CITY OF BASEHOR, KANSAS

Financial Statements

For the Year Ended December 31, 2004

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City of Basehor, Kansas
Financial Statements
For the Year Ended December 31, 2004

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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, 2004, 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 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Basehor, Kansas, as of December 31, 2004, or the respective changes in financial position 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, 2004, and its cash receipts and expenditures, for the year then ended on the basis of accounting described in Note 1.

Lowenthal, Singleton, Webb & Wilson

Professional Association

March 15, 2005

City of Basehor, Kansas
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2004

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	$ 581,475	$ -	$ 1,695,088	$ 1,578,766	$ 697,797	$ 13,402	$ 711,199
Special Revenue Funds:							
Special Parks and Recreation	95,252	-	33,768	19,233	109,787	-	109,787
Capital Improvements Reserve	126,879	-	143,190	5,748	264,321	-	264,321
Equipment Reserve	22,676	-	45,246	17,456	50,466	-	50,466
Consolidated Highway	141,788	-	220,770	114,817	247,741	-	247,741
Debt Service Fund:							
Bond and Interest	103,746	-	464,199	448,860	119,085	-	119,085
Capital Projects Funds:							
Road Improvements	423,380	-	406,692	-	830,072	-	830,072
Falcon Lake Infrastructure	216,024	-	-	216,024	-	-	-
Pinehurst Infrastructure	3,740,311	287,398	31,656	2,579,875	1,479,490	129,198	1,608,688
Enterprise Funds:							
Sewer	427,870	-	1,138,652	1,334,560	231,962	93,180	325,142
Solid Waste	18,893	-	112,210	102,052	29,051	-	29,051
Total	$ 5,898,294	$ 287,398	$ 4,291,471	$ 6,417,391	$ 4,059,772	$ 235,780	$ 4,295,552

Composition of Cash:

First State Bank & Trust	
Checking	$ 164,271
Money Market	739,302
Certificates of Deposit	3,450,000
State of Kansas Pooled Money Investment Board	
Municipal Investment Pool	73,297
Outstanding Checks	[131,318]
Total	$ 4,295,552

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, 2004

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Positive [Negative]
General	$ 1,731,473	$ -	$ 1,731,473	$ 1,578,766	$ 152,707
Special Revenue Funds:					
Special Parks and Recreation	55,000	-	55,000	19,233	35,767
Capital Improvements Reserve	76,000	-	76,000	5,748	70,252
Equipment Reserve	35,100	-	35,100	17,456	17,644
Consolidated Highway	215,200		215,200	114,817	100,383
Debt Service Fund:					
Bond and Interest	518,575	-	518,575	448,860	69,715
Enterprise Funds:					
Sewer	1,602,060	-	1,602,060	1,334,560	267,500
Solid Waste	120,064	-	120,064	102,052	18,012

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, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 1,212,839	$ 1,036,511	$ 176,328
Intergovernmental	991	-	991
Licenses and permits	189,272	102,044	87,228
Fines and fees	147,298	178,500	[31,202]
Use of money and property	12,071	13,975	[1,904]
Reimbursed expenses	127,417	-	127,417
Miscellaneous	5,200	-	5,200
Transfers in	-	11,000	[11,000]
Total Cash Receipts	1,695,088	$ 1,342,030	$ 353,058
Expenditures and Transfers Subject to Budget			
General Government			
Personnel	333,433	$ 323,340	$ [10,093]
Contractual services	394,985	394,120	[865]
Commodities	24,304	36,530	12,226
Capital outlay	16,815	22,000	5,185
Miscellaneous	14,082	10,029	[4,053]
Public Safety			
Personnel	245,173	302,218	57,045
Contractual services	68,683	63,530	[5,153]
Commodities	23,959	23,120	[839]
Capital outlay	1,924	3,500	1,576
Highways and Streets			
Personnel	79,442	79,415	[27]
Contractual services	28,089	32,340	4,251
Commodities	14,710	13,130	[1,580]
Capital outlay	3,249	6,500	3,251
Culture and Recreation			
Contractual services	1,215	4,170	2,955
Commodities	703	3,300	2,597
Transfers out	328,000	414,231	86,231
Total Expenditures and Transfers Subject to Budget	1,578,766	$ 1,731,473	$ 152,707
Receipts Over [Under] Expenditures	116,322		
Unencumbered Cash, Beginning	581,475		
Unencumbered Cash, Ending	$ 697,797		

