

CITY OF EASTBOROUGH, KANSAS

**Financial Statements
December 31, 2012**

**with
Independent Auditors' Report**

CITY OF EASTBOROUGH, KANSAS
Financial Statement
Year Ended December 31, 2012

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
Schedule 1: Summary of Expenditures - Actual and Budget	4
Schedule 2: Schedule of Cash Receipts and Expenditures - Actual and Budget:	
General Fund	5
Special Purpose Funds:	
Employee Benefit Fund	7
Capital Improvement Fund	8
Special Highway Fund	9
Bond and Interest Fund	10
Capital Project Funds:	
Woodlawn Heights - Paving Improvement Project - Actual	11
Notes to Financial Statement	12

PETERSON, PETERSON & GOSS, L.C.

CERTIFIED PUBLIC ACCOUNTANTS

417 NORTH TOPEKA AVENUE
P.O. BOX 1259

WICHITA, KANSAS 67201-1259

TELEPHONE 316-262-8371
FAX 316-262-5369
www.ppglc.com

**MEMBER OF THE
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**OF COUNSEL
MARVIN W. NYE, C.P.A.**

**MEMBERS
GREGORY B. SEVIER, C.P.A.
JOHN B. GOSS, C.P.A.**

**PRINCIPALS
VONDA J. WILSON, C.P.A.
DENISE M. GUDENKAUF, C.P.A.
MATT T. HAASE, C.P.A.
JON W. OETTING, C.P.A.**

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Eastborough, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of City of Eastborough, 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 Statement

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.

Auditor's 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 of 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 of the financial statement, the financial statement is prepared by the City of Eastborough to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on 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 above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Eastborough as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Eastborough 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 described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

November 6, 2013

Peterson Peterson & Zoss, LC

CITY OF EASTBOROUGH, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For The Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Funds:						
General	\$ 576,565	\$ 989,761	\$ 1,175,764	\$ 390,562	\$ 3,072	\$ 393,634
Special Purpose:						
Employee Benefit	56,804	98,006	132,931	21,879	-	21,879
Capital Improvement	455,120	131,143	-	586,263	-	586,263
Special Highway	263,586	28,953	3,618	288,921	-	288,921
Capital Project Funds:						
Woodlawn Heights - Paving Improvement Project	103,641	-	103,641	-	-	-
Bond and Interest	-	141,442	-	141,442	-	141,442
Total Reporting Entity	<u>\$ 1,455,716</u>	<u>\$ 1,389,305</u>	<u>\$ 1,415,954</u>	<u>\$ 1,429,067</u>	<u>\$ 3,072</u>	<u>\$ 1,432,139</u>

Composition of cash:

Checking account - Intrust Bank	\$ 110,696
Money market - Equity Bank	219,117
Petty cash	100
ICS - Equity Bank	1,102,226
Total Reporting Entity	<u>\$ 1,432,139</u>

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

CITY OF EASTBOROUGH, KANSAS
Summary of Expenditures - Actual and Budget
For The Year Ended December 31, 2012

<u>Funds</u>	<u>Amended or Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General	\$ 1,193,623	\$ 1,175,764	\$ (17,859)
Special Purpose:			
Employee Benefit	140,000	132,931	(7,069)
Capital Improvement	581,073	-	(581,073)
Special Highway	296,985	3,618	(293,367)
Bond and Interest	116,067	-	(116,067)

