



January 31, 2014

To the Commission
Reno County, Kansas Public Building Commission
Hutchinson, Kansas

Governance Letter

We have audited the primary government financial statement of **Reno County, Kansas Public Building Commission** for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 30, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **Reno County, Kansas Public Building Commission** are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2012. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statement taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 31, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Commission’s financial statement or a determination of the type of auditors’ opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statement, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the regulatory basis of accounting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

Audit Recommendations

We wish to communicate to the governing body recommendations that we discussed with management to improve operational or administrative efficiencies and for improving internal control.

- **Reno County, Kansas Public Building Commission’s** bank account is held in the County’s EIN, but should be held in the **Reno County, Kansas Public Building Commission’s** EIN. In addition, the PBC should monitor the bank account in order to maintain adequate FDIC coverage.
- Separate funds should be used for the Field Correction Offices Debt Service Fund and Public Works Facility Debt Service Fund within the accounting software. Currently, one fund is used with in Reno County’s New World software to track all of the activity by the PBC. Using separate funds would help track the rental income and bond payment activity of each individual fund.

We will review the status of these items during our next audit engagement. We have already discussed many of these items and suggestions with the appropriate personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Reno County, Kansas Public Building Commission

Page 3

November 15, 2013

This information is intended solely for the use of the Commission and management of **Reno County, Kansas Public Building Commission** 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

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Financial Statement With Independent Auditors' Report

For the Year Ended December 31, 2012

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION
Financial Statement With Independent Auditors' Report
For the Year Ended December 31, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Summary Statement of Receipts, Expenditures and Unencumbered Cash – Regulatory Basis	3
Notes to Financial Statement	4

Regulatory–Required Supplementary Information

Schedule 1 – Schedule of Receipts and Expenditures – Regulatory Basis
Individually presented by fund

Governmental Type Funds

Special Purpose Funds

1-1 Public Works Facility Rebate Fund	9
---------------------------------------------	---

Bond and Interest Funds

1-2 Field Correction Offices Debt Service Fund	10
1-3 Public Works Facility Debt Service Fund	11



INDEPENDENT AUDITORS' REPORT

To the Commission
Reno County, Kansas Public Building Commission
Hutchinson, Kansas

- We have audited the accompanying summary statement of regulatory basis receipts, expenditures, and unencumbered cash of **Reno County, Kansas Public Building Commission**, a related municipal entity of Reno County, 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 U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by **Reno County, Kansas Public Building Commission** 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 of the financial

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to in the first paragraph does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Reno County, Kansas Public Building Commission** as of December 31, 2012, or the changes in its financial position and cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of **Reno County, Kansas Public Building Commission** 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 individual fund schedules of receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement; however, is 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.

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

January 31, 2014

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
Special Purpose Fund							
Public Works Facility Rebate Fund	\$ 245,530	-	-	245,530	-	-	-
Bond and Interest Funds							
Field Correction Offices Debt Service Fund	31,914	-	102,365	102,128	32,151	-	32,151
Public Works Facility Debt Service Fund	-	-	310,180	337,600	(27,420)	-	(27,420)
Total Reporting Entity	\$ 277,444	-	412,545	685,258	4,731	-	4,731
			Composition of Cash		Checking Account		\$ 4,731

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

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Notes to Financial Statement

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reno County, Kansas Public Building Commission 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 Commission is a municipal corporation of the State of Kansas under the authority of K.S.A. 12-1757 *et seq.* and Charter Resolution No. 98-4 of Reno County. The Commission has been organized by the governing body of Reno County, Kansas for the purposes of acquiring a site or sites for and constructing, reconstructing, equipping and furnishing, or purchasing or otherwise acquiring, a building or buildings or other facilities of a revenue producing character and is governed by a three member committee. The accompanying financial statement includes all funds which are controlled by or are dependent on the Commission. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

The Commission is a related municipal entity of Reno County, Kansas. The members are appointed by the Reno County Commissioners. The Commission has the power and authority to issue revenue bonds to provide funds for the purpose of paying all or a portion of the costs of the project.

Basis of Presentation – Fund Accounting

The accounts of the Commission 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 Commission for the year ended December 31, 2012.

Regulatory Basis Fund Types

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.

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

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

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Notes to Financial Statement

December 31, 2012

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 Commission 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 Commission 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 Commission 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.

Restricted Assets

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

Reimbursements

The Commission 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 – DEPOSITS AND INVESTMENTS

Reno County, Kansas Public Building Commission 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 Commission. The statute requires banks eligible to hold the Commission's funds have a main or branch bank in the county in which the Commission 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 Commission has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Commission'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 Commission has no investment policy that would further limit its investment choices.

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Notes to Financial Statement

December 31, 2012

Concentration of Credit Risk

State statutes place no limit on the amount the Commission 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 Commission's deposits may not be returned to it. State statutes require the Commission'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 Commission does not use "peak periods". All deposits were legally secured at December 31, 2012.

At December 31, 2012, the Commission's carrying amount of deposits was \$4,731 and the bank balance was \$4,731. The bank balance was held by one bank resulting in a concentration of credit risk. The bank balance was fully covered by federal depository insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Commission 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 Commission had no investments at December 31, 2012.