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

STATEMENT 3-2

City of Basehor, Kansas
Special Parks and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 11,548	$ 5,884	$ 5,664
Donations	20	-	20
Fees	22,200	15,000	7,200
Total Cash Receipts	33,768	$ 20,884	$ 12,884
Expenditures and Transfers Subject to Budget			
Capital outlay	19,233	$ 55,000	$ 35,767
Total Expenditures and Transfers Subject to Budget	19,233	$ 55,000	$ 35,767
Receipts Over [Under] Expenditures	14,535		
Unencumbered Cash, Beginning	95,252		
Unencumbered Cash, Ending	$ 109,787		

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

City of Basehor, Kansas
Capital Improvements Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Use of money & property	$ 1,690	$ 4,437	$ [2,747]
Transfers in	141,500	239,231	[97,731]
Total Cash Receipts	143,190	$ 243,668	$ [100,478]
Expenditures and Transfers Subject to Budget			
Capital outlay	5,748	$ 76,000	$ 70,252
Total Expenditures and Transfers Subject to Budget	5,748	$ 76,000	$ 70,252
Receipts Over [Under] Expenditures	137,442		
Unencumbered Cash, Beginning	126,879		
Unencumbered Cash, Ending	$ 264,321		

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

STATEMENT 3-4

City of Basehor, Kansas
Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Use of money & property	$ 246	$ 694	$ [448]
Transfers in	45,000	65,000	[20,000]
Total Cash Receipts	45,246	$ 65,694	$ [20,448]
Expenditures and Transfers Subject to Budget			
Capital outlay	17,456	$ 35,100	$ 17,644
Total Expenditures and Transfers Subject to Budget	17,456	$ 35,100	$ 17,644
Receipts Over [Under] Expenditures	27,790		
Unencumbered Cash, Beginning	22,676		
Unencumbered Cash, Ending	$ 50,466		

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 and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 79,270	$ 81,100	$ [1,830]
Transfers in	141,500	110,000	31,500
Total Cash Receipts	220,770	$ 191,100	$ 29,670
Expenditures and Transfers			
Contractual	96,315	$ 105,000	$ 8,685
Commodities	18,502	110,200	91,698
Total Expenditures and Transfers	114,817	$ 215,200	$ 100,383
Receipts Over [Under] Expenditures	105,953		
Unencumbered Cash, Beginning	141,788		
Unencumbered Cash, Ending	$ 247,741		

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, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 21,007	$ 15,724	$ 5,283
Use of money and property	7,319	2,567	4,752
Special assessments	15,740	15,197	543
Other revenues	8,133	-	8,133
Transfers in	412,000	412,000	-
Total Cash Receipts	464,199	$ 445,488	$ 18,711
Expenditures and Transfers Subject to Budget			
Principal	241,061	$ 15,000	$ [226,061]
Interest and other charges	207,799	11,575	[196,224]
Other debt service	-	492,000	492,000
Total Expenditures and Transfers Subject to Budget	448,860	$ 518,575	$ 69,715
Receipts Over [Under] Expenditures	15,339		
Unencumbered Cash, Beginning	103,746		
Unencumbered Cash, Ending	$ 119,085		

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

City of Basehor, Kansas
Road Improvements Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2004

	Actual
Cash Receipts	
Taxes	$ 397,389
Use of money & property	9,303
Total Cash Receipts	406,692
Expenditures and Transfers	
Capital outlay	-
Total Expenditures and Transfers	-
Receipts Over [Under] Expenditures	406,692
Unencumbered Cash, Beginning	423,380
Unencumbered Cash, Ending	$ 830,072

* - This fund is not required to be budgeted in 2004.

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

STATEMENT 3-8

City of Basehor, Kansas
Falcon Lake Infrastructure Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2004

	Actual
Cash Receipts	
Use of money & property	$ -
Total Cash Receipts	-
Expenditures and Transfers	
Temporary note payment	216,024
Total Expenditures and Transfers	216,024
Receipts Over [Under] Expenditures	[216,024]
Unencumbered Cash, Beginning	216,024
Unencumbered Cash, Ending	$ -

* - This fund is not required to be budgeted in 2004.

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

City of Basehor, Kansas
Pinehurst Infrastructure Fund
Statement of Cash Receipts and Expenditures - Actual*
For the Year Ended December 31, 2004

	Actual
Cash Receipts	
Use of money & property	$ 31,656
Total Cash Receipts	31,656
Expenditures and Transfers	
Contractual services	548,903
Capital outlay	1,938,847
Interest	92,125
Total Expenditures and Transfers	2,579,875
Receipts Over [Under] Expenditures	[2,548,219]
Unencumbered Cash, Beginning	3,740,311
Cancelled Prior Year Encumbrance	287,398
Unencumbered Cash, Ending	$ 1,479,490

* - This fund is not required to be budgeted in 2004.

