

CITY OF MOUNT HOPE

MOUNT HOPE, KANSAS

Special Financial Statements

December 31, 2011

City of Mount Hope, Kansas

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December 31, 2011

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of Mount Hope
Mount Hope, Kansas 67056

We have audited the accompanying financial statements of the City of Mount Hope, 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 City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2010 financial statements and, in our report dated February 10, 2011, we expressed an unqualified opinion on the financial statements taken as a whole.

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 that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City prepares its financial statements using the accounting practices prescribed by the State of Kansas to demonstrate 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 determinable, is presumed to be material.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting 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 as of December 31, 2011, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, 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, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants

April 6, 2012

City of Mount Hope, Kansas
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Year ended December 31, 2011

Funds	Unencumbered Cash Balance <u>12-31-10</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>12-31-11</u>	<u>Encumbrances</u>	Cash Balance <u>12-31-11</u>
Governmental Fund Types:						
General	\$ 29,160	456,552	414,960	70,752	8,802	79,554
Special Revenue						
Library	544	21,634	21,000	1,178	-	1,178
Employee benefit	21,309	72,645	80,500	13,454	-	13,454
Special street and highway	45,090	36,751	-	81,841	-	81,841
Ambulance	-	2,623	2,623	-	-	-
Equipment replacement fund	43,983	18,000	-	61,983	-	61,983
Debt Service						
Bond and interest	11,523	85,575	80,005	17,093	-	17,093
Proprietary Fund Types:						
Enterprise, page 3	<u>288,584</u>	<u>923,290</u>	<u>889,875</u>	<u>321,999</u>	<u>15,181</u>	<u>337,180</u>
Total Primary Government	440,193	1,617,070	1,488,963	568,300	23,983	592,283
Component Unit	<u>10,448</u>	<u>38,498</u>	<u>41,691</u>	<u>7,255</u>	<u>907</u>	<u>8,162</u>
Total Reporting Entity	<u>\$ 450,641</u>	<u>1,655,568</u>	<u>1,530,654</u>	<u>575,555</u>	<u>24,890</u>	<u>600,445</u>

City of Mount Hope, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Funds</u>	Unencumbered Cash Balance <u>12-31-10</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>12-31-11</u>	<u>Encumbrances</u>	Cash Balance <u>12-31-11</u>
Enterprise						
Electric	\$ 132,650	675,874	654,359	154,165	-	154,165
Electric maintenance reserve	37,105	51,355	1,769	86,691	-	86,691
Sewer	21,008	46,695	37,367	30,336	-	30,336
Sewer reserve	10,847	986	6,493	5,340	-	5,340
Solid waste	5,670	67,022	72,685	7	4,591	4,598
Water	11,576	80,246	71,092	20,730	10,590	31,320
Water reserve	<u>69,728</u>	<u>1,112</u>	<u>46,110</u>	<u>24,730</u>	<u>-</u>	<u>24,730</u>
Total enterprise funds	<u>\$ 288,584</u>	<u>923,290</u>	<u>889,875</u>	<u>321,999</u>	<u>15,181</u>	<u>337,180</u>

City of Mount Hope, Kansas

SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
General	\$ 431,500	-	431,500	414,960	(16,540)
Special Revenue					
Library	21,000	-	21,000	21,000	-
Employee benefit	96,000	-	96,000	80,500	(15,500)
Special street and highway	52,000	-	52,000	-	(52,000)
Ambulance	3,900	-	3,900	2,623	(1,277)
Debt Service					
Bond and interest	80,005	-	80,005	80,005	-
Enterprise					
Electric	735,500	-	735,500	654,359	(81,141)
Sewer	51,500	-	51,500	37,367	(14,133)
Solid waste	78,000	-	78,000	72,685	(5,315)
Water	87,000	-	87,000	71,092	(15,908)
Expenditures subject to current budget	<u>\$ 1,636,405</u>	<u>-</u>	<u>1,636,405</u>	1,434,591	<u>(201,814)</u>
Add expenditures for unbudgeted funds					
Enterprise				<u>54,372</u>	
Total expenditures, Primary Government				<u>\$ 1,488,963</u>	

