# CITY OF BASEHOR, KANSAS

## Financial Statements

## For the Year Ended December 31, 2003

City of Basehor, Kansas
Financial Statements
For the Year Ended December 31, 2003

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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Mayor and City Council
City of Basehor, Kansas

We have audited the accompanying financial statements of the City of Basehor, Kansas (the City), as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Basehor, Kansas. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 in Note 1, the City of Basehor, Kansas 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 that accounting principles generally accepted in the United States of America.

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 of Basehor, Kansas, as of December 31, 2003, or the results of its operations, or the cash flows of its proprietary fund types 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 of Basehor, Kansas, as of December 31, 2003, and its cash receipts and expenditures, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2004 on our consideration of the City of Basehor, Kansas's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Lowenthal, Singleton, Webb & Wilson

Professional Association

March 8, 2004

City of Basehor, Kansas
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2003

| Funds | Beginning Unencumbered Cash Balance | Prior Year Cancelled Encumbrances | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add: Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
|---|---|---|---|---|---|---|---|
| General | $ 324,003 | $ 5,979 | $ 1,347,776 | $ 1,096,283 | $ 581,475 | $ - | $ 581,475 |
| Special Revenue Funds: | | | | | | | |
| Special Highway | 30,051 | - | 72,739 | 102,790 | - | - | - |
| Special Parks and Recreation | 60,283 | - | 39,284 | 4,315 | 95,252 | - | 95,252 |
| Capital Improvements Reserve | 111,970 | - | 22,328 | 7,419 | 126,879 | - | 126,879 |
| Equipment Reserve | 45,408 | - | 80,604 | 103,336 | 22,676 | - | 22,676 |
| Debt Service Fund: | | | | | | | |
| Bond and Interest | 177,398 | - | 365,806 | 439,458 | 103,746 | - | 103,746 |
| Capital Projects Funds: | | | | | | | |
| Consolidated Highway | - | - | 141,788 | - | 141,788 | - | 141,788 |
| Road Improvements | 100,171 | - | 323,210 | - | 423,381 | - | 423,381 |
| Falcon Lake Infrastructure | 590,868 | - | 19,982 | 394,827 | 216,023 | - | 216,023 |
| Pinehurst Infrastructure | - | - | 4,035,175 | 294,864 | 3,740,311 | 287,398 | 4,027,709 |
| Enterprise Funds: | | | | | | | |
| Sewer | 329,659 | 2,600 | 1,629,780 | 1,534,169 | 427,870 | - | 427,870 |
| Solid Waste | 15,395 | - | 102,677 | 99,179 | 18,893 | - | 18,893 |
| Total Primary Government | $ 1,785,206 | $ 8,579 | $ 8,181,149 | $ 4,076,640 | $ 5,898,294 | $ 287,398 | $ 6,185,692 |

Composition of Cash:

| | |
|---|---|
| First State Bank & Trust | |
| Checking | $ 61,176 |
| Money Market | 4,760,140 |
| Certificates of Deposit | 1,338,000 |
| State of Kansas Pooled Money Investment Board | |
| Municipal Investment Pool | 72,527 |
| Outstanding Checks | [46,151] |
| Total | $ 6,185,692 |

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

STATEMENT 2

City of Basehor, Kansas
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| Funds | Certified Budget | Adjustment for Qualifying Budget Credits | Total Budget for Comparison | Expenditures Chargeable to Current Year | Variance Positive [Negative] |
|---|---|---|---|---|---|
| General | $ 1,196,890 | $ - | $ 1,196,890 | $ 1,096,283 | $ 100,607 |
| Special Revenue Funds: | | | | | |
| Special Highway | 110,000 | - | 110,000 | 102,790 | 7,210 |
| Special Parks and Recreation | 36,000 | - | 36,000 | 4,315 | 31,685 |
| Capital Improvements Reserve | 7,450 | - | 7,450 | 7,419 | 31 |
| Equipment Reserve | 106,500 | - | 106,500 | 103,336 | 3,164 |
| Debt Service Fund: | | | | | |
| Bond and Interest | 806,779 | - | 806,779 | 439,458 | 367,321 |
| Enterprise Funds: | | | | | |
| Sewer | 1,363,273 | - | 1,363,273 | 441,490 | 921,783 |
| Solid Waste | 104,761 | - | 104,761 | 99,179 | 5,582 |

