

CITY OF ST. FRANCIS, KANSAS

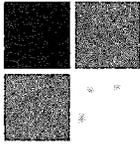
Primary Government Financial Statement
With Independent Auditors' Report

For the Year Ended December 31, 2012

CITY OF ST. FRANCIS, KANSAS
Primary Government Financial Statements With Independent Auditors' Report
For the Year Ended December 31, 2012

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the City Council
City of St. Francis, Kansas
St. Francis, Kansas

We have audited the accompanying primary government summary statement of regulatory basis receipts, expenditures, and unencumbered cash of **City of St. Francis, 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 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 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 Aggregate Discretely Presented Related Municipal Entities

The financial statement referred to above does not include financial data for the City's legally separate related municipal entities. Accounting principles generally accepted in the United States of America require financial data for those related municipal entities to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that

include the financial data for its related municipal entities. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash balance of St. Francis Housing Authority and St. Francis Public Library would have been reported as \$69,531 and \$24,227, respectively.

Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities” paragraph, the financial statement referred to above does not present fairly the financial position of the aggregate discretely presented related municipal entities of **City of St. Francis, Kansas**, as of December 31, 2012, or the changes in financial position thereof for the year then ended.

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

As described in Note 1, the financial statement is prepared by **City of St. Francis, 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 Aggregate Remaining Fund Information

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on Aggregate Discretely Presented Related Municipal Entities” and “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statement referred to above does not present fairly, in all material respects, the financial position of the aggregate remaining fund information of **City of St. Francis, Kansas** as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 St. Francis, 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*. 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 financial statement as a whole.

Adams, Brown Beran & Ball, Chtd.

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

July 08, 2013

CITY OF ST. FRANCIS, KANSAS
 Summary Statement of Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Period Adjustment	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds								
General Fund	\$ 59,126		-	979,464	863,869	174,721	11,063	185,784
Special Purpose Funds								
Library Fund	-		-	32,075	32,075	-	-	-
Special Parks and Recreation Fund	1,663		-	267	611	1,319	-	1,319
Special Highway Fund	40,453		-	34,391	32,877	41,967	-	41,967
Equipment Reserve Fund	249,739		-	123,228	50,751	322,216	4,453	326,669
Capital Improvement Fund	128,873		25,000	75,607	183,963	45,517	117,165	162,682
Tourism and Convention Fund	10,515		-	5,297	3,830	11,982	-	11,982
EMS Building Maintenance Fund	10,866		-	7,210	5,893	12,183	-	12,183
Swimming Pool Fund	1,186		-	230	-	1,416	-	1,416
Digital Sign Fund	6,893		-	2,100	-	8,993	-	8,993
Business Funds								
Electric and Water Utility Fund	125,594	(392)	-	1,811,654	1,874,336	62,520	73,578	136,098
Refuse Utility Fund	23,541		-	167,002	169,138	21,405	216	21,621
Sewer Utility Fund	14,551		-	148,185	136,969	25,767	-	25,767
Theatre Enterprise Fund	14,654		-	66,876	67,903	13,627	-	13,627
Total Primary Government (Excluding Agency Funds)	<u>\$ 687,654</u>	<u>(392)</u>	<u>25,000</u>	<u>3,453,586</u>	<u>3,422,215</u>	<u>743,633</u>	<u>206,475</u>	<u>950,108</u>

Composition of Cash

Checking Accounts	\$ 262,970
Petty Cash	100
Certificates of Deposits	820,663
Total Cash	1,083,733
Agency Funds per Schedule 3	(133,625)
Total Primary Government (Excluding Agency Funds)	<u>\$ 950,108</u>

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

CITY OF ST. FRANCIS, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of St. Francis, 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 five-member council. This financial statement does not include the related municipal entities shown below. A related municipal entity is an entity established to benefit the City and/or its constituents.

St. Francis Housing Authority

The City's Housing Authority operates the City's housing projects. The housing authority can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the City. Audited financial statements can be obtained by contacting the housing authority's office.

St. Francis Public Library

The City's Library Board operates the City's public library. Acquisition or disposition of real property by the board must be approved by the City. Bond issuances must also be approved by the City. Unaudited financial statements can be obtained by contacting the library.

The City is the primary government as defined in GASB #61. The City council is elected by the public. The council has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

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.

CITY OF ST. FRANCIS, KANSAS
Notes to Financial Statement
December 31, 2012

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.

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.).