City of Mount Hope, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 140,713	146,662	149,719	(3,057)
Delinquent tax	9,335	4,762	-	4,762
Vehicle tax	22,769	25,002	25,443	(441)
Local sales tax	106,806	108,098	115,000	(6,902)
Fines and fees	4,691	1,663	9,000	(7,337)
Fire protection fees	9,821	8,824	10,000	(1,176)
Franchise tax	13,961	13,474	15,960	(2,486)
Late charges	12,228	10,547	19,000	(8,453)
Police other	645	1,242	-	1,242
Swimming pool	10,658	11,481	9,800	1,681
Licenses and permits	3,087	3,930	2,400	1,530
Other	5,289	9,440	3,500	5,940
Interest	2,770	1,278	3,000	(1,722)
State collections	3,400	6,213	1,000	5,213
Reimbursements	72	53,936	700	53,236
Transfers from other funds	50,000	50,000	50,000	-
	<u>396,245</u>	<u>456,552</u>	<u>414,522</u>	<u>42,030</u>
EXPENDITURES, page 6	<u>386,221</u>	<u>414,960</u>		
Receipts over (under) expenditures	10,024	41,592		
UNENCUMBERED CASH, beginning	<u>19,136</u>	<u>29,160</u>		
UNENCUMBERED CASH, ending	<u>\$ 29,160</u>	<u>70,752</u>		

City of Mount Hope, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
EXPENDITURES				
Administration	\$ 125,912	123,584	85,000	38,584
Street	7,927	10,844	35,000	(24,156)
Police	84,389	96,114	99,000	(2,886)
Fire	12,228	18,511	22,000	(3,489)
Ballpark	829	6,039	1,500	4,539
Park	11,476	4,713	17,000	(12,287)
Swimming pool	37,582	36,743	37,000	(257)
Court and legal	4,664	5,668	12,000	(6,332)
Zoning	129	8,581	2,000	6,581
Community projects	4,356	13,265	2,000	11,265
Library appropriation	243	4,013	2,000	2,013
Ambulance subsidy	57,545	64,338	64,000	338
Economic development	7,828	4,522	20,000	(15,478)
Capital outlay	4,570	-	-	-
Other	27	25	-	25
Transfers to other funds	26,516	18,000	33,000	(15,000)
Total expenditures	<u>\$ 386,221</u>	<u>414,960</u>	<u>431,500</u>	<u>(16,540)</u>

City of Mount Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>LIBRARY</u>				
RECEIPTS				
Ad valorem property tax	\$ 17,066	18,025	17,360	665
Delinquent tax	1,127	573	1,042	(469)
Machinery and equipment tax	-	-	50	(50)
Vehicle tax	2,851	3,036	3,087	(51)
	<u>21,044</u>	<u>21,634</u>	<u>21,539</u>	<u>95</u>
EXPENDITURES				
Appropriations to Library Board	<u>20,500</u>	<u>21,000</u>	<u>21,000</u>	<u>-</u>
Receipts over (under) expenditures	544	634		
UNENCUMBERED CASH, beginning	-	544		
UNENCUMBERED CASH, ending	<u>\$ 544</u>	<u>1,178</u>		
<u>EMPLOYEE BENEFIT</u>				
RECEIPTS				
Ad valorem property tax	\$ 32,250	33,548	32,214	1,334
Delinquent tax	3,226	1,349	1,933	(584)
Vehicle tax	8,497	5,850	5,831	19
Other	510	1,398	-	1,398
Transfers from other funds	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>	<u>-</u>
	<u>74,983</u>	<u>72,645</u>	<u>70,478</u>	<u>2,167</u>
EXPENDITURES				
Health insurance	38,168	37,248	45,000	(7,752)
Health insurance reserve	10,412	484	15,000	(14,516)
Unemployment tax	237	241	1,000	(759)
KPERS	14,775	15,968	15,000	968
Social security	18,138	18,397	20,000	(1,603)
Miscellaneous	-	8,162	-	8,162
	<u>81,730</u>	<u>80,500</u>	<u>96,000</u>	<u>(15,500)</u>
Receipts over (under) expenditures	(6,747)	(7,855)		
UNENCUMBERED CASH, beginning	<u>28,056</u>	<u>21,309</u>		
UNENCUMBERED CASH, ending	<u>\$ 21,309</u>	<u>13,454</u>		

