

CITY OF EASTBOROUGH, KANSAS

**Financial Statements
December 31, 2011**

**with
Independent Auditors' Report**

CITY OF EASTBOROUGH, KANSAS

Financial Statements

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Eastborough, Kansas

We have audited the accompanying financial statements of the individual funds of the City of Eastborough, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Eastborough, Kansas. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Kansas Municipal Audit Guide and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Eastborough, Kansas as of December 30, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Eastborough, Kansas, as of December 31, 2011, and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

November 11, 2012

CITY OF EASTBOROUGH, KANSAS
 Summary of Cash Receipts, Expenditures and Unencumbered Cash
 For The Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Funds:						
General	\$ 666,223	\$ 977,653	\$ 1,067,307	\$ 576,569	\$ -	\$ 576,569
Special Revenue:						
Employee Benefit	53,373	125,739	122,309	56,803	-	56,803
Capital Improvement	224,525	230,595	-	455,120	-	455,120
Special Highway	233,505	30,080	-	263,585	-	263,585
Capital Project Funds:						
Woodlawn Heights - Paving Improvement Project	-	914,833	811,192	103,641	-	103,641
Total Reporting Entity	<u>\$ 1,177,626</u>	<u>\$ 2,278,900</u>	<u>\$ 2,000,808</u>	<u>\$ 1,455,718</u>	<u>\$ -</u>	<u>\$ 1,455,718</u>

Composition of cash:

Checking account - Intrust Bank	\$ 237,375
Money market - Equity Bank	218,242
Petty cash	100
Certificates of Deposit	1,000,000
Total Reporting Entity	<u>\$ 1,455,717</u>

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

CITY OF EASTBOROUGH, KANSAS
Summary of Expenditures - Actual and Budget
For The Year Ended December 31, 2011

<u>Funds</u>	<u>Amended or Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
General	\$ 1,175,261	\$ 1,067,307	\$ 107,954
Special revenue:			
Employee Benefit	140,000	122,309	17,691
Capital Improvement	429,434	-	429,434
Special Highway	292,791	-	292,791

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

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 502,447	\$ 493,425	\$ (9,022)
Delinquent tax	-	7,058	7,058
Motor vehicle	53,625	52,515	(1,110)
Recreational vehicle	154	143	(11)
Intergovernmental: Local sales tax	135,000	183,901	48,901
Franchise fees	35,000	62,138	27,138
Fines	100,000	157,506	57,506
Interest on investments	-	12,927	12,927
Permits and other	-	5,580	5,580
Reimbursements	-	2,460	2,460
Total Cash Receipts	<u>826,226</u>	<u>977,653</u>	<u>151,427</u>
Expenditures:			
General administration:			
Personnel services	72,500	63,191	9,309
Contractual services	35,000	32,882	2,118
Commodities	5,000	4,415	585
Street lights	17,500	16,909	591
Police department:			
Personnel services	325,000	312,222	12,778
Contractual services	37,500	47,496	(9,996)
Commodities	25,000	16,686	8,314
Capital outlay	25,000	-	25,000
Street department:			
Contractual services	65,261	34,588	30,673
Commodities	-	1,078	(1,078)
Parks:			
Contractual services	165,000	142,745	22,255
Commodities	5,000	2,841	2,159

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures:			
(Continued)			
City Hall:			
Contractual services	\$ 15,000	\$ 14,532	\$ 468
Commodities	-	1,180	(1,180)
Municipal court:			
Personnel services	32,500	27,746	4,754
Contractual services	3,500	985	2,515
Commodities	2,500	478	2,022
Mayor's discretionary fund	1,500	1,590	(90)
KDOT - TRF	50,665	51,168	(503)
Fire services	125,000	127,740	(2,740)
Transfer to Capital Improvement Fund	166,835	166,835	-
Total Expenditures	1,175,261	1,067,307	107,954
Receipts Over (Under) Expenditures	(349,035)	(89,654)	259,381
Unencumbered Cash, Beginning	349,035	666,223	317,188
Unencumbered Cash, Ending	\$ -	\$ 576,569	\$ 576,569

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

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Employee Benefit Fund
For The Year Ended December 31, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 112,385	\$ 110,367	\$ (2,018)
Motor vehicle	13,763	13,439	(324)
Delinquent tax	-	1,631	1,631
Recreational vehicle	40	37	(3)
Reimbursements	-	265	265
Total Cash Receipts	126,188	125,739	(449)
Expenditures:			
Employee benefits	140,000	122,309	17,691
Receipts Over (Under) Expenditures	(13,812)	3,430	17,242
Unencumbered Cash, Beginning	13,812	53,373	39,561
Unencumbered Cash, Ending	\$ -	\$ 56,803	\$ 56,803

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

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Capital Improvement Fund
For The Year Ended December 31, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 58,062	\$ 57,020	\$ (1,042)
Delinquent tax	-	552	552
Motor vehicle	6,319	6,171	(148)
Recreational vehicle	18	17	(1)
Transfer from General Fund	166,835	166,835	-
Total Cash Receipts	231,234	230,595	(639)
 Expenditures:			
Capital improvements	429,434	-	429,434
Receipts Over (Under) Expenditures	(198,200)	230,595	428,795
Unencumbered Cash, Beginning	198,200	224,525	26,325
Unencumbered Cash, Ending	\$ -	\$ 455,120	\$ 455,120

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

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Special Highway Fund
For The Year Ended December 31, 2011