NOTE 3 – 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. **Reno County, Kansas Public Building Commission's** interfund transfers and regulatory authority for the year ended December 31, 2012 were as follows:

<u>From</u>	<u>To</u>	<u>Regulatory Authority</u>	<u>Amount</u>
Public Works Facility Rebate Fund	Public Works Facility Debt Service	K.S.A.12-1762	\$ 245,530

NOTE 4 – LITIGATION

Reno County, Kansas Public Building Commission 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 Commission.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures exceeded available monies in the Public Works Facility Debt Service Fund by \$27,420, which is in violation of K.S.A. 10-1113.

Taxes levied were not sufficient to pay scheduled debt and interest payments in the Public Works Facility Debt Service Fund, which is in violation of K.S.A. 10-118.

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Notes to Financial Statement

December 31, 2012

NOTE 6 – LEASE RECEIVABLE

Reno County, Kansas Public Building Commission entered into the following lease agreements with Reno County, Kansas:

Field Correction Offices 1999 agreement (amended in 2004)
Pubic Works Facility 2004 agreement (amended in 2007)

The County is obligated to make payments to the Commission equivalent to the debt that the Commission has assumed and to pay its outstanding revenue bonds. The Commission covenants that unless the County is in default under the lease obligation, it will not, without the County's written consent unless required by law, sell or otherwise part with or encumber its fee or other ownership interest in the project at any time during the life of the lease. The County covenants and agrees that it will, during the term of the lease obligation, keep and maintain the project and all parts thereof in good condition and repair, including but not limited to, the furnishing of all parts, mechanisms and devices required to keep the machinery, equipment and personal property constituting a part of the project in good mechanical and working order, and that during said period of time it will keep the project and all parts thereof free from filth, nuisance or conditions unreasonably increasing the danger of fire. Total payments receivable are scheduled below.

<u>Years Ending December 31</u>		<u>Total</u>
2013	\$	455,387
2014		462,005
2015		380,200
2016		399,200
2017		412,000
2018-2022		<u>1,907,200</u>
Total	\$	<u>4,015,992</u>

NOTE 7 – LONG-TERM DEBT

Reno County, Kansas Public Building Commission has the following type of long-term debt.

Revenue Bond

The Commission has issued Revenue Refunding Bonds, Series 2004, dated April 1, 2004 with an original issue amount of \$745,000. The bonds have varying maturities with semi-annual payments. Interest rates range from 1.50% to 3.80% depending on the maturity date.

The Commission has issued Revenue Bonds, Series 2007, dated June 1, 2007 with an original issue amount of \$3,500,000. The bonds have varying maturities with semi-annual payments. The interest rate is 4.00%.

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION

Regulatory-Required Supplementary Information

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION
Notes to Financial Statement
December 31, 2012

Changes in long-term liabilities for the Commission 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
Revenue Bonds									
Series 2004	1.50-3.80%	4/1/2004	\$ 745,000	4/1/2014	\$ 270,000	-	85,000	185,000	8,360
Series 2007	4.00%	6/1/2007	3,500,000	10/1/2022	3,315,000	-	205,000	3,110,000	132,600
Total Contractual Indebtedness			\$ 3,585,000		\$ 3,585,000	-	290,000	3,295,000	140,960

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	
Principal						
Series 2004	\$ 90,000	95,000	-	-	-	185,000
Series 2007	230,000	250,000	275,000	305,000	330,000	1,720,000
Total Principal	320,000	345,000	275,000	305,000	330,000	3,295,000
Interest						
Series 2004	5,241	1,805	-	-	-	7,046
Series 2007	124,400	115,200	105,200	94,200	82,000	187,200
Total Interest	129,641	117,005	105,200	94,200	82,000	715,246
Total Principal and Interest \$	449,641	462,005	380,200	399,200	412,000	4,010,246

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION
Public Works Facility Rebate 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		
Transfers In	\$ -	-
Expenditures		
Transfers Out	325,000	245,530
Cash Receipts Over (Under) Expenditures	(325,000)	(245,530)
Unencumbered Cash - Beginning	570,530	245,530
Unencumbered Cash - Ending	\$ 245,530	-

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION
Field Correction Offices Debt Service 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		
Rental Income - County	\$ 52,622	73,015
Rental Income - State	29,250	29,250
Interest Income	6	100
Total Cash Receipts	<u>81,878</u>	<u>102,365</u>
Expenditures		
Contractual Services	6,510	8,768
Debt Service Principal	80,000	85,000
Debt Service Interest and Fees	13,417	8,360
Total Expenditures	<u>99,927</u>	<u>102,128</u>
Cash Receipts Over (Under) Expenditures	(18,049)	237
Unencumbered Cash - Beginning	<u>49,963</u>	<u>31,914</u>
Unencumbered Cash - Ending	<u>\$ 31,914</u>	<u>32,151</u>

RENO COUNTY, KANSAS PUBLIC BUILDING COMMISSION
Public Works Facility Debt Service 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		
Rental Income - County	\$ -	64,650
Transfers In	325,000	245,530
Total Cash Receipts	<u>325,000</u>	<u>310,180</u>
Expenditures		
Debt Service Principal	185,000	205,000
Debt Service Interest and Fees	140,000	132,600
Total Expenditures	<u>325,000</u>	<u>337,600</u>
Cash Receipts Over (Under) Expenditures	-	(27,420)
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	<u>\$ -</u>	<u>(27,420)</u>