See notes to financial statement

City of Mount Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>SPECIAL STREET AND HIGHWAY</u>				
RECEIPTS				
State gasoline tax	\$ 23,222	21,985	21,000	985
County gasoline tax	10,985	10,016	10,000	16
Budget credit	-	4,750	-	4,750
	<u>34,207</u>	<u>36,751</u>	<u>31,000</u>	<u>5,751</u>
EXPENDITURES				
Contractual	4,750	-	-	-
Capital outlay	-	-	52,000	(52,000)
	<u>4,750</u>	<u>-</u>	<u>52,000</u>	<u>(52,000)</u>
Receipts over (under) expenditures	29,457	36,751		
UNENCUMBERED CASH, beginning	<u>15,633</u>	<u>45,090</u>		
UNENCUMBERED CASH, ending	<u>\$ 45,090</u>	<u>81,841</u>		
 <u>AMBULANCE</u>				
RECEIPTS				
Sedgwick County	\$ 3,368	2,623	<u>3,900</u>	<u>(1,277)</u>
EXPENDITURES				
Contractual services	<u>3,368</u>	<u>2,623</u>	<u>3,900</u>	<u>(1,277)</u>
Receipts over (under) expenditures	-	-		
UNENCUMBERED CASH, beginning	<u>-</u>	<u>-</u>		
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>-</u>		

City of Mount Hope, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>CAPITAL IMPROVEMENT</u>				
RECEIPTS				
Insurance proceeds	\$ 40,555	-		
Oak Street park improvement-contributions	15,266	-		
Transfers from other funds	12,237	-		
	<u>68,058</u>	<u>-</u>		
EXPENDITURES				
Roof Repairs	49,541	-		
Oak Street park improvements	44,302	-		
	<u>93,843</u>	<u>-</u>		NOT APPLICABLE
Receipts over (under) expenditures	(25,785)	-		
UNENCUMBERED CASH, beginning	25,785	-		
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>-</u>		
<u>EQUIPMENT REPLACEMENT</u>				
RECEIPTS				
Transfers from other funds	\$ -	18,000		
EXPENDITURES				
	<u>-</u>	<u>-</u>		NOT APPLICABLE
Receipts over (under) expenditures	-	18,000		
UNENCUMBERED CASH, beginning	43,983	43,983		
UNENCUMBERED CASH, ending	<u>\$ 43,983</u>	<u>61,983</u>		

City of Mount Hope, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Delinquent tax	\$ 86	448	-	448
Special assessments	28,389	51,127	56,000	(4,873)
Transfers from other funds	33,688	34,000	34,000	-
	<u>62,163</u>	<u>85,575</u>	<u>90,000</u>	<u>(4,425)</u>
EXPENDITURES				
Bond principal	45,000	35,000	35,000	-
Interest	12,485	45,005	45,000	5
Postage and commission	8,666	-	5	(5)
	<u>66,151</u>	<u>80,005</u>	<u>80,005</u>	<u>-</u>
Receipts over (under) expenditures	(3,988)	5,570		
UNENCUMBERED CASH, beginning	<u>15,511</u>	<u>11,523</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,523</u>	<u>17,093</u>		

City of Mount Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2011			Variance - Over (Under)
	2010 Actual	Actual	Budget	
<u>ELECTRIC</u>				
RECEIPTS				
Sales	\$ 684,013	666,450	668,200	(1,750)
Miscellaneous	10,545	9,424	3,000	6,424
	<u>694,558</u>	<u>675,874</u>	<u>671,200</u>	<u>4,674</u>
EXPENDITURES				
Personnel services	77,096	77,932	75,000	2,932
Contractual services	401,330	402,476	385,000	17,476
Commodities	37,405	22,596	60,000	(37,404)
Capital outlay	68,171	16,947	85,000	(68,053)
Transfers to other funds	80,500	130,500	130,500	-
Other	3,498	3,908	-	3,908
	<u>668,000</u>	<u>654,359</u>	<u>735,500</u>	<u>(81,141)</u>
Receipts over (under) expenditures	26,558	21,515		
UNENCUMBERED CASH, beginning	106,092	132,650		
UNENCUMBERED CASH, ending	<u>\$ 132,650</u>	<u>154,165</u>		
<u>ELECTRIC MAINTENANCE RESERVE</u>				
RECEIPTS				
Interest	\$ 2,063	1,355		
Transfer from other funds	-	50,000		
	<u>2,063</u>	<u>51,355</u>		
EXPENDITURES				
Capital outlay	-	1,769	NOT APPLICABLE	
Receipts over (under) expenditures	2,063	49,586		
UNENCUMBERED CASH, beginning	35,042	37,105		
UNENCUMBERED CASH, ending	<u>\$ 37,105</u>	<u>86,691</u>		