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

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

CITY OF ST. FRANCIS, KANSAS

Notes to Financial Statement

December 31, 2012

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 and agency funds 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.

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 capital project funds and the following special purpose funds: Swimming Pool Fund, Digital Sign Fund, Equipment Reserve Fund and Capital Improvement 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.

CITY OF ST. FRANCIS, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

City of St. Francis, 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 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 \$1,083,733 and the bank balance was \$1,288,270. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$992,325 was covered by federal depository insurance and \$295,945 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

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 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. **City of St. Francis, Kansas'** interfund transfers and regulatory authority for the year ended December 31, 2012 were as follows:

CITY OF ST. FRANCIS, KANSAS

Notes to Financial Statement

December 31, 2012

From	To	Regulatory Authority	Amount
Refuse Utility Fund	General Fund	K.S.A. 12-825d	\$ 60,000
Refuse Utility Fund	Equipment Reserve Fund	K.S.A. 12-1,117	18,000
Electric and Water Utility Fund	General Fund	K.S.A. 12-825d	361,000
Electric and Water Utility Fund	Equipment Reserve Fund	K.S.A. 12-1,117	75,228
Electric and Water Utility Fund	Capital Improvement Fund	K.S.A. 12-1,118	75,227
Sewer Utility Fund	General Fund	K.S.A. 12-825d	75,000
Sewer Utility Fund	Equipment Reserve Fund	K.S.A. 12-1,117	30,000

NOTE 5 – LITIGATION

City of St. Francis, 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.

NOTE 6 – RISK MANAGEMENT

City of St. Francis, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, umbrella, 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 St. Francis, 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

Expenditures exceeded budgeted amounts in the following funds, which is a violation of K.S.A. 79-2935:

Electric and Water Utility Fund	\$6,115
Theater Enterprise Fund	7,764

All checks outstanding for two years or more must be cancelled and restored to the fund originally charged to be in compliance with K.S.A. 10-816. The City of St. Francis had checks outstanding for more than two years as of December 31, 2012, which is a violation of K.S.A. 10-816.

NOTE 9 – DEFERRED COMPENSATION PLAN

City of St. Francis, Kansas sponsors a deferred compensation plan under Internal Revenue Code Section 403(b). Permanent and part-time employees are eligible to participate under the plan. The employee is responsible for the amount of deferred compensation to be contributed. The City is not required to make any contributions.

CITY OF ST. FRANCIS, KANSAS
Notes to Financial Statement
December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

City of St. Francis, Kansas participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERs member-employee contribution rates. Effective July 1, 2009 KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERs member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions 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.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

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

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 12 – COMPENSATED ABSENCES

Vacation

City of St. Francis, Kansas' policy regarding vacation entitles employees to 80 hours of vacation upon the completion of 1 year's continuous service from the date of employment. Each employee is entitled to 96 hours of vacation after 5 years of continuous service, 120 hours of vacation after 10 years of continuous service and 144 hours after 20 years of continuous service. Vacation is not cumulative. Any employee who is eligible for vacation, but has not yet taken it at the time he/she terminates or is terminated, will receive his/her vacation pay at the regular rates at the time of termination. The potential liability for vacation at December 31, 2012 was \$17,819. This is reflected in the financial statement.

Sick Leave

The City's policy for sick leave permits full-time employees to earn sick leave at the rate 8 hours of sick leave for each full month of service up to 96 hours sick leave per year. Sick leave accumulates on the basis of the unused portion of each employee's 96 hours allowance per year up to a maximum of 960 hours. Employees are not paid for any unused sick leave upon termination of his or her employment with

CITY OF ST. FRANCIS, KANSAS

Notes to Financial Statement

December 31, 2012

the City. The potential liability for sick leave at December 31, 2012 was \$66,650. This is not reflected in the financial statement.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The Electric and Water Utility Fund has prior period adjustments in the beginning unencumbered cash balances for 2011 and 2012. The 2011 and 2012 adjustments were (\$3,894) and (\$392), respectively. This is due to a reclassification of the water use tax, sales tax, and tenant deposit funds to report as agency funds. Because of this, the Tenant Deposit agency fund has a prior period adjustment in the beginning cash balance to reflect this change. The adjustment of \$62,177 was recorded to report the tenant deposit fund as a separate fund.

NOTE 14 – LONG-TERM DEBT

City of St. Francis, Kansas has the following types of long-term debt.

KDHE Revolving Loan

The City entered into a \$481,860 revolving loan agreement on May 25, 2005 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance a sewer system upgrade. The City will use proceeds generated by the operation of the facility for loan repayment, which began December 31, 2006.