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

City of Basehor, Kansas
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Taxes | $ 885,432 | $ 795,009 | $ 90,423 |
| Intergovernmental | 7,020 | 16,465 | [9,445] |
| Licenses and permits | 174,736 | 74,860 | 99,876 |
| Fines and fees | 133,868 | 83,300 | 50,568 |
| Use of money and property | 13,253 | 8,033 | 5,220 |
| Reimbursed expenses | 70,335 | - | 70,335 |
| Miscellaneous | 7,632 | - | 7,632 |
| Transfers in | 55,500 | 7,000 | 48,500 |
| Total Cash Receipts | 1,347,776 | $ 984,667 | $ 363,109 |
| Expenditures and Transfers Subject to Budget | | | |
| General Government | | | |
| Personnel | 246,520 | $ 305,896 | $ 59,376 |
| Contractual services | 151,025 | 127,515 | [23,510] |
| Commodities | 16,597 | 20,880 | 4,283 |
| Capital outlay | 4,369 | 11,500 | 7,131 |
| Miscellaneous | 8,124 | - | [8,124] |
| Public Safety | | | |
| Personnel | 235,099 | 230,676 | [4,423] |
| Contractual services | 49,887 | 35,535 | [14,352] |
| Commodities | 16,613 | 19,500 | 2,887 |
| Capital outlay | 2,536 | 2,000 | [536] |
| Highways and Streets | | | |
| Personnel | 75,661 | 74,333 | [1,328] |
| Contractual services | 67,840 | 53,415 | [14,425] |
| Commodities | 15,743 | 40,910 | 25,167 |
| Capital outlay | 2,370 | 2,000 | [370] |
| Culture and Recreation | | | |
| Personnel | 488 | 5,720 | 5,232 |
| Contractual services | 1,216 | 3,890 | 2,674 |
| Commodities | 2,195 | 2,820 | 625 |
| Transfers out | 200,000 | 260,300 | 60,300 |
| Total Expenditures and Transfers Subject to Budget | 1,096,283 | $ 1,196,890 | $ 100,607 |
| Receipts Over [Under] Expenditures | 251,493 | | |
| Unencumbered Cash, Beginning | 324,003 | | |
| Canelled prior year encumbrances | 5,979 | | |
| Unencumbered Cash, Ending | $ 581,475 | | |

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

STATEMENT 3-2

City of Basehor, Kansas
Special Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Taxes | $ 5,721 | $ 5,411 | $ 310 |
| Intergovernmental | 67,018 | 68,050 | [1,032] |
| Total Cash Receipts | 72,739 | $ 73,461 | $ [722] |
| Expenditures and Transfers Subject to Budget | | | |
| Contractual services | 61,003 | $ 66,650 | $ 5,647 |
| Commodities | | 23,350 | 23,350 |
| Transfers out | 41,787 | 20,000 | [21,787] |
| Total Expenditures and Transfers Subject to Budget | 102,790 | $ 110,000 | $ 7,210 |
| Receipts Over [Under] Expenditures | [30,051] | | |
| Unencumbered Cash, Beginning | 30,051 | | |
| Unencumbered Cash, Ending | $ - | | |

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

City of Basehor, Kansas
Special Parks and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Taxes | $ 13,484 | $ 5,658 | $ 7,826 |
| Fines and fees | 25,800 | 6,800 | 19,000 |
| Total Cash Receipts | 39,284 | $ 12,458 | $ 26,826 |
| Expenditures and Transfers Subject to Budget | | | |
| Capital outlay | 4,315 | $ 36,000 | $ 31,685 |
| Total Expenditures and Transfers Subject to Budget | 4,315 | $ 36,000 | $ 31,685 |
| Receipts Over [Under] Expenditures | 34,969 | | |
| Unencumbered Cash, Beginning | 60,283 | | |
| Unencumbered Cash, Ending | $ 95,252 | | |