See notes to financial statement

City of Mount Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>SEWER</u>				
RECEIPTS				
User fees	\$ 47,361	46,645	49,000	(2,355)
Other	50	50	500	(450)
	<u>47,411</u>	<u>46,695</u>	<u>49,500</u>	<u>(2,805)</u>
EXPENDITURES				
Personnel services	42	3,046	10,000	(6,954)
Contractual services	12,841	4,810	4,000	810
Commodities	16,056	14,291	9,500	4,791
Capital outlay	-	2,856	20,000	(17,144)
Debt service	-	4,364	-	4,364
Transfers to other funds	8,000	8,000	8,000	-
	<u>36,939</u>	<u>37,367</u>	<u>51,500</u>	<u>(14,133)</u>
Receipts over (under) expenditures	10,472	9,328		
UNENCUMBERED CASH, beginning	<u>10,536</u>	<u>21,008</u>		
UNENCUMBERED CASH, ending	<u>\$ 21,008</u>	<u>30,336</u>		
 <u>SEWER RESERVE</u>				
RECEIPTS				
Interest	\$ 476	986		
EXPENDITURES				
Capital outlay	-	6,493	NOT APPLICABLE	
Receipts over (under) expenditures	476	(5,507)		
UNENCUMBERED CASH, beginning	<u>10,371</u>	<u>10,847</u>		
UNENCUMBERED CASH, ending	<u>\$ 10,847</u>	<u>5,340</u>		

City of Mount Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
SOLID WASTE				
RECEIPTS				
User fees	\$ 68,755	67,002	73,000	(5,998)
Other	60	20	100	(80)
	<u>68,815</u>	<u>67,022</u>	<u>73,100</u>	<u>(6,078)</u>
EXPENDITURES				
Personnel services	3,274	3,351	3,500	(149)
Contractual services	66,743	68,886	73,000	(4,114)
Commodities	4,993	448	1,500	(1,052)
	<u>75,010</u>	<u>72,685</u>	<u>78,000</u>	<u>(5,315)</u>
Receipts over (under) expenditures	(6,195)	(5,663)		
UNENCUMBERED CASH, beginning	<u>11,865</u>	<u>5,670</u>		
UNENCUMBERED CASH, ending	<u>\$ 5,670</u>	<u>7</u>		

City of Mount Hope, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

	2010 Actual	2011		Variance - Over (Under)
		Actual	Budget	
<u>WATER</u>				
RECEIPTS				
Sales	\$ 55,496	61,462	65,000	(3,538)
Fees	18,638	18,719	20,000	(1,281)
Other	656	65	-	65
	<u>74,790</u>	<u>80,246</u>	<u>85,000</u>	<u>(4,754)</u>
EXPENDITURES				
Personnel services	42	1,985	6,000	(4,015)
Contractual services	25,987	26,177	25,000	1,177
Commodities	16,259	16,930	15,000	1,930
Transfers to other funds	25,688	26,000	41,000	(15,000)
	<u>67,976</u>	<u>71,092</u>	<u>87,000</u>	<u>(15,908)</u>
Receipts over (under) expenditures	6,814	9,154		
UNENCUMBERED CASH, beginning	<u>4,762</u>	<u>11,576</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,576</u>	<u>20,730</u>		
<u>WATER RESERVE</u>				
RECEIPTS				
Interest	\$ 986	1,112		
EXPENDITURES				
Capital outlay	-	46,110	NOT APPLICABLE	
Receipts over (under) expenditures	986	(44,998)		
UNENCUMBERED CASH, beginning	<u>68,742</u>	<u>69,728</u>		
UNENCUMBERED CASH, ending	<u>\$ 69,728</u>	<u>24,730</u>		

City of Mount Hope, Kansas

Component Unit

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>LIBRARY BOARD</u>		
RECEIPTS		
City of Mt. Hope	\$ 21,000	20,500
SCKLS and other grants	8,686	5,461
State aid	-	665
Township appropriation	7,289	7,276
Fundraising	-	70
Interest	34	103
Other	1,489	1,936
	<u>38,498</u>	<u>36,011</u>
EXPENDITURES		
Personnel services	19,397	18,914
Books, periodicals and materials	16,356	13,806
Operating supplies and commodities	4,219	5,850
Telephone and utilities	1,719	1,742
	<u>41,691</u>	<u>40,312</u>
Receipts over (under) expenditures	(3,193)	(4,301)
UNENCUMBERED CASH, beginning	10,448	14,749
UNENCUMBERED CASH, ending	<u>\$ 7,255</u>	<u>10,448</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Mount Hope is a municipal corporation governed by an elected five-member council. These financial statements present the City of Mount Hope (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City.