Lease Obligation

The City entered into a \$97,000 lease agreement on January 13, 2011 with an option to purchase at the expiration of the lease terms. The lease is with BankWest of Kansas and is to finance the purchase of theater equipment. The lease contains a fiscal funding clause.

City of St. Francis, 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
KDHE Loans									
Revolving Loan Fund	2.91%	05/25/05	481,860	09/01/24	336,539	-	(21,641)	314,898	9,637
Capital Lease Payable									
Theater Equipment	3.25%	01/13/11	97,000	01/31/15	43,500	-	(43,500)	-	1,895
Total Contractual Indebtedness					\$ 380,039	-	(65,141)	314,898	11,532

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 - 2024	
Principal								
KDHE Loan	\$ 22,275	22,928	23,600	24,292	25,004	136,453	60,346	314,898
Interest								
KDHE Loan	9,003	8,350	7,678	6,986	6,274	19,936	2,210	60,437
Total Principal and Interest	\$ 31,278	31,278	31,278	31,278	31,278	156,389	62,556	375,335

CITY OF ST. FRANCIS, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Funds					
General Fund	\$ 1,016,257	-	1,016,257	863,869	(152,388)
Special Purpose Funds					
Library Fund	32,281	-	32,281	32,075	(206)
Special Parks and Recreation Fund	1,762	-	1,762	611	(1,151)
Special Highway Fund	42,981	-	42,981	32,877	(10,104)
Tourism and Convention Fund	12,645	-	12,645	3,830	(8,815)
EMS Building Maintenance Fund	22,941	-	22,941	5,893	(17,048)
Business Funds					
Electric and Water Utility Fund	1,868,221	-	1,868,221	1,874,336	6,115
Refuse Utility Fund	187,549	-	187,549	169,138	(18,411)
Sewer Utility Fund	164,916	-	164,916	136,969	(27,947)
Theatre Enterprise Fund	60,139	-	60,139	67,903	7,764

CITY OF ST. FRANCIS, KANSAS

Regulatory-Required Supplementary Information

CITY OF ST. FRANCIS, KANSAS
General Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 241,734	243,671	253,766	(10,095)
Delinquent Tax	5,075	9,245	-	9,245
Motor Vehicle Tax	46,748	50,981	53,983	(3,002)
16/20 Vehicle Tax	1,619	1,867	1,525	342
Recreational Vehicle Tax	1,188	920	1,708	(788)
Intergovernmental Revenues	92,913	100,953	110,361	(9,408)
Licenses and Permits	22,305	17,859	21,550	(3,691)
Charges for Services	30,285	28,443	20,659	7,784
Use of Money and Property	4,272	2,452	3,300	(848)
Miscellaneous	19,936	27,073	5,400	21,673
Transfers In	340,000	496,000	496,000	-
Total Cash Receipts	806,075	979,464	968,252	11,212
Expenditures				
General Government	66,195	62,154	126,934	(64,780)
Police Department	151,142	159,644	212,225	(52,581)
Streets	32,320	53,356	37,898	15,458
Fire	6,472	18,908	12,098	6,810
Sanitation	17,347	21,952	26,317	(4,365)
Recycling	11,671	16,387	13,997	2,390
Parks and Recreation	138,734	176,531	135,323	41,208
Employee Benefits	381,511	305,131	408,394	(103,263)
Miscellaneous	21,053	17,191	16,923	268
Economic Development Program	8,388	7,700	1,030	6,670
Shop Expense	11,111	6,614	14,258	(7,644)
Library Expense	1,619	1,624	2,001	(377)
Other Theatre	2,068	542	-	542
Theatre Utilities	379	410	507	(97)
Ball Diamond	38	267	335	(68)
Animal Shelter Expense	340	253	361	(108)
Recycle Expense	970	15,205	2,506	12,699
Senior Citizen Center	-	-	5,150	(5,150)
Total Expenditures	851,358	863,869	1,016,257	(152,388)
Cash Receipts Over (Under) Expenditures	(45,283)	115,595		
Unencumbered Cash - Beginning	104,409	59,126		
Unencumbered Cash - Ending	\$ 59,126	174,721		