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

CITY OF EASTBOROUGH, KANSAS
 General Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For The Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 497,362	\$ 511,475	\$ (14,113)
Delinquent tax	1,421	-	1,421
Motor vehicle	51,609	54,835	(3,226)
Recreational vehicle	146	125	21
Intergovernmental: Local sales tax	194,635	135,000	59,635
Franchise fees	55,081	35,000	20,081
Fines	149,033	100,000	49,033
Interest on investments	10,293	-	10,293
Permits and other	3,389	-	3,389
Reimbursements	26,792	-	26,792
Total Cash Receipts	<u>989,761</u>	<u>836,435</u>	<u>153,326</u>
Expenditures:			
General administration:			
Personnel services	89,978	80,455	9,523
Contractual services	34,863	35,000	(137)
Commodities	8,366	5,000	3,366
Street lights	17,501	18,500	(999)
Police department:			
Personnel services	309,912	335,000	(25,088)
Contractual services	47,060	42,500	4,560
Commodities	17,423	25,000	(7,577)
Capital outlay	-	25,000	(25,000)
Street department:			
Contractual services	26,181	75,000	(48,819)
Commodities	480	-	480
Parks:			
Contractual services	171,036	165,000	6,036
Commodities	10,558	5,000	5,558

CITY OF EASTBOROUGH, KANSAS
 General Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For The Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Expenditures:			
(Continued)			
City Hall:			
Contractual services	\$ 23,679	\$ 17,500	\$ 6,179
Commodities	1,226	2,500	(1,274)
Capitol Outlay	-	10,000	(10,000)
Municipal court:			-
Personnel services	33,658	33,500	158
Contractual services	2,916	3,500	(584)
Commodities	2,186	2,500	(314)
Mayor's discretionary fund	1,413	1,500	(87)
KDOT - TRF	51,168	51,168	-
Fire services	130,192	135,000	(4,808)
Revenue Refund	27,040	-	27,040
CIP	43,928	-	43,928
Transfer to Capital Improvement Fund	125,000	125,000	-
Total Expenditures	1,175,764	1,193,623	\$ (17,859)
Receipts Over (Under) Expenditures	(186,003)	(357,188)	
Unencumbered Cash, Beginning	576,565	357,188	
Unencumbered Cash, Ending	\$ 390,562	\$ -	

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

CITY OF EASTBOROUGH, KANSAS
Employee Benefit Fund
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For The Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 85,714	\$ 88,146	\$ (2,432)
Motor vehicle	11,589	12,265	(676)
Delinquent tax	375	-	375
Recreational vehicle	33	28	5
Reimbursements	295	-	295
Total Cash Receipts	98,006	100,439	(2,433)
Expenditures:			
Employee benefits	132,931	140,000	\$ (7,069)
Receipts Over (Under) Expenditures	(34,925)	(39,561)	
Unencumbered Cash, Beginning	56,804	39,561	
Unencumbered Cash, Ending	\$ 21,879	\$ -	

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

CITY OF EASTBOROUGH, KANSAS
 Capital Improvement Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For The Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes:			
Delinquent tax	\$ 159	\$ -	\$ 159
Motor vehicle	5,967	6,337	(370)
Recreational vehicle	17	14	3
Transfer from General Fund	125,000	125,000	-
Total Cash Receipts	131,143	131,351	(208)
Expenditures:			
Capital improvements	-	581,073	\$ (581,073)
Receipts Over (Under) Expenditures	131,143	(449,722)	
Unencumbered Cash, Beginning	455,120	449,722	
Unencumbered Cash, Ending	\$ 586,263	\$ -	

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

CITY OF EASTBOROUGH, KANSAS
Special Highway Fund
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Cash Receipts:			
State of Kansas	\$ 20,078	\$ 21,780	\$ (1,702)
City/county highway	8,875	10,020	(1,145)
Total Cash Receipts	<u>28,953</u>	<u>31,800</u>	<u>(2,847)</u>
 Expenditures:			
Street repair and maintenance	<u>3,618</u>	<u>296,985</u>	<u>\$ (293,367)</u>
 Receipts Over (Under) Expenditures	25,335	(265,185)	
 Unencumbered Cash, Beginning	<u>263,586</u>	<u>265,185</u>	
 Unencumbered Cash, Ending	<u>\$ 288,921</u>	<u>\$ -</u>	

