

CITY OF HOPE, KANSAS

FINANCIAL STATEMENT

WITH

INDEPENDENT AUDITOR'S REPORT

December 31, 2012

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 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Hope, Kansas (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements.

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 misstatements, 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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes examining, on a test basis, evidence supporting 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 to the financial statement, the financial statement is prepared by the City to meet the requirements of the State of Kansas on the basis of 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.

December 17, 2013
City of Hope, Kansas
(Continued)

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 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 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 Regulatory-Required 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 (Schedules 1 and 2 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.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF HOPE, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Regulatory Basis

For the Year Ended December 31, 2012

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds							
General Fund	\$ 198,761	-	\$ 151,995	\$ 136,216	\$ 214,540	-	\$ 214,540
Special Revenue Funds							
Special Streets	20,786	-	9,520	-	30,306	-	30,306
Library	-	-	5,544	5,544	-	-	-
Employee Benefits	26	-	-	-	26	-	26
Business Funds							
Water	74,321	-	67,924	76,452	65,793	-	65,793
Sewer	35,650	-	15,766	16,864	34,552	-	34,552
Trash	1,895	-	30,019	30,684	1,230	-	1,230
Water/Sewer Reserve	(679)	-	-	-	(679)	-	(679)
Depreciation Reserve	6,404	-	-	-	6,404	-	6,404
Total Reporting Entity	\$ 337,164	-	\$ 280,768	\$ 265,760	\$ 352,172	-	\$ 352,172

Composition of Cash

Checking Accounts	\$ 112,710
Savings Accounts	22,055
Certificates of Deposit	217,407
Total Reporting Entity Cash	\$ 352,172

STATEMENT 1

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

Financial Statement

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENT
December 31, 2012

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:

Municipal Financial Reporting Entity

The municipal financial reporting entity of the City is comprised of the primary government. There are no component units included in the municipal financial reporting entity.

Regulatory Basis Fund Types

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 chief 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 Purpose Funds - Special purpose funds are 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.

Business Funds

Business 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.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The *Kansas Municipal Audit and Accounting Guide (KMAAG)* regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at 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 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 regulatory basis of accounting.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 general fund, the water fund and the solid waste fund budgets were amended in 2012.

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 regulatory 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.

A legal operating budget is not required for capital project funds, trust funds, or certain special purpose 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.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2012

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. The municipality has no other policies 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 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, 2012, the City's carrying amount of the City's deposits was \$352,173. The bank balance was \$379,494. The bank balance was held by one bank, in checking, savings and certificates of deposit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining balance of \$129,494 was covered with pledged securities as of December 31, 2012.

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%. There were no "peak periods" designated during the year. All deposits were legally secured at December 31, 2012.

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.

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 Kansas law. 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.

Funding Policy. KSA 74-4919 and KSA 74-49,210 establish the KPERs member-employee contribution rate. Effective July 1, 2009, KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERs member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

CITY OF HOPE, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2012

Note 5: Interfund Transfers

There were no transfers for the year ended December 31, 2012.

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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7: Stewardship, Compliance, and Accountability

The City had one fund with a deficit fund balance at December 31, 2012: the Water/Sewer Reserve Fund.

The City had one fund with a deficit cash balance at December 31, 2012: the Water/Sewer Reserve Fund.

The City had one fund with a budget violation for the year ended December 31, 2012: the Water Fund.

CITY OF HOPE, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

<u>Fund</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Funds			
General Fund	\$ 153,000	\$ 136,216	\$ 16,784
Special Revenue Funds			
Special Streets	22,500	-	22,500
Library	7,300	5,544	1,756
Employee Benefits	-	-	-
Business Funds			
Enterprise Funds			
Water	64,750	76,452	(11,702)
Sewer	23,950	16,864	7,086
Trash	32,000	30,684	1,316
TOTAL	<u>\$ 303,500</u>	<u>\$ 265,760</u>	<u>\$ 37,740</u>

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
 For the Year Ended December 31, 2012

GENERAL FUND

	Actual	Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Property taxes	\$ 95,577	\$ 95,941	\$ (364)
Sales tax	32,793	30,500	2,293
Interest	3,206	-	3,206
Franchise fees	12,160	13,000	(840)
Other fees and miscellaneous	8,259	5,300	2,959
Total Cash Receipts	\$ 151,995	\$ 144,741	\$ 7,254
EXPENDITURES			
Administration	\$ 99,714	\$ 117,000	\$ 17,286
Fire	2,508	1,000	(1,508)
Police	33,994	35,000	1,006
Total Expenditures	\$ 136,216	\$ 153,000	\$ 16,784
CASH RECEIPTS OVER (UNDER) EXPENDITURES	\$ 15,779		
UNENCUMBERED CASH - JANUARY 1	198,761		
UNENCUMBERED CASH - DECEMBER 31	\$ 214,540		

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

SPECIAL STREETS FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes - State of Kansas	\$ 9,520	\$ 9,920	\$ (400)
Transfers in from General Fund	-	10,000	(10,000)
Total Cash Receipts	<u>\$ 9,520</u>	<u>\$ 19,920</u>	<u>\$ (400)</u>
 EXPENDITURES			
Street repair and maintenance	<u>\$ -</u>	<u>\$ 22,500</u>	<u>\$ 22,500</u>
 CASH RECEIPTS OVER (UNDER) EXPENDITURES	<u>\$ 9,520</u>		
 UNENCUMBERED CASH - JANUARY 1	<u>20,786</u>		
 UNENCUMBERED CASH - DECEMBER 31	<u>\$ 30,306</u>		

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

LIBRARY FUND

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Ad Valorem property tax	\$ 5,544	\$ 5,468	\$ 76
EXPENDITURES			
Appropriations to library	\$ 5,544	\$ 7,300	\$ 1,756
CASH RECEIPTS OVER (UNDER) EXPENDITURES	\$ -		
UNENCUMBERED CASH - JANUARY 1	<u>-</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ -</u>		

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

EMPLOYEE BENEFITS FUND

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

CITY OF HOPE, KANSAS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

WATER FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Charges for services	\$ 67,068	\$ 66,000	\$ 1,068
Interest income	856	-	856
Total Cash Receipts	<u>\$ 67,924</u>	<u>\$ 66,000</u>	<u>\$ 1,924</u>
EXPENDITURES			
Salaries and wages	\$ 10,095	\$ 15,750	\$ 5,655
Employee benefits	687	-	(687)
Purchased water	35,224	34,000	(1,224)
Commodities	30,446	15,000	(15,446)
Total Expenditures	<u>\$ 76,452</u>	<u>\$ 64,750</u>	<u>\$ (11,702)</u>
CASH RECEIPTS OVER (UNDER) EXPENDITURES	\$ (8,528)		
UNENCUMBERED CASH - JANUARY 1	<u>74,321</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 65,793</u>		

CITY OF HOPE, KANSAS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

SEWER FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Charges for services	\$ 15,231	\$ 16,000	\$ (769)
Interest income	535	-	535
Total Cash Receipts	<u>\$ 15,766</u>	<u>\$ 16,000</u>	<u>\$ (234)</u>
EXPENDITURES			
Salaries and wages	\$ 10,095	\$ 15,750	\$ 5,655
Employee benefits	687	-	(687)
Commodities	6,082	8,200	2,118
Total Expenditures	<u>\$ 16,864</u>	<u>\$ 23,950</u>	<u>\$ 7,086</u>
CASH RECEIPTS OVER (UNDER) EXPENDITURES	\$ (1,098)		
UNENCUMBERED CASH - JANUARY 1	<u>35,650</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 34,552</u>		

CITY OF HOPE, KANSAS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

TRASH FUND

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Trash fees	\$ 30,019	\$ 31,000	\$ (981)
EXPENDITURES			
Contractual	\$ 30,684	\$ 32,000	\$ 1,316
CASH RECEIPTS OVER (UNDER) EXPENDITURES	\$ (665)		
UNENCUMBERED CASH - JANUARY 1	<u>1,895</u>		
UNENCUMBERED CASH - DECEMBER 31	<u>\$ 1,230</u>		

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

WATER/SEWER RESERVE FUND

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

CITY OF HOPE, KANSAS
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

DEPRECIATION RESERVE FUND

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