CITY OF ST. FRANCIS, KANSAS
Library Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property Tax	\$ 25,139	25,469	26,602	(1,133)
Delinquent Tax	625	987	-	987
Motor Vehicle Tax	5,015	5,326	5,616	(290)
16/20 Vehicle Tax	128	197	178	19
Recreational Vehicle Tax	185	96	159	(63)
Total Cash Receipts	31,092	32,075	32,555	(480)
Expenditures				
Appropriations	31,092	32,075	32,281	(206)
Cash Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash - Beginning	-	-		
Unencumbered Cash - Ending	\$ -	-		

CITY OF ST. FRANCIS, KANSAS
Special Parks and Recreation Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenue				
Liquor Tax	\$ 274	267	361	(94)
Expenditures				
Parks	-	-	1,147	(1,147)
Scout Hut	703	611	615	(4)
Total Expenditures	703	611	1,762	(1,151)
Cash Receipts Over (Under) Expenditures	(429)	(344)		
Unencumbered Cash - Beginning	2,092	1,663		
Unencumbered Cash - Ending	\$ 1,663	1,319		

CITY OF ST. FRANCIS, KANSAS
Special Highway Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenue				
Gasoline Tax	\$ 33,809	34,391	<u>35,190</u>	<u>(799)</u>
Expenditures				
Capital Outlay	2,136	32,877	<u>42,981</u>	<u>(10,104)</u>
Cash Receipts Over (Under) Expenditures	31,673	1,514		
Unencumbered Cash - Beginning	8,780	40,453		
Unencumbered Cash - Ending	\$ <u>40,453</u>	<u>41,967</u>		

CITY OF ST. FRANCIS, KANSAS
Equipment Reserve Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Interest	\$ 73	-
Reimbursements	41,000	-
Loan Proceeds	97,000	-
Transfers In	60,000	123,228
Total Cash Receipts	<u>198,073</u>	<u>123,228</u>
Expenditures		
Capital Outlay	94,858	5,356
Debt Service	53,500	45,395
Total Expenditures	<u>148,358</u>	<u>50,751</u>
Cash Receipts Over (Under) Expenditures	49,715	72,477
Unencumbered Cash - Beginning	<u>200,024</u>	<u>249,739</u>
Unencumbered Cash - Ending	<u>\$ 249,739</u>	<u>322,216</u>

CITY OF ST. FRANCIS, KANSAS
Capital Improvement Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Interest	\$ 227	380
Transfers In	75,000	75,227
Total Cash Receipts	<u>75,227</u>	<u>75,607</u>
Expenditures		
Pool Improvement	25,000	100,000
Infrastructure Betterment	36,001	12,237
Water Improvements	63,118	71,726
Total Expenditures	<u>124,119</u>	<u>183,963</u>
Cash Receipts Over (Under) Expenditures	(48,892)	(108,356)
Unencumbered Cash - Beginning	177,765	128,873
Prior Year Cancelled Encumbrances	<u>-</u>	<u>25,000</u>
Unencumbered Cash - Ending	<u>\$ 128,873</u>	<u>45,517</u>

CITY OF ST. FRANCIS, KANSAS
Tourism and Convention Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Reimbursements	\$ 200	-	-	-
Taxes and Shared Revenue				
Guest Tax	4,576	5,297	5,600	(303)
Total Cash Receipts	4,776	5,297	5,600	(303)
Expenditures				
Tourism Expenses	1,888	3,830	12,645	(8,815)
Cash Receipts Over (Under) Expenditures	2,888	1,467		
Unencumbered Cash - Beginning	7,627	10,515		
Unencumbered Cash - Ending	\$ 10,515	11,982		

CITY OF ST. FRANCIS, KANSAS
EMS Building Maintenance Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
County Allocation	\$ 5,400	5,400	9,000	(3,600)
City Allocation	2,603	1,800	3,000	(1,200)
Interest	7	10	-	10
Total Cash Receipts	<u>8,010</u>	<u>7,210</u>	<u>12,000</u>	<u>(4,790)</u>
Expenditures				
Building Supplies	231	594	1,646	(1,052)
Building Insurance	1,890	1,314	2,326	(1,012)
Inspection Fees	90	90	93	(3)
Miscellaneous	18	-	-	-
Janitorial Supplies	-	-	605	(605)
Capital Repairs	-	-	12,052	(12,052)
Pest Control	-	370	309	61
Utilities	4,428	3,525	5,910	(2,385)
Total Expenditures	<u>6,657</u>	<u>5,893</u>	<u>22,941</u>	<u>(17,048)</u>
Cash Receipts Over (Under) Expenditures	1,353	1,317		
Unencumbered Cash - Beginning	<u>9,513</u>	<u>10,866</u>		
Unencumbered Cash - Ending	<u>\$ 10,866</u>	<u>12,183</u>		