	Budget	Actual	Variance Favorable (Unfavorable)
Cash Receipts:			
State of Kansas	\$ 22,030	\$ 20,667	\$ (1,363)
City/county highway	10,350	9,413	(937)
Total Cash Receipts	32,380	30,080	(2,300)
 Expenditures:			
Street repair and maintenance	292,791	-	292,791
Receipts Over (Under) Expenditures	(260,411)	30,080	290,491
Unencumbered Cash, Beginning	260,411	233,505	(26,906)
Unencumbered Cash, Ending	\$ -	\$ 263,585	\$ 263,585

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

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Woodlawn Heights - Paving Improvement Project
For The Year Ended December 31, 2011

	<u>Actual</u>
Cash Receipts:	
Temporary note proceeds	\$ 900,000
Special assessments	14,833
Total Cash Receipts	<u>914,833</u>
 Expenditures:	
Street repair and maintenance	<u>811,192</u>
 Receipts Over (Under) Expenditures	103,641
 Unencumbered Cash, Beginning	<u>-</u>
 Unencumbered Cash, Ending	<u><u>\$ 103,641</u></u>

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

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Eastborough, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The City of Eastborough is a municipal corporation governed by an elected six-member council. These financial statements present the City of Eastborough (the primary government).

Basis of Presentation

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

The following types of funds comprise the financial activities of the City of Eastborough, Kansas for the year 2011:

Governmental Funds

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

Special Revenue 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.

Capital Projects Fund - to account for financial resources segregated for the acquisition of major capital facilities (other than those financed by Enterprise Funds).

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, 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. General fixed assets that account for the land, infrastructure, buildings and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements.

The City has approved a waiver from generally accepted accounting principles, allowed by the State of Kansas, which permits the municipality to use the statutory basis of accounting.

Subsequent Events

Subsequent events have been evaluated through November 30, 2012, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2011

2. Budget and Tax Cycle

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

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
4. 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 ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2011

3. Deposits

At year-end the carrying amount of the City's deposits was \$1,455,717. The bank statement balances were \$1,503,198. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining amount was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank, and the independent third-party bank holding the pledged securities.

4. Defined Contribution Pension Plan

The City provides pension benefits for its employees through the City of Eastborough Retirement Plan (Plan) established June 1, 1993. The plan was restated January 1, 2009. The Plan is a defined contribution plan whereby benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon completing one year's service working a minimum of 1,000 hours and having reached age 21. The City is required to contribute an amount equal to 7% of the employee's salary each month. The City's contributions for each eligible employee are invested in an annuity contract with The Principal Financial Group as directed by the participant. Participants are fully vested in their accounts credited with the City's contributions and allocated interest after six years of continuous service.

The City's pension plan contribution for 2011 was \$19,770.

5. Compliance with Kansas Statutes

Management is aware of no statutory violations for the year.

6. Risk Management

The City manages risks primarily through the purchase of insurance coverage from commercial insurers.

7. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General Fund	Capital Improvement Fund	K.S.A. 12-1,118	\$166,835

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2011

8. Capital Projects

The City approved Resolution No. 10-01 in May 2010 for the Woodlawn Heights Paving Improvements Project in the amount of \$877,500. This project was started in May 2011 and completed by December 31, 2011. The construction and engineering costs for this project were \$792,950.

CITY OF EASTBOROUGH, KANSAS
Notes to Financial Statements
December 31, 2011

9. Long-Term Debt

Changes in long-term debt for the year ended December 31, 2011 and future debt payments are 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
Temporary Note Series 2011:	0.65%	3/1/2011	\$ 900,000	3/1/2012	\$ -	\$ 900,000	\$ -	\$ 900,000	\$ 4,810
Revolving Loan Programs:									
Transportation Revolving Fund TR-0042	3.65%	9/5/2006	224,308	8/1/2021	\$ 168,647	\$ -	\$ 14,086	\$ 154,561	\$ 6,577
Transportation Revolving Fund TR-0090	3.90%	10/28/2008	227,794	8/1/2018	204,113	-	22,034	182,079	8,471
Total Revolving Loan Programs					372,760	-	36,120	336,640	15,048
Total Contractual Indebtedness					<u>\$ 372,760</u>	<u>\$ 900,000</u>	<u>\$ 36,120</u>	<u>\$ 1,236,640</u>	<u>\$ 19,858</u>

Schedule of Maturities of Contractual Indebtedness

	2012	2013	2014	2015	2016	2017-2021	2022-2026	Total
Principal:								
Temporary Note *	\$ 900,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 900,000
Revolving loan program	37,584	39,108	40,693	42,342	44,058	132,855	-	336,640
Total Principal Payments	<u>\$ 937,584</u>	<u>\$ 39,108</u>	<u>\$ 40,693</u>	<u>\$ 42,342</u>	<u>\$ 44,058</u>	<u>\$ 132,855</u>	<u>\$ -</u>	<u>\$ 1,236,640</u>
Interest:								
General Obligation Bonds	\$ -	\$ 18,952	\$ 12,063	\$ 12,003	\$ 11,153	\$ 36,783	\$ 2,138	\$ 93,092
Revolving loan program	13,584	12,062	10,476	8,827	7,111	11,124	-	63,184
Total Interest Payments	<u>\$ 13,584</u>	<u>\$ 31,014</u>	<u>\$ 22,539</u>	<u>\$ 20,830</u>	<u>\$ 18,264</u>	<u>\$ 47,907</u>	<u>\$ 2,138</u>	<u>\$ 156,276</u>

*: In February 2012, General Obligation bonds were issued in the amount of \$858,000 to retire and provide permanent financing for the Woodlawn Heights street improvement project.