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

STATEMENT 3-4

City of Basehor, Kansas
Capital Improvements Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Use of money & property | $ 2,328 | $ 2,239 | $ 89 |
| Transfers in | 20,000 | 20,000 | - |
| Total Cash Receipts | 22,328 | $ 22,239 | $ 89 |
| Expenditures and Transfers Subject to Budget | | | |
| Capital outlay | 7,419 | $ 7,450 | $ 31 |
| Total Expenditures and Transfers Subject to Budget | 7,419 | $ 7,450 | $ 31 |
| Receipts Over [Under] Expenditures | 14,909 | | |
| Unencumbered Cash, Beginning | 111,970 | | |
| Unencumbered Cash, Ending | $ 126,879 | | |

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

City of Basehor, Kansas
Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Use of money & property | $ 604 | $ 908 | $ [304] |
| Transfers in | 80,000 | 80,000 | - |
| Total Cash Receipts | 80,604 | $ 80,908 | $ [304] |
| Expenditures and Transfers Subject to Budget | | | |
| Capital outlay | 103,336 | $ 106,500 | $ 3,164 |
| Total Expenditures and Transfers Subject to Budget | 103,336 | $ 106,500 | $ 3,164 |
| Receipts Over [Under] Expenditures | [22,732] | | |
| Unencumbered Cash, Beginning | 45,408 | | |
| Unencumbered Cash, Ending | $ 22,676 | | |

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

STATEMENT 3-6

City of Basehor, Kansas
Bond and Interest Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Taxes | $ 70,124 | $ 54,647 | $ 15,477 |
| Use of money and property | 3,926 | 6,380 | [2,454] |
| Special assessments | 16,961 | 20,893 | [3,932] |
| Transfers in | 274,795 | 542,629 | [267,834] |
| Total Cash Receipts | 365,806 | $ 624,549 | $ [258,743] |
| Expenditures and Transfers Subject to Budget | | | |
| Principal | 253,028 | $ 65,000 | $ [188,028] |
| Interest and other charges | 186,430 | 243,084 | 56,654 |
| Other debt service | - | 498,695 | 498,695 |
| Total Expenditures and Transfers Subject to Budget | 439,458 | $ 806,779 | $ 367,321 |
| Receipts Over [Under] Expenditures | [73,652] | | |
| Unencumbered Cash, Beginning | 177,398 | | |
| Unencumbered Cash, Ending | $ 103,746 | | |

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

City of Basehor, Kansas
Consolidated Highway Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2003

| | Actual |
|---|---|
| Cash Receipts | |
| Transfers in | $ 141,788 |
| Total Cash Receipts | 141,788 |
| Expenditures and Transfers | |
| Capital outlay | - |
| Total Expenditures and Transfers | - |
| Receipts Over [Under] Expenditures | 141,788 |
| Unencumbered Cash, Beginning | - |
| Unencumbered Cash, Ending | $ 141,788 |

* - This fund is not required to be budgeted in 2003.

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

STATEMENT 3-8

City of Basehor, Kansas
Road Improvements Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2003

| | Actual |
|---|---|
| Cash Receipts | |
| Taxes | $ 321,037 |
| Use of money & property | 2,173 |
| Total Cash Receipts | 323,210 |
| Expenditures and Transfers | |
| Capital outlay | - |
| Total Expenditures and Transfers | - |
| Receipts Over [Under] Expenditures | 323,210 |
| Unencumbered Cash, Beginning | 100,171 |
| Unencumbered Cash, Ending | $ 423,381 |

* - This fund is not required to be budgeted in 2003.

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

City of Basehor, Kansas
Falcon Lake Infrastructure Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2003

| | Actual |
|---|---|
| Cash Receipts | |
| Use of money & property | $ 19,982 |
| Total Cash Receipts | 19,982 |
| Expenditures and Transfers | |
| Contractual services | 19,643 |
| Capital outlay | 185,601 |
| Interest expense | 133,800 |
| Transfers out | 55,783 |
| Total Expenditures and Transfers | 394,827 |
| Receipts Over [Under] Expenditures | [374,845] |
| Unencumbered Cash, Beginning | 590,868 |
| Unencumbered Cash, Ending | $ 216,023 |

* - This fund is not required to be budgeted in 2003.

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

STATEMENT 3-10

City of Basehor, Kansas
Pinehurst Infrastructure Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2003

| | Actual |
|---|---|
| Cash Receipts | |
| Use of money & property | $ 4,035,175 |
| Total Cash Receipts | 4,035,175 |
| Expenditures and Transfers | |
| Contractual services | 4,953 |
| Capital outlay | 287,398 |
| Transfers out | 2,513 |
| Total Expenditures and Transfers | 294,864 |
| Receipts Over [Under] Expenditures | 3,740,311 |
| Unencumbered Cash, Beginning | - |
| Unencumbered Cash, Ending | $ 3,740,311 |

* - This fund is not required to be budgeted in 2003.

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

City of Basehor, Kansas
Sewer Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Charges to customers | $ 529,988 | $ 526,928 | $ 3,060 |
| Interest income | 7,113 | 8,013 | [900] |
| Bond proceeds | 1,092,679 | 806,297 | 286,382 |
| Transfers in | - | 49,000 | [49,000] |
| Total Cash Receipts | 1,629,780 | $ 1,390,238 | $ 239,542 |
| Expenditures and Transfers Subject to Budget | | | |
| Personnel | 74,990 | $ 90,000 | $ 15,010 |
| Contractual | 92,040 | 84,529 | [7,511] |
| Commodities | 10,789 | 12,447 | 1,658 |
| Capital outlay | 1,671 | 865,297 | 863,626 |
| Transfers out | 262,000 | 311,000 | 49,000 |
| Total Expenditures and Transfers Subject to Budget | 441,490 | $ 1,363,273 | $ 921,783 |
| Capital outlay expenditure not subject to budget | 1,092,679 | | |
| Receipts Over [Under] Expenditures | 95,611 | | |
| Unencumbered Cash, Beginning | 329,659 | | |
| Cancelled prior year encumbrances | 2,600 | | |
| Unencumbered Cash, Ending | $ 427,870 | | |

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

STATEMENT 3-12

City of Basehor, Kansas
Solid Waste Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2003

| | Actual | Budget | Variance Positive [Negative] |
|---|---|---|---|
| Cash Receipts | | | |
| Charges to customers | $ 102,677 | $ 99,940 | $ 2,737 |
| Total Cash Receipts | 102,677 | $ 99,940 | $ 2,737 |
| Expenditures and Transfers Subject to Budget | | | |
| Personnel | 13,048 | $ 14,252 | $ 1,204 |
| Contractual | 74,309 | 77,505 | 3,196 |
| Commodities | 1,822 | 3,004 | 1,182 |
| Transfers out | 10,000 | 10,000 | - |
| Total Expenditures and Transfers Subject to Budget | 99,179 | $ 104,761 | $ 5,582 |
| Receipts Over [Under] Expenditures | 3,498 | | |
| Unencumbered Cash, Beginning | 15,395 | | |
| Unencumbered Cash, Ending | $ 18,893 | | |

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

City of Basehor, Kansas
Statement of Changes in Long Term Debt
For the Year Ended December 31, 2003

| Issue | Interest Rates | Date of Issue | Amount of Issue | Date of Final Maturity | Balance Beginning of Year | Additions | Reductions/ Payments | Balance End of Year |
|---|---|---|---|---|---|---|---|---|
| General Obligation Bonds | | | | | | | | |
| Street Repairs & Improvements | Various | 11/01/93 | $ 100,000 | 11/01/17 | $ 30,000 | $ - | $ 5,000 | $ 25,000 |
| Sewer District #12 | Various | 08/01/97 | 256,592 | 11/01/08 | 215,000 | - | 10,000 | 205,000 |
| | | | | | 245,000 | - | 15,000 | 230,000 |
| Temporary Notes | | | | | | | | |
| Temporary Note - Series 2003 | 4.25% | 08/01/03 | 3,350,000 | 06/01/04 | - | 3,350,000 | - | 3,350,000 |
| Temporary Note - Series 2003B | 2.50% | 12/01/03 | 4,020,000 | 11/01/05 | - | 4,020,000 | - | 4,020,000 |
| Temporary Note - Series 2001 | 4.00% | 09/01/01 | 3,345,000 | 09/01/03 | 3,345,000 | - | 3,345,000 | - |
| | | | | | 3,345,000 | 7,370,000 | 3,345,000 | 7,370,000 |
| Revolving Loan | | | | | | | | |
| Kansas Department of Health & Environment | 2.82% | 09/01/00 | 7,192,600 | 03/01/20 | 5,763,578 | 1,092,679 | 238,027 | 6,618,230 |
| | | | | | $9,353,578 | $8,462,679 | $3,598,027 | $14,218,230 |

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

## NOTE 1 - Summary of Significant Accounting Policies

### Financial Reporting Entity

The City of Basehor, Kansas (the City), is a municipal corporation governed by an elected six-member council. The City has no component units.

### Basis of Accounting

These financial statements are presented on a 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. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. 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.

### Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under 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. 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, temporary notes, and compensated absences are not presented in the financial statements.

The City has obtained a waiver from accounting principles generally accepted in the United States of America, which allows the City to use this statutory basis of accounting.

### Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash 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.

### Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's cash resources and the related liabilities (other than those in the proprietary funds) are accounted for through governmental funds. The measurement focus is based upon changes in current financial resources.

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types (Continued)

Special Revenue Funds - are used to account for revenues derived from specific taxes, governmental grants or other revenue sources which are restricted to finance particular functions or activities of the City.

The Debt Service Fund is used to account for the accumulation of cash for, and the payment of, principal, interest and other related costs of the City's general obligation bonds.

The Capital Project Funds are used to account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body 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.

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 annual operating budget:

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

The statutes allow for the city council 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 2003 budget was amended for the Special Highway, Sewer, Solid Waste, Equipment Reserve and Capital Improvements Reserve Funds.

The statutes permit transferring budgeted amounts between accounts 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 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 City 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 projects funds, agency funds, and certain special revenue funds.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

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 city council.

NOTE 2 - Deposits

At year-end the carrying amount of the City's deposits was $6,113,165 and the bank balance was $6,159,316. The difference between the carrying amount and the bank balance is outstanding checks, deposits in transit and cash on hand. All of the bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Kansas statutes authorize the City to invest in U.S. Treasury bills and notes, repurchase agreements, the Kansas Municipal Investment Pool, and certain other types of federal and Kansas municipal obligations. All investments must be insured, registered, or held by the City or its agent in the City's name. The City had $72,527 deposited in the Kansas Municipal Investment Pool at December 31, 2003. The investments of the State Treasurer's investment pool are held in the name of the state in the state's account at the Federal Reserve. These investments are reported to the City at fair value on a monthly basis. State statutes established the Pooled Money Investment Board to oversee the activities of the pool.

NOTE 3 - Retirement Plans

All employees employed by the City are entitled to enroll at the City Council's discretion, in a Deferred Compensation Plan, offered by AETNA Life insurance & Annuity Company or such other insurance company as may offer a plan approved by the Kansas Legislature pursuant to KSA 75-5522 et seq. and KSA 75-5529 et seq. For an employee who is employed at least 520 hours per year, the City shall contribute to the Plan an amount as specified according to the current maximum contribution to old age Social Security benefits. The payroll for employees covered by the Plan was $296,596. Total gross payroll was $523,731. The contribution for the year ending December 31, 2003 was $5,015 from employees and $29,667 from employer representing 1.69% and 10.0% of covered payroll, respectively.

The City participates in the Kansas Police and Firemen's Retirement System (KP&F) which is part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KP&F provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KP&F issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kansas Public Employees Retirement System (KPERS); 611 South Kansas Avenue, Topeka, KS 66603.

K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% 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. KP&F is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KP&F uniform participating employer rate established for fiscal years beginning in 2003 is 6.86%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City contributions to KP&F for the year ending December 31, 2003 was $11,496, equal to the required contribution for the year.

NOTE 4 - Long-Term Debt

Following is a detailed listing of the City's bonded debt:

| | Date Issued | Date Matures | Original Amount | Interest Rate | Ending Amount |
|---|---|---|---|---|---|
| Street Repairs & Improvement | 1993 | 2017 | $ 100,000 | 4.75 - 5.25% | $ 25,000 |
| Sewer District #12 | 1997 | 2008 | 256,592 | 4.55 - 6.50% | 205,000 |
| Total | | | $ 356,592 | | $ 230,000 |

Following is a summary of changes in long-term debt for the year ended December 31, 2003:

| Type of Issue | Beginning Principal Outstanding | Additions to Principal | Reductions of Principal | Ending Principal Outstanding |
|---|---|---|---|---|
| General obligation bonds | $ 245,000 | $ - | $ 15,000 | $ 230,000 |
| Total | $ 245,000 | $ - | $ 15,000 | $ 230,000 |

The annual debt service requirements to maturity for the general obligation bonds to be paid with tax levies:

| Year Ending December 31, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2004 | $ 15,000 | $ 11,576 | $ 26,576 |
| 2005 | 15,000 | 10,859 | 25,859 |
| 2006 | 15,000 | 10,137 | 25,137 |
| 2007 | 15,000 | 9,408 | 24,408 |
| 2008 | 20,000 | 8,670 | 28,670 |
| 2009 - 2013 | 75,000 | 31,117 | 106,117 |
| 2014 - 2017 | 75,000 | 10,340 | 85,340 |
| Totals | $ 230,000 | $ 92,107 | $ 322,107 |

NOTE 5 - Sewer Improvement Loan

In September of 2000, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to $7,785,000 for sewer facility improvements. The City will repay this loan over a 20-year period ending in March of 2020. The gross interest rate being charged on this loan is 3.07 percent. Of this, 0.25 percent is a service fee for a net interest rate of 2.82 percent.

NOTE 5 - Sewer Improvement Loan (Continued)

Following is a summary of changes in revolving loan for the year ended December 31, 2003:

| Type of Issue | Beginning Principal Outstanding | Additions to Principal | Reductions of Principal | Ending Principal Outstanding |
|---|---|---|---|---|
| KDHE Revolving Loan | $ 5,763,578 | $ 1,092,679 | $ 238,027 | $ 6,618,230 |

The City has yet to receive all of the proceeds on this loan and thus a final amortization schedule is not available at this time.

*Temporary Notes.* $7,370,000 of temporary notes were issued in 2003, due in 2004 and 2005, to fund construction of infrastructure, pending permanent financing.

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

NOTE 7 - Interfund Transfers

A reconciliation of all operating transfers by fund type for 2003 follows:

| Fund | In | Out |
|---|---|---|
| General | $ 55,500 | $ 200,000 |
| Special Highway | - | 41,787 |
| Capital Improvements Reserve | 20,000 | - |
| Equipment Reserve | 80,000 | - |
| Bond and Interest | 274,795 | - |
| Falcon Lake Infrastructure | - | 55,783 |
| Pinehurst Infrastructure | - | 2,513 |
| Consolidated Highway | 141,788 | - |
| Sewer | - | 262,000 |
| Solid Waste | - | 10,000 |
| | $ 572,083 | $ 572,083 |

LOWENTHAL SINGLETON WEBB & WILSON
PROFESSIONAL ASSOCIATION

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

Mayor and City Council
City of Basehor, Kansas

We have audited the financial statements of the City of Basehor, Kansas, as of and for the year ended December 31, 2003, and have issued our report thereon dated March 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards."

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain other matters involving the internal control over financial reporting and its operation that we have reported to the management in a separate letter dated March 8, 2004.

This report is intended solely for the information and use of the mayor and city council, management, awarding agencies and pass-through entities and should not be used by anyone other then these specified parties.

Lowenthal, Singleton, Webb & Wilson

Professional Association

March 8, 2004