CITY OF ST. FRANCIS, KANSAS
Swimming Pool Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Donations	\$ -	230
Expenditures	-	-
Cash Receipts Over (Under) Expenditures	-	230
Unencumbered Cash - Beginning	1,186	1,186
Unencumbered Cash - Ending	\$ 1,186	1,416

CITY OF ST. FRANCIS, KANSAS
Digital Sign Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Donations	\$ 6,893	2,100
Expenditures	-	-
Cash Receipts Over (Under) Expenditures	6,893	2,100
Unencumbered Cash - Beginning	-	6,893
Unencumbered Cash - Ending	\$ 6,893	8,993

CITY OF ST. FRANCIS, KANSAS
Electric and Water Utility Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Charges for Services				
Collections	\$ 1,591,633	1,753,611	1,640,174	113,437
Penalties	10,195	11,674	8,528	3,146
Connection Fees	899	690	783	(93)
Sales Tax	-	8,534	50,309	(41,775)
KMEA Revenue	6,875	35,369	828	34,541
Water Use Tax	3,794	-	3,777	(3,777)
Meter Deposits	-	-	8,610	(8,610)
Interest	2,067	1,187	675	512
Miscellaneous	330	535	-	535
Reimbursed Expense	1,633	54	2,100	(2,046)
Total Cash Receipts	1,617,426	1,811,654	1,715,784	95,870
Expenditures				
Personal Services	302,475	246,316	340,172	(93,856)
Office Expense	12,141	15,482	10,820	4,662
Vehicle Expense	4,103	5,342	8,932	(3,590)
Vehicle Gas and Oil	11,132	9,565	13,495	(3,930)
Legal and Printing	15,843	7,799	9,130	(1,331)
Insurance	22,677	28,135	27,668	467
Audit/Contractual Service	6,870	7,333	7,273	60
Expense Account - Clerk/Mayor	5,385	963	7,179	(6,216)
Generating Fuel	15,652	11,913	5,523	6,390
Plant Outside	88,237	43,938	36,389	7,549
Plant Inside	43,076	44,182	68,075	(23,893)
K.M.E.A., Sunflower, W.A.P.A.	726,463	862,853	723,092	139,761
Meter Deposit Refunds	335	6,476	9,260	(2,784)
Sales Tax	-	8,194	47,678	(39,484)
Water Use Tax	-	-	2,948	(2,948)
Water Expense	20,259	45,242	30,669	14,573
Compensating Use Tax	5,446	4,593	3,817	776
Tool Account	14	-	35	(35)
Miscellaneous	14,382	9,179	-	9,179
Clean Drinking Water Fee	3,574	5,376	4,611	765
Transfers Out	325,000	511,455	511,455	-
Total Expenditures	\$ 1,623,064	1,874,336	1,868,221	6,115
Cash Receipts Over (Under) Expenditures	\$ (5,638)	(62,682)		
Unencumbered Cash - Beginning As Previously Stated	135,126	125,594		
Prior Period Adjustment	(3,894)	(392)		
Unencumbered Cash - Beginning As Restated	131,232	125,202		
Unencumbered Cash - Ending	\$ 125,594	62,520		

CITY OF ST. FRANCIS, KANSAS
Refuse Utility Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Charges for Services				
Collections	\$ 165,023	166,370	170,232	(3,862)
Reimbursements	496	632	-	632
Total Cash Receipts	165,519	167,002	170,232	(3,230)
Expenditures				
Personal Services	51,897	53,834	56,226	(2,392)
Vehicle Gas and Oil	7,806	7,306	6,668	638
Insurance	911	2,727	6,556	(3,829)
Solid Waste	23,497	22,054	26,412	(4,358)
Truck Expense	4,320	4,983	1,687	3,296
Miscellaneous	460	234	-	234
Transfers Out	65,000	78,000	90,000	(12,000)
Total Expenditures	153,891	169,138	187,549	(18,411)
Cash Receipts Over (Under) Expenditures	11,628	(2,136)		
Unencumbered Cash - Beginning	11,913	23,541		
Unencumbered Cash - Ending	\$ 23,541	21,405		