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

CITY OF EASTBOROUGH, KANSAS
 Bond and Interest Fund
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For The Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 107,464	\$ 110,513	\$ (3,049)
Reimbursements	33,978	-	33,978
Total Cash Receipts	141,442	110,513	(3,049)
Expenditures:			
Capital improvements	-	116,067	\$ (116,067)
Receipts Over (Under) Expenditures	141,442	(5,554)	
Unencumbered Cash, Beginning	-	-	
Unencumbered Cash, Ending	\$ 141,442	\$ (5,554)	

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

CITY OF EASTBOROUGH, KANSAS
Woodlawn Heights - Paving Improvement Project
Schedule of Cash Receipts and Expenditures - Actual
Regulatory Basis
For The Year Ended December 31, 2012

	<u>Actual</u>
Expenditures:	
Street repair and maintenance	<u>\$ 103,641</u>
Unencumbered Cash, Beginning	<u>103,641</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

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

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statement

December 31, 2012

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 statement. The financial statement 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 statement.

Reporting Entity

The City of Eastborough is a municipal corporation governed by an elected six-member council. These financial statement 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 encumbrances and residual 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 2012:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – 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.

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statement

December 31, 2012

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

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

Subsequent Events

Subsequent events have been evaluated through November 6, 2013, which is the date the financial statement was available to be issued. Events requiring disclosure were identified and disclosed.

2. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statement

December 31, 2012

2. 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. 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.

3. Deposits

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. All deposits were legally secured at December 31, 2012

At year-end the carrying amount of the City's deposits was \$1,432,139. The bank statement balances were \$1,435,224. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 of each institution's account 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.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statement

December 31, 2012

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 2012 was \$24,579.

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	\$125,000

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 in early 2012.

CITY OF EASTBOROUGH, KANSAS
Notes to Financial Statements
Year Ended December 31, 2012

9. Long-Term Debt

Changes in long-term debt for the year ended December 31, 2012 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
General Obligation Bonds:									
2012 A GO Bonds	1.77%	2/22/2012	\$ 858,000	9/2/2022	\$ -	\$ 858,000	\$ -	\$ 858,000	\$ -
Revolving Loan Programs:									
Transportation Revolving Fund TR-0042	3.65%	9/5/2006	224,308	8/1/2021	\$ 154,561	\$ -	\$ 14,636	\$ 139,925	\$ 6,028
Transportation Revolving Fund TR-0090	3.90%	10/28/2008	227,794	8/1/2018	182,079	-	22,949	159,130	7,556
Total Revolving Loan Programs					336,640	-	37,585	299,055	13,584
Total Contractual Indebtedness					<u>\$ 336,640</u>	<u>\$ 858,000</u>	<u>\$ 37,585</u>	<u>\$ 1,157,055</u>	<u>\$ 13,584</u>

Schedule of Maturities of Contractual Indebtedness

	2013	2014	2015	2016	2017	2018	2019-2023	Total
Principal:								
Temporary Note *	\$ 73,000	\$ 80,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 365,000	\$ 858,000
Revolving loan program	39,108	40,692	42,342	44,058	45,844	47,699	39,312	299,055
Total Principal Payments	<u>\$ 112,108</u>	<u>\$ 120,692</u>	<u>\$ 127,342</u>	<u>\$ 129,058</u>	<u>\$ 130,844</u>	<u>\$ 132,699</u>	<u>\$ 404,312.36</u>	<u>\$ 1,157,055</u>
Interest:								
General Obligation Bonds	\$ 19,775	\$ 12,603	\$ 12,003	\$ 11,153	\$ 10,133	\$ 8,943	\$ 19,845	\$ 94,453
Revolving loan program	11,313	9,826	8,279	6,668	4,993	3,249	2,183	46,511
Total Interest Payments	<u>\$ 31,089</u>	<u>\$ 22,429</u>	<u>\$ 20,281</u>	<u>\$ 17,821</u>	<u>\$ 15,125</u>	<u>\$ 12,192</u>	<u>\$ 22,028</u>	<u>\$ 140,964</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.