City Council
City of Chase, Kansas

We have audited the accompanying financial statement of City of Chase, Kansas (the City) which comprises the summary of cash receipts, expenditures, and unencumbered cash, 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 the financial statement in accordance with the cash basis and budget laws of the State of Kansas as prescribed by Kansas Municipal Audit and Accounting Guide (KMAAG), 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 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 standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and KMAAG. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, 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 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 reasonable basis for our audit opinion.

Basis for Adverse Opinion on United States Generally Accepted Accounting Principles

As described in note 1 of the financial statement, the financial statement is prepared by the City in accordance with the cash basis and budget laws of the State of Kansas as prescribed by KMAAG to meet the requirements of the State of Kansas, 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 United States Generally Accepted Accounting Principles

In our opinion, because of the significance of the matters 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 accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2012, or the respective changes in financial position or where applicable, its 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 the City, as of December 31, 2012, and the aggregate cash receipts and expenditures for the year then ended in accordance with the cash basis and budget laws of the State of Kansas as prescribed by KMAAG to meet the requirements of the State of Kansas as described in note 1.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement. The schedule of expenditures - actual and budget and the individual fund schedules of cash receipts and expenditures - actual and budget (schedules 1 and 2, as listed in the table of contents) are presented for additional analysis and are not a required part of the regulatory financial statement. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the 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 financial statement as a whole on the basis of accounting described in note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report, dated November 4, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants

Hutchinson, Kansas
November 4, 2013

CITY OF CHASE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
REGULATORY BASIS

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General	\$ 151,786	\$ 211,201	\$ 215,471	\$ 147,516	\$ 8,222	\$ 155,738
Special purpose						
Special highway	13,233	12,600	20,086	5,747	-	5,747
Special parks	4,457	48	-	4,505	-	4,505
Local sales tax	17,792	29,392	15,000	32,184	-	32,184
Capital improvements	6,647	-	-	6,647	-	6,647
Police seizure	784	-	-	784	-	784
Bond and interest						
Bond and interest	25,420	14,813	20,235	19,998	-	19,998
Business						
Water	155,288	89,122	62,670	181,740	-	181,740
Sewer	14,469	20,725	19,696	15,498	-	15,498
Water bond P&I	9,427	40,471	40,471	9,427	-	9,427
Sewer reserve	8,440	-	-	8,440	-	8,440
TOTAL REPORTING ENTITY	\$ 407,743	\$ 418,372	\$ 393,629	\$ 432,486	\$ 8,222	\$ 440,708

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

CITY OF CHASE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
REGULATORY BASIS

For the Year Ended December 31, 2012

Page 2 of 2

COMPOSITION OF CASH

Petty cash	\$	35
First Bank		
Checking accounts		368,898
Savings account		1,775
Certificates of deposit		<u>70,000</u>

TOTAL REPORTING ENTITY

\$ 440,708

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

CITY OF CHASE, KANSAS

NOTES TO THE FINANCIAL STATEMENT
December 31, 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

City of Chase, Kansas (the City) is a municipal corporation governed by an elected Mayor and City Council. There are no component units of the City.

Fund Accounting

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.

Kansas Municipal Audit and Accounting Guide Regulatory Basis of Presentation Fund Definitions

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

General fund – to account for all unrestricted resources except those required to be accounted for in another fund.

Special purpose funds – to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Bond and interest funds – to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

Business funds – to account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Regulatory Basis of Accounting and Departures from Generally Accepted Accounting Principles

The regulatory basis of accounting as prescribed in Kansas Municipal Audit and Accounting Guide (KMAAG) 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 reporting the changes in unencumbered cash and investments of a fund resulting from the 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. 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.

Interest Income

Unless otherwise designated, all investment income is credited to the general fund.

Cash and Investments

Cash includes amounts in demand, time deposits, and certificates of deposit at financial institutions.

Investments may consist of types authorized by Kansas Statute K.S.A. 12-1675, which includes U.S. government securities, repurchase agreements, the municipal investment pool, and others.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reimbursed Expenses

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

Vacation, Sick Leave, and Other Compensated Absences

The City does not accrue amounts for compensated absences. The amounts are not deemed material in relationship to the financial statement taken as a whole.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for all funds (including bond and interest funds and business funds) unless exempted by specific statute. The statutes provided for the following sequence and timetable in adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1 of each year.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5 of each year.
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.