1. Library Board--The City of Mount Hope Library Board operates the City's public library. The City provides funding for the library through special revenue and general fund appropriations.

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws 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 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 statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of presentation 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 non-cash 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 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 accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FUND DESCRIPTION

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

The following types of funds comprise the financial activities of the City for the year of 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 expenditures for specified purposes.

Debt Service Fund--to account for the accumulation of resources for and the payment of interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

Proprietary Funds

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. 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 fund and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
2. Public hearing on or before August 15th, but at least ten days after publication on notice of hearing.
3. Adoption of the final budget on or before August 25th.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. BUDGETARY INFORMATION (Continued)

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 2011 budget was not amended.

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 modified cash 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. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds, enterprise reserve accounts, and the following special revenue funds:

1. Equipment Replacement

Spending in funds that 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.

4. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2011.

5. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no investment policy 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. As of December 31, 2011, the City's investments included only bank savings accounts and certificates of deposit with a fair value of \$341,127, which are not subject to investment rating.

City of Mount Hope, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has not designated peak periods. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the carrying amount of the City's deposits, including component units, was \$600,445. The bank balance totaled \$607,420. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$251,011 was covered by FDIC insurance and the remaining \$356,409 was collateralized with securities held by the pledging financial institution's agents in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2011:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Petty cash	\$ 200	-	200
Financial institution deposits			
Checking account:			
Operating	249,396	283	249,679
Customer deposits	9,439	-	9,439
Savings and time deposits:			
Idle funds	<u>333,248</u>	<u>7,879</u>	<u>341,127</u>
	<u>\$ 592,283</u>	<u>8,162</u>	<u>600,445</u>

City of Mount Hope, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2011 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12-31-10	Additions	Retirements	Balance 12-31-11	Interest Paid 2011
General Obligation Bonds:									
Series 2005	3.55-4.45%	08/17/05	335,000	12/01/20	\$ 250,000	-	20,000	230,000	10,400
Series 2010	4.00%	06/29/10	685,000	12/01/30	685,000	-	15,000	670,000	38,969
Total Long-Term Debt					\$ 935,000	-	35,000	900,000	49,369

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31								
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2030	Total
Principal									
General Obligation Bonds	\$ 50,000	50,000	55,000	60,000	60,000	310,000	215,000	100,000	900,000
Interest									
General Obligation Bonds	36,460	34,490	32,510	30,310	27,885	100,385	44,600	10,000	316,640
Total principal and interest	\$ 86,460	84,490	87,510	90,310	87,885	410,385	259,600	110,000	1,216,640

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Mount Hope contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary, depending when eligibility began. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute was 7.74% at December 31, 2011. The City of Mount Hope contribution to KPERS for the year ending December 31, 2011, 2010 and 2009 were \$15,968, \$14,775 and \$11,305 equal to the statutory required contribution for the year.

City of Mount Hope, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

8. COMPENSATED ABSENCES

Full-time employees earn paid vacation according to the following schedule:

Years of continuous service	0-5	5-10	10-20	20+
Hours earned per month	6.66	8.50	10.00	13.20
Maximum hours accumulation	80	104	120	160

Unused vacation time has not been recorded as a liability in accompanying financial statements.

Full-time employees earn eight hours of sick leave for each month of service which can be accumulated to a maximum of 480 hours. Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded in the accompanying financial statements.

9. INTERFUND TRANSFERS

Transfers between funds consisted of the following during the year ended December 31, 2011:

<u>Transfers To</u>	<u>Transfers From</u>				<u>Total</u>
	<u>General</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	
General	\$ -	50,000	-	-	50,000
Employee Benefit	-	30,500	-	-	30,500
Capital Improvement	18,000	-	-	-	18,000
Bond and Interest	-	-	8,000	26,000	34,000
Electric Reserve	-	50,000	-	-	50,000
	<u>\$ 18,000</u>	<u>130,500</u>	<u>8,000</u>	<u>26,000</u>	<u>182,500</u>

10. SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through April 6, 2012, which is the date at which the financial statements were available to be issued.