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

STATEMENT 3-10

City of Basehor, Kansas
Sewer Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Charges to customers	$ 584,071	$ 725,391	$ [141,320]
Interest income	5,322	14,775	[9,453]
Bond proceeds	? 547,305	875,000	[327,695]
Other revenues	1,954	-	1,954
Transfers in	-	49,000	[49,000]
Total Cash Receipts	1,138,652	$ 1,664,166	$ [525,514]
Expenditures and Transfers Subject to Budget			
Personnel	86,051	$ 111,474	$ 25,423
Contractual	350,938	94,341	[256,597]
Commodities	21,784	13,245	[8,539]
Capital outlay	463,787	922,000	458,213
Transfers out	412,000	461,000	49,000
Total Expenditures and Transfers Subject to Budget	1,334,560	$ 1,602,060	$ 267,500
Receipts Over [Under] Expenditures	[195,908]		
Unencumbered Cash, Beginning	427,870		
Unencumbered Cash, Ending	$ 231,962		

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

City of Basehor, Kansas
Solid Waste Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2004

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Charges to customers	$ 112,210	$ 120,286	$ [8,076]
Total Cash Receipts	112,210	$ 120,286	$ [8,076]
Expenditures and Transfers Subject to Budget			
Personnel	16,308	$ 14,643	$ [1,665]
Contractual	83,618	91,028	7,410
Commodities	2,126	3,393	1,267
Transfers out	-	11,000	11,000
Total Expenditures and Transfers Subject to Budget	102,052	$ 120,064	$ 18,012
Receipts Over [Under] Expenditures	10,158		
Unencumbered Cash, Beginning	18,893		
Unencumbered Cash, Ending	$ 29,051		

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

STATEMENT 4

City of Basehor, Kansas
Statement of Changes in Long Term Debt
For the Year Ended December 31, 2004

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	$ 25,000	$ -	$ 5,000	$ 20,000
Sewer District #12	Various	08/01/97	256,592	11/01/08	205,000	-	10,000	195,000
Improvements	Various	01/15/04	3,415,000	09/01/19	-	3,415,000	-	3,415,000
					230,000	3,415,000	15,000	3,630,000
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
					7,370,000	-	3,350,000	4,020,000
Revolving Loan								
Kansas Department of Health & Environment	2.82%	09/01/00	7,192,600	03/01/20	6,618,230	547,305	215,779	6,949,756
					$14,218,230	$3,962,305	$3,580,779	$14,599,756

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. Fixed assets 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, 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 City's governmental fund types are:

> 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 2004 budget was amended for the Special Park and Recreation, Sewer 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 $4,222,255 and the bank balance was $4,353,573. 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, except $150,000 which was first secured at January 21, 2005, but not at December 31, 2004, a violation of KSA 9-1402. In addition, a custodial agreement with the bank was first in effect at January 24, 2005, not at December 31, 2004, a violation of KSA 9-1405.

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 $73,297 deposited in the Kansas Municipal Investment Pool at December 31, 2004. 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 $360,425. Total gross payroll was $603,727. The contribution for the year ending December 31, 2004 was $2,560 from employees and $35,858 from employer representing .07% and 10% 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 2004 is 9.47%. 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 years ending December 31, 2004 and 2003 were $17,153 and $11,496, respectively equal to the required contribution for each year.

NOTE 4 - Long-Term Debt

See Statement 4 for a summary of the changes in long term debt for the year ended December 31, 2004.

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
2005	$ 105,000	$ 230,082	$ 335,082
2006	195,000	141,213	336,213
2007	200,000	133,284	333,284
2008	210,000	125,146	335,146
2009	230,000	116,564	346,564
2010 - 2014	1,260,000	446,217	1,706,217
2015 - 2019	1,430,000	182,938	1,612,938
Totals	$ 3,630,000	$ 1,375,444	$ 5,005,444

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. See Statement 4 for a summary of the changes in this debt for the year ended December 31, 2004.

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. $4,020,000 of temporary notes were issued in 2003, due in 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 2004 follows:

Fund	In	Out
General	$ -	$ 328,000
Capital Improvements Reserve	141,500	-
Equipment Reserve	45,000	-
Bond and Interest	412,000	-
Consolidated Highway	141,500	-
Sewer	-	412,000
	$ 740,000	$ 740,000

NOTE 8 - Restricted Cash

In an agreement with the developer of the Falcon Lakes subdivision dated February 20, 2001, the City agreed to restrict the use of the $2,405 per lot excise tax. This restriction limited the use of these funds to improvements to the perimeter roads (Donohoo Road, Hollingsworth Road and 147th Street). Of the $830,072 of unencumbered cash in the Road Improvements Fund as of December 31, 2004, $151,515 was subject to this restriction.