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

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 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 capital project funds and the following special purpose funds: equipment and building reserve funds and special law enforcement fund. Spending in funds which are not subject to the legal annual operating budget requirement are maintained by the review and internal appropriation process established by management.

Taxes levied to finance the budget become a lien against all property November 1. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20 and May 10. These taxes are made available to the City after January 1 and are distributed by the County Treasurer generally in the months of January and June. Delinquent tax collections are distributed throughout the year.

NOTE 2—DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of this pool is displayed on the summary of cash receipts, expenditures, and unencumbered cash. The cash balances of certain funds are restricted as to their use.

K.S.A. 9-1401 established 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 and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

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. All deposits were legally secured at December 31, 2012.

Deposits

At December 31, 2012, the carrying amount of the City's deposits, including certificates of deposit was \$440,673. The bank balance was \$442,994. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$398,273 was covered by FDIC insurance and the remaining \$44,721 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

NOTE 3—LONG-TERM DEBT

Terms for long-term debt for the City for the year ended December 31, 2012, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Interest Due</u>	<u>Principal Due</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
General obligation bonds						
Series 2009A	4.250%	06/18/09	06-18	06-18	\$ 701,000	06/18/49
Series 2009B	3.625%	06/18/09	06-18	06-18	78,000	06/18/49
Loans						
Chase Firefighters Relief Association	1.000%	04/15/04	01-15	01-15	30,000	04/15/29
Capital leases						
Police car	3.340%	01/10/10	Monthly	Monthly	14,750	01/10/14

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

<u>Issue</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General obligation bonds					
Series 2009A	\$ 686,799	\$ -	\$ 7,556	\$ 679,243	\$ 29,189
Series 2009B	76,175	-	963	75,212	2,761
Loans					
Chase Firefighters Relief Association	22,383	-	1,132	21,251	224
Capital leases					
Police car	7,929	-	3,736	4,193	208
	<u>\$ 793,286</u>	<u>\$ -</u>	<u>\$ 13,387</u>	<u>\$ 779,899</u>	<u>\$ 32,382</u>

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

	Principal			Interest			Total Principal and Interest
	General Obligation	Loans	Capital Leases	General Obligation	Loans	Capital Leases	
	Bonds			Bonds			
2013	\$ 8,874	\$ 1,143	\$ 3,863	\$ 31,595	\$ 213	\$ 81	\$ 45,769
2014	9,246	1,155	330	31,223	201	1	42,156
2015	9,632	1,166	-	30,837	189	-	41,824
2016	10,034	1,178	-	30,435	178	-	41,825
2017	10,454	1,190	-	30,015	166	-	41,825
2018-2022	59,207	6,131	-	143,138	649	-	209,125
2023-2027	72,671	6,443	-	129,674	337	-	209,125
2028-2032	89,203	2,845	-	113,142	44	-	205,234
2033-2037	109,507	-	-	92,838	-	-	202,345
2038-2042	134,442	-	-	67,903	-	-	202,345
2043-2047	165,071	-	-	37,274	-	-	202,345
2048-2049	76,114	-	-	4,823	-	-	80,937
	<u>\$ 754,455</u>	<u>\$ 21,251</u>	<u>\$ 4,193</u>	<u>\$ 742,897</u>	<u>\$ 1,977</u>	<u>\$ 82</u>	<u>\$ 1,524,855</u>

NOTE 4—INTERFUND TRANSFERS

Operating transfers for the year ended December 31, 2012, consisted of the following:

From	To	Statutory Authority	Amount
Water fund	Water bond P&I	City ordinance	\$ 20,236
Bond and interest	Water bond P&I	City ordinance	20,235

NOTE 5—RISK MANAGEMENT

The City is subject to certain risks such as torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from third parties. There have been no significant reductions in insurance coverage from the prior year and there have been no settled claims in excess of insurance coverage for the prior three years.

NOTE 6—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 K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, KS 66603-3803, or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A 74-49,210 established 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 4.00% of covered salary for Tier 1 members and at 6.00% of covered salary for Tier 2 members.

The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for 2012 was 8.34%; except for the period April 1, 2012 through June 30, 2012, when the rate was 7.34%. The City's employer contributions to KPERS for the years ended December 31, 2012, 2011, and 2010, were \$6,347, \$6,070, and \$5,002, respectively, equal to the required contributions for each year.

NOTE 7—SUBSEQUENT EVENTS

On October 7, 2013, the City entered into a \$101,500 capital lease agreement for a 2004 Johnson Street Sweeper and a 2008 Caterpillar backhoe.

CITY OF CHASE, KANSAS

SCHEDULE OF EXPENDITURES - REGULATORY BASIS (ACTUAL AND BUDGET)
(BUDGETED FUNDS ONLY)

For the Year Ended December 31, 2012

Schedule 1

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General	\$ 306,559	\$ 2,800	\$ 309,359	\$ 215,471	\$ (93,888)
Special purpose					
Special highway	20,086	-	20,086	20,086	-
Special parks	4,333	-	4,333	-	(4,333)
Local sales tax	15,000	-	15,000	15,000	-
Bond and interest					
Bond and interest	20,235	-	20,235	20,235	-
Business					
Water	105,235	-	105,235	62,670	(42,565)
Sewer	23,500	-	23,500	19,696	(3,804)

CITY OF CHASE, KANSAS

GENERAL FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)

For the Year Ended December 31, 2012

Schedule 2
Page 1 of 10

	Actual	Budget	Variance Over (Under)
CASH RECEIPTS			
Taxes			
Ad valorem property tax	\$ 75,237	\$ 87,843	\$ (12,606)
Back tax collections	13,115	-	13,115
Motor vehicle tax	26,326	27,083	(757)
Recreational vehicle tax	495	596	(101)
16/20M truck tax	69	3	66
Alcohol tax	-	180	(180)
Sales tax	35,402	20,000	15,402
	<u>150,644</u>	<u>135,705</u>	<u>14,939</u>
Total taxes			
Licenses, fees, and permits			
Utility franchise tax	20,026	20,000	26
Miscellaneous permits and licenses	1,526	1,000	526
	<u>21,552</u>	<u>21,000</u>	<u>552</u>
Total licenses, fees, and permits			
Charges for services			
Refuse	24,767	24,000	767
	<u>24,767</u>	<u>24,000</u>	<u>767</u>
Fines, forfeitures, and penalties			
	2,250	100	2,150
	<u>2,250</u>	<u>100</u>	<u>2,150</u>
Interest on idle funds			
	650	-	650
	<u>650</u>	<u>-</u>	<u>650</u>
Reimbursed expense			
	2,800	-	2,800
	<u>2,800</u>	<u>-</u>	<u>2,800</u>
Miscellaneous			
	8,538	-	8,538
	<u>8,538</u>	<u>-</u>	<u>8,538</u>
TOTAL CASH RECEIPTS			
	<u>211,201</u>	<u>\$ 180,805</u>	<u>\$ 30,396</u>
EXPENDITURES			
General government			
Personal services	75,085	\$ 67,000	\$ 8,085
Contractual services	19,464	60,000	(40,536)
Commodities	65,224	60,000	5,224
Capital outlay	28,818	31,309	(2,491)
Road improvement	-	53,000	(53,000)
Other	585	1,250	(665)
	<u>189,176</u>	<u>272,559</u>	<u>(83,383)</u>
Total general government			

CITY OF CHASE, KANSAS

GENERAL FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

Schedule 2
Page 2 of 10

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
EXPENDITURES (continued)			
Refuse			
Contractual services	\$ 23,389	\$ 26,000	\$ (2,611)
Police			
Commodities	1,217	2,000	(783)
Contractual services	<u>-</u>	<u>2,000</u>	<u>(2,000)</u>
Total police	<u>1,217</u>	<u>4,000</u>	<u>(2,783)</u>
Fire			
Commodities	1,644	2,000	(356)
Contractual services	<u>45</u>	<u>2,000</u>	<u>(1,955)</u>
Total fire	<u>1,689</u>	<u>4,000</u>	<u>(2,311)</u>
	215,471	306,559	(91,088)
Adjustment for qualifying budget credits	<u>-</u>	<u>2,800</u>	<u>(2,800)</u>
TOTAL EXPENDITURES	<u>215,471</u>	<u>\$ 309,359</u>	<u>\$ (93,888)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(4,270)		
UNENCUMBERED CASH, BEGINNING	<u>151,786</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 147,516</u>		

CITY OF CHASE, KANSAS
 SPECIAL HIGHWAY FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