CITY OF ST. FRANCIS, KANSAS
Sewer Utility Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Charges for Services				
Collections	\$ 147,181	148,185	151,182	(2,997)
Expenditures				
Operation Expense	18,289	691	35,638	(34,947)
Debt Service	31,278	31,278	31,278	-
Transfers Out	85,000	105,000	98,000	7,000
Total Expenditures	134,567	136,969	164,916	(27,947)
Cash Receipts Over (Under) Expenditures	12,614	11,216		
Unencumbered Cash - Beginning	1,937	14,551		
Unencumbered Cash - Ending	\$ 14,551	25,767		

CITY OF ST. FRANCIS, KANSAS
Theatre Enterprise Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Charges for Services				
Ticket Sales	\$ 38,251	42,699	32,379	10,320
Concession Sales	21,359	23,559	15,526	8,033
Interest	11	14	29	(15)
Miscellaneous	810	604	-	604
Total Cash Receipts	<u>60,431</u>	<u>66,876</u>	<u>47,934</u>	<u>18,942</u>
Expenditures				
Movie Fees	16,276	19,518	14,051	5,467
Booking Fees	1,785	1,785	1,966	(181)
Sales Tax	4,252	5,799	3,163	2,636
Concession Supplies	9,363	12,630	7,832	4,798
Personal Services	18,222	20,930	16,980	3,950
Advertising	2,219	2,023	1,982	41
Freight	1,488	1,726	1,840	(114)
Building	37	187	30	157
Business Expense	1,543	1,549	904	645
Licenses and Permits	200	-	208	(208)
Equipment Purchased	3,320	1,756	11,183	(9,427)
Total Expenditures	<u>58,705</u>	<u>67,903</u>	<u>60,139</u>	<u>7,764</u>
Cash Receipts Over (Under) Expenditures	1,726	(1,027)		
Unencumbered Cash - Beginning	<u>12,928</u>	<u>14,654</u>		
Unencumbered Cash - Ending	\$ <u>14,654</u>	<u>13,627</u>		

CITY OF ST. FRANCIS, KANSAS
Agency Funds
 Summary of Receipts and Disbursements
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Beginning Cash Balance	Prior Period Adjustment	Receipts	Disbursements	Ending Cash Balance
Police Explorers Fund	\$ 598	-	1	-	599
Bandshell Fund	58,548	-	81	-	58,629
Bandshell Preservation Fund	7,622	-	10	-	7,632
Water Use Fee	474	-	4,557	4,593	438
Sales Tax	-	-	45,261	45,261	-
Tenant Deposits	-	62,177	11,400	7,250	66,327
Municipal Court Fund	-	-	1,290	1,290	-
Total	\$ 67,242	62,177	62,600	58,394	133,625

July 08, 2013

To the City Council and Management
City of St. Francis, Kansas
St. Francis, Kansas

Management Letter

In planning and performing our audit of the primary government financial statement of **City of St. Francis, 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's internal control over financial reporting (internal control) as a basis for designing 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 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 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 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 following deficiency in the City's internal control to be a material weakness.

- **City of St. Francis, Kansas** does not have proper segregation of duties necessary to establish a good system of internal control. We understand that the size of the City's accounting and administrative staff and related budget constraints preclude management from hiring additional personnel to achieve proper segregation of duties. However, limited segregation can and should be implemented to reduce the risk of errors or fraud. Where possible, duties should be segregated. Involvement by the Council can also mitigate the risks of error or fraud. The Council should remain involved in the financial affairs of the City to provide oversight and independent review functions.

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 following deficiency in the City's internal control to be a significant deficiency.

- No one is currently reconciling the bank account used for the pool receipts during the summer months. Reconciling the account will ensure that money is being spent for appropriate purposes and will ensure that all activity in the account is being reviewed. This will also help the council compare the activity from the prior and current years and investigate any unexpected variances from year to year.

City of St. Francis, Kansas

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July 08, 2013

- The City missed recording two material encumbrances totaling \$19,411. These should have been found and recorded at the end of the year. We recommend the city thoroughly review the minutes of the council meetings for any items approved and not yet paid as of the end of the year as well as checking all vendor bills for services that may have been incurred to verify proper cut-off at year end. As the city continues to utilize the CIC software, this process should become easier to monitor.
- The mayor's signature stamp is not kept in his possession and is currently held by the superintendent to use when reviewing payroll checks. We recommend the city superintendent release the signature stamp back to the mayor to retain. If the mayor is unable to sign the paychecks twice a month, it would be advised that another member of the council performs this function.

We would like to express our appreciation for the opportunity to perform the December 31, 2012 audit for **City of St. Francis, Kansas** and to the employees for the cooperation and assistance given to us during the audit.

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

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants