

CITY OF HOPE, KANSAS

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

December 31, 2011

CITY OF HOPE
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December 17, 2013

Mayor and City Council
City of Hope, Kansas

Independent Auditor's Report

We have audited the accompanying financial statements of the City of Hope, Kansas (the City), 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 City's management. Our responsibility is to express an opinion on these financial statements 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 Guide*. 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 our audit provides a reasonable basis for our opinion.

As described in Note 1, the City prepares 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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2011, and its cash receipts and expenditures, for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The remaining information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This report is intended for the information and use of the City Council and management of the City of Hope, Kansas, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Varney & Associates, CPAs, LLC
Certified Public Accountants
Manhattan, Kansas

CITY OF HOPE, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2011

Fund	Beginning	Prior Year	Cash	Expenditures	Ending	Add:	Ending
	Unencumbered						
	Balance	Encumbrances			Cash	Encumbrances	Balance
Governmental Funds							
General Fund	\$ 212,963	\$ -	\$ 158,047	\$ 175,009	\$ 196,001	\$ 2,760	\$ 198,761
Special Revenue Funds							
Special Streets	13,358	-	9,473	2,045	20,786	-	20,786
Library	-	-	5,984	5,984	-	-	-
Employee Benefits	-	-	26	-	26	-	26
Proprietary Fund Types							
Water	76,121	-	73,743	75,543	74,321	-	74,321
Sewer	40,600	-	16,080	21,030	35,650	-	35,650
Trash	(372)	-	30,449	30,798	(721)	2,616	1,895
Water/Sewer Reserve	(679)	-	-	-	(679)	-	(679)
Depreciation Reserve	6,404	-	-	-	6,404	-	6,404
Total Reporting Entity	\$ 348,395	\$ -	\$ 293,802	\$ 310,409	\$ 331,788	\$ 5,376	\$ 337,164

Composition of Cash	
Checking Accounts	\$ 101,879
Certificates of Deposit	235,285
Total Cash	\$ 337,164

STATEMENT 1

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

Financial Statements

CITY OF HOPE, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET (BUDGETED FUNDS ONLY)
For the Year Ended December 31, 2011

Fund	Certified Budget	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Funds			
General Fund	\$ 185,750	\$ 175,009	\$ 10,741
Special Revenue Funds			
Special Streets	18,000	2,045	15,955
Library	7,000	5,984	1,016
Employee Benefits	-	-	-
Proprietary Funds			
Enterprise Funds			
Water	72,500	75,543	(3,043)
Sewer	14,690	21,030	(6,340)
Trash	34,500	30,798	3,702
Water/Sewer Reserve	2,600	-	2,600
TOTAL	\$ 335,040	\$ 310,409	\$ 24,631

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

GENERAL FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Property taxes	\$ 99,808	\$ 101,383	\$ (1,575)
Sales tax	30,591	30,000	591
Interest	4,257	-	4,257
Franchise fees	14,040	12,000	2,040
Other fees and miscellaneous	9,351	6,450	2,901
Total Cash Receipts	<u>\$ 158,047</u>	<u>\$ 149,833</u>	<u>\$ 8,214</u>
EXPENDITURES			
Administration	\$ 74,157	\$ 79,250	\$ 5,093
Fire	984	-	(984)
Police	33,226	36,000	2,774
Tort liability	-	500	500
Streets	66,642	70,000	3,358
Total Expenditures	<u>\$ 175,009</u>	<u>\$ 185,750</u>	<u>\$ 10,741</u>
RECEIPTS OVER (UNDER) EXPENDITURES	<u>\$ (16,962)</u>		
UNENCUMBERED CASH - JANUARY 1	<u>212,963</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 196,001</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

SPECIAL STREETS FUND

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Taxes - State of Kansas	\$ 9,473	\$ 9,920	\$ (447)
EXPENDITURES			
Street repair and maintenance	\$ 2,045	\$ 18,000	\$ 15,955
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 7,428		
UNENCUMBERED CASH - JANUARY 1	<u>13,358</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 20,786</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

LIBRARY FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Ad Valorem property tax	\$ 5,808	\$ 6,155	\$ (347)
State aid	176	-	176
Total Cash Receipts	<u>\$ 5,984</u>	<u>\$ 6,155</u>	<u>\$ (347)</u>
EXPENDITURES			
Appropriations to library	<u>\$ 5,984</u>	<u>\$ 7,000</u>	<u>\$ 1,016</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -		
UNENCUMBERED CASH - JANUARY 1	<u>-</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ -</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

EMPLOYEE BENEFITS FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Property taxes	\$ 26	\$ -	\$ 26
EXPENDITURES			
Transfers	\$ -	\$ -	\$ -
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 26		
UNENCUMBERED CASH - JANUARY 1	-		
UNENCUMBERED CASH - DECEMBER 31	\$ 26		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

WATER FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 72,433	\$ 62,000	\$ 10,433
Interest	1,310	-	1,310
Total Cash Receipts	<u>\$ 73,743</u>	<u>\$ 62,000</u>	<u>\$ 10,433</u>
EXPENDITURES			
Salaries and wages	\$ 13,604	11,000	\$ (2,604)
Employee benefits	903	1,500	597
Purchased water	36,786	36,000	(786)
Commodities	24,250	24,000	(250)
Total Expenditures	<u>\$ 75,543</u>	<u>\$ 72,500</u>	<u>\$ (3,043)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (1,800)		
UNENCUMBERED CASH - JANUARY 1	<u>76,121</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 74,321</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

SEWER FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 15,561	\$ 20,000	\$ (4,439)
Interest	519	-	519
Total Cash Receipts	<u>\$ 16,080</u>	<u>\$ 20,000</u>	<u>\$ (3,920)</u>
EXPENDITURES			
Salaries and wages	\$ 13,208	\$ 12,500	\$ (708)
Employee benefits	877	-	(877)
Commodities	6,945	2,190	(4,755)
Total Expenditures	<u>\$ 21,030</u>	<u>\$ 14,690</u>	<u>\$ (6,340)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (4,950)		
UNENCUMBERED CASH - JANUARY 1	<u>40,600</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 35,650</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

TRASH FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Trash fees	\$ 30,449	\$ -	\$ 30,449
EXPENDITURES			
Contractual	\$ 30,798	\$ 34,500	\$ 3,702
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (349)		
UNENCUMBERED CASH - JANUARY 1	<u>(372)</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ (721)</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

WATER/SEWER RESERVE FUND

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Transfers in	\$ -	\$ 6,000	\$ (6,000)
EXPENDITURES			
Miscellaneous	\$ -	\$ 2,600	\$ 2,600
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -		
UNENCUMBERED CASH - JANUARY 1	<u>(679)</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ (679)</u>		

Financial Statements

CITY OF HOPE, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2011

DEPRECIATION RESERVE FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Miscellaneous	\$ -	\$ -	\$ -
EXPENDITURES			
Transfers out	\$ -	\$ -	\$ -
RECEIPTS OVER (UNDER) EXPENDITURES	\$ -		
UNENCUMBERED CASH - JANUARY 1	<u>6,404</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 6,404</u>		

Financial Statements

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1: Summary of Significant Accounting Policies

The City of Hope, Kansas (the City) is a municipal corporation governed by an elected five-member council, plus a mayor. The City provides services to its citizens in the areas of water, sewer, streets, and general administrative services. The following is a summary of the more significant policies:

The Financial Reporting Entity

The financial reporting entity of the City is comprised of the primary government.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the various funds are grouped into generic fund types and broad fund categories as follows:

Governmental Funds

General Fund - The general fund is the general operating fund of the City. It is used to account for all unrestricted financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Proprietary Funds

Proprietary funds are used to account for operations that provide goods or services to the general public on a continuing basis. Such operations are financed and operated in a manner similar to private business enterprises and a) are intended to be self-supporting through charges to users or b) the governing body has deemed it appropriate to account for them as enterprise funds for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Presentation

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.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 1: Summary of Significant Accounting Policies (Continued)
Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial 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 expenditures, 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 year in accordance with accounting principles generally accepted in the United States of America. General fixed assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds and temporary notes are not presented in the financial statements.

Budgetary Information

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

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten 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.

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 fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. any unused budgeted expenditure authority lapses at year-end.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 1: Summary of Significant Accounting Policies (Continued)
Budgetary Information (Continued)

A legal operating budget is not required for capital projects funds, fiduciary funds, and some special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main 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.

K.S.A. limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposits 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.

As of December 31, 2011, the City's carrying amount of the City's deposits was \$337,164. The bank balance was \$339,768. The bank balance was held by one bank, in checking, money market and certificates of deposit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining balance of \$89,768 was covered by pledged securities.

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%. All deposits were legally secured at December 31, 2011.

Note 3: Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and are levied and become a lien on the property on November 1st of each year. The county treasurer is the tax collection agent for all taxing entities within the county. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20th of the ensuing year. State statutes prohibit the county treasurer from distributing taxes levied and collected in the year prior to January 1st of the ensuing year.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 4: Defined Benefit Pension Plan
Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by KSA 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas Avenue, Suite 100, Topeka, KS 66503-3803) or by calling 1-888-275-5737.

KSA 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERs and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERs employers rate established by statute for calendar year 2011 is 7.74%. The City's employer contributions to KPERs for the year ended December 31, 2011, 2010, and 2009 were \$2,366, \$1,127, and \$968, respectively, equal to the statutory required contributions for each year.

Note 5: Interfund Transfers

There were no interfund transfers during the year ended December 31, 2011.

Note 6: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no decreases in insurance coverage from the prior year.

Note 7: Stewardship, Compliance, and Accountability

The City had one fund with a deficit fund balance, as well as a deficit cash balance at December 31, 2011: the Water/Sewer Reserve Fund.

The City had two funds with budget violations, as reported on page 3: the Water Fund and the Sewer Fund.