Schedule 2
Page 3 of 10

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
CASH RECEIPTS			
State payments	\$ 12,600	\$ 12,130	\$ 470
EXPENDITURES			
Personal services	6,020	\$ -	\$ 6,020
Commodities	2,818	-	2,818
Capital outlay	11,248	-	11,248
Other	-	20,086	(20,086)
TOTAL EXPENDITURES	<u>20,086</u>	<u>\$ 20,086</u>	<u>\$ -</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(7,486)		
UNENCUMBERED CASH, BEGINNING	<u>13,233</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 5,747</u>		

CITY OF CHASE, KANSAS
 SPECIAL PARKS FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Schedule 2 Page 4 of 10 Variance Over (Under) <u> </u>
CASH RECEIPTS			
Liquor tax	\$ 48	<u>\$ 180</u>	<u>\$ (132)</u>
EXPENDITURES			
Parks	<u>-</u>	<u>\$ 4,333</u>	<u>\$ (4,333)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	48		
UNENCUMBERED CASH, BEGINNING	<u>4,457</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 4,505</u>		

CITY OF CHASE, KANSAS
 LOCAL SALES TAX FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Schedule 2 Page 5 of 10 Variance Over (Under)
CASH RECEIPTS			
Sales tax	\$ 29,392	<u>\$ 15,000</u>	<u>\$ 14,392</u>
EXPENDITURES			
Road improvements	<u>15,000</u>	<u>\$ 15,000</u>	<u>\$ -</u>
RECEIPTS OVER (UNDER) EXPENDITURES	14,392		
UNENCUMBERED CASH, BEGINNING	<u>17,792</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 32,184</u>		

CITY OF CHASE, KANSAS
 BOND AND INTEREST FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Schedule 2 Page 6 of 10 Variance Over (Under)
CASH RECEIPTS			
Ad valorem property tax	\$ 8,007	\$ 9,323	\$ (1,316)
Back tax collections	1,774	-	1,774
Motor vehicle tax	4,927	5,065	(138)
Recreational vehicle tax	92	112	(20)
16/20M truck tax	13	-	13
	<u>14,813</u>	<u>\$ 14,500</u>	<u>\$ 313</u>
TOTAL CASH RECEIPTS			
EXPENDITURES			
Transfer to water bond P&I	<u>20,235</u>	<u>\$ 20,235</u>	<u>\$ -</u>
RECEIPTS OVER (UNDER) EXPENDITURES			
	(5,422)		
UNENCUMBERED CASH, BEGINNING			
	<u>25,420</u>		
UNENCUMBERED CASH, ENDING			
	<u>\$ 19,998</u>		

CITY OF CHASE, KANSAS

WATER FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

Schedule 2
Page 7 of 10

	Actual	Budget	Variance Over (Under)
CASH RECEIPTS			
Charges for service	\$ 79,877	\$ 72,000	\$ 7,877
Miscellaneous	9,245	-	9,245
TOTAL CASH RECEIPTS	89,122	\$ 72,000	\$ 17,122
EXPENDITURES			
Personal services	19,099	\$ 29,500	\$ (10,401)
Contractual services	8,170	10,000	(1,830)
Commodities	15,165	25,000	(9,835)
Capital outlay	-	20,500	(20,500)
Transfer to water bond P&I	20,236	20,235	1
TOTAL EXPENDITURES	62,670	\$ 105,235	\$ (42,565)
RECEIPTS OVER (UNDER) EXPENDITURES	26,452		
UNENCUMBERED CASH, BEGINNING	155,288		
UNENCUMBERED CASH, ENDING	\$ 181,740		

CITY OF CHASE, KANSAS

SEWER FUND
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For the Year Ended December 31, 2012

Schedule 2
 Page 8 of 10

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
CASH RECEIPTS			
Charges for service	\$ 20,725	\$ 21,000	\$ (275)
EXPENDITURES			
Personal services	11,760	\$ 15,000	\$ (3,240)
Contractual services	3,004	3,500	(496)
Commodities	4,932	5,000	(68)
TOTAL EXPENDITURES	<u>19,696</u>	<u>\$ 23,500</u>	<u>\$ (3,804)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	1,029		
UNENCUMBERED CASH, BEGINNING	<u>14,469</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 15,498</u>		

CITY OF CHASE, KANSAS

SPECIAL PURPOSE FUNDS - NONBUDGETED
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For the Year Ended December 31, 2012

Schedule 2
Page 9 of 10

	Capital Improvements	Police Seizure
CASH RECEIPTS	\$ -	\$ -
EXPENDITURES	-	-
RECEIPTS OVER (UNDER) EXPENDITURES	-	-
UNENCUMBERED CASH, BEGINNING	6,647	784
UNENCUMBERED CASH, ENDING	\$ 6,647	\$ 784

CITY OF CHASE, KANSAS

BUSINESS FUNDS - NONBUDGETED
 SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For the Year Ended December 31, 2012

Schedule 2
Page 10 of 10

	<u>Water Bond P&I</u>	<u>Sewer Reserve</u>
CASH RECEIPTS		
Transfers in	\$ 40,471	\$ -
EXPENDITURES		
Debt service	<u>40,471</u>	<u>-</u>
RECEIPTS OVER (UNDER) EXPENDITURES	-	-
UNENCUMBERED CASH, BEGINNING	<u>9,427</u>	<u>8,440</u>
UNENCUMBERED CASH, ENDING	<u><u>\$ 9,427</u></u>	<u><u>\$ 8,440</u></u>

Michael E. Evans, CPA
Roger W. Field, CPA
Gregory D. Daughhetee, CPA
Clark R. Cowl, CPA
Todd V. Pflughoeft, CPA
Steven R. Stoecklein, CPA
Kenneth D. Hamby, CPA
John W. Denney, CPA
Michael R. Meisenheimer, CPA
Nick L. Muetting, CPA
Billy J. Klug, CPA
Randall R. Hofmeier, CPA
Brent L. Knoche, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

The Mayor and City Council
City of Chase, Kansas

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the summary of cash receipts, expenditures, and unencumbered cash of City of Chase, Kansas (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statement, which comprises the City's regulatory basis financial statement, and have issued our report thereon dated November 4, 2013, which was modified because the financial statement is prepared on the regulatory basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of 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.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, and federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lindburg Vogel Pierce Jarvis".

Certified Public Accountants

Hutchinson, Kansas
November 4, 2013

CITY OF CHASE, KANSAS
 SCHEDULE OF FINDINGS AND RESPONSES
 For the Year Ended December 31, 2012

Page 1

SUMMARY OF AUDIT RESULTS**Financial Statement**

Type of auditor's report issued	Unmodified (Regulatory basis)
Internal control over financial reporting Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statement noted?	No

FINDINGS – FINANCIAL STATEMENT AUDIT**MATERIAL WEAKNESSES**2012-1 Segregation of Duties

Condition: There is a lack of appropriate segregation of duties related to all accounting functions.

Criteria: The City is responsible for establishing and maintaining effective internal controls.

Cause: The City does not have adequate funds or training to achieve the proper segregation of duties.

Effect: Without the proper segregation of duties, the risk that the City's financial statement may be materially misstated increases and the City's responsibility to prevent and detect fraud may be at risk.

Recommendation: Current reviews in place need to continue to lessen the effect of the lack of segregation of duties.

Management's Response: The City does not have sufficient funds to adequately staff the office to achieve the proper segregation of duties. The City Council does review all expenditures prior to final disbursement and multiple signatures are required on all checks. In addition, the City Treasurer has performed duties regarding reconciliations and reviewing significant accounting functions to help alleviate the segregation of duty issues.

CITY OF CHASE, KANSAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2012

Page 2

FINDINGS – FINANCIAL STATEMENT AUDIT**MATERIAL WEAKNESSES****2012-2 Internal Controls over Preparation of Financial Statements**

Condition: The City has no policies or procedures in place over internal controls related to preparation of their financial statement.

Criteria: The City is responsible for establishing and maintaining effective internal controls over preparation of their financial statement.

Effect: The lack of internal controls over preparation of financial statement places the City at a greater risk of not detecting or preventing material misstatements to its financial statement.

Cause: The City has not provided appropriate training or resources regarding internal controls over preparation of their financial statement.

Recommendation: To the extent possible, the City should establish controls over financial statement preparation.

Management's Response: The City agrees with the finding. The City understands the need for proper internal controls and to the extent possible will try to implement controls over the financial statement, including giving consideration to acquiring a copy of the 2013 KMAAG to use in financial statement preparation and obtaining training in this area.