NOTE 9 - Related Party Transactions

During 2004, the City received the following amounts from certain elected officials for engineering services provided to companies with which the officials are connected:

John Bonee, Council Member	$525
Joseph Scherer, Mayor	371

At December 31, 2004, $2,832 was owed by Joseph Scherer to the City for billings for engineering services. This amount was paid on February 25, 2005 under protest.

LOWENTHAL SINGLETON WEBB & WILSON
PROFESSIONAL ASSOCIATION

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Mayor and City Council
City of Basehor, Kansas

In planning and performing our audit of the financial statements of the City for the year ended December 31, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated March 15, 2005, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. An individual independent of the preparation of journal entries should review and approve the entries.

2. The City has not adopted a specific policy on conflict of interest that specifies that personnel in a position of trust are not related to each other; employees are prohibited from having business dealings with companies affiliated with, or acting as major customers or supplies of, the governmental unit; transactions with officials of the City are adequately controlled and disclosed in the records; and such transactions occur only in the normal course of business and are legally authorized. We recommend adopting such a policy.

3. The City currently lacks adequate separation of physical control over cash and accounting control over cash in dealing with utility and municipal court receipts. In both functions, one person can enter the billing information into the computerized system, collect cash and record the cash receipt into the system. Proper cash controls provide that separate individuals be assigned to physical control and accounting control of cash receipt transactions.

4. Three banking days are allowed to deposit federal payroll tax withholdings. Three times in 2004 these payments were late by no more than two days. We recommend current payments to avoid penalties.

5. In testing permit fee calculations, we noted a lack of authority for plumbing and electrical permit fees used. We recommend that the council set all fees annually.

6. Per lot excise tax was miscalculated and a lower rate was charged on one project for the first ten months of 2004. This resulted in undercharges to developers of $3,130.40. We recommend better oversight of this function.

7. We recommend that all mail be opened by an individual independent of the receipting and payable functions. Also, all IRS or Kansas Department of Revenue notifications should initially be reviewed by an individual independent of the payroll process.

8. Ordinance No. 387 directs that collections from the 9¢/sq foot excise tax be deposited in an account in the general fund called Transportation Excise Tax and be used for transportation improvement. Currently, these funds are deposited in the Road Improvement fund which while not technically in compliance with the ordinance, has resulted in a clear accounting for the excise tax since its inception on June 15, 2002. Ordinance No. 387 requires a formal review of the tax rate each year. This has not been done. We recommend that the ordinance be revised to current practice at the discretion of the council.

9. Off premises storage should be maintained for master and transaction files sufficient to enable the recreation of current master files. Contingency plans should be developed for alternative processing in the event of loss or interruption of the IT function. Once developed, these plans should be tested for adequacy in the event of a disaster.

10. Ordinance No. 275 directs that sales tax from a 1/2¢ sales tax (now 1¢) be deposited in the "Infrastructure Fund" and used for that purpose. Ordinance No. 8 (a.k.a. #299) directs the city portion of county 1¢ sales for same purpose. Currently, sales tax is deposited in the general fund and then transferred to consolidated highway and capital improvement funds the following year. This seems to follow the spirit of the ordinance but we recommend the use of the infrastructure fund for future receipts of sales tax. (2004 receipts should be transferred in 2005 to this new fund.)

11. An individual independent of the process should review the monthly bank reconciliations to determine that they were done in a timely and thorough manner.

12. Since the Governmental Accounting Standards Board requires certain information to be disclosed about collateral on deposits with financial institutions, governmental units should be aware of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) that could affect their rights to that collateral. Under FIRREA, Section 1823(e), a security agreement, including a pledge of collateral for a deposit, is not valid against the FDIC unless it satisfies the following requirements:

    1. It must be in writing.
    2. It must be approved by the depository institution's board of directors or loan committee, and that approval must be reflected in the minutes of the board or committee.
    3. It must be an official record of the depository institution since it was executed.

    If these provisions are not met, the FDIC may be able to avoid a perfected security interest, and the governmental unit may only have the right to share with other creditors in the pro rata distribution of the assets of the failed institution. During our next audit of the City of Basehor, we will be asking for verification of the requirements listed above. If the requirements listed above are not complied with, the City of Basehor may not be able to report its deposits as being collateralized.

    In addition to FIRREA discussed above, KSA 9-1405 provides Kansas statutory guidance as to deposit security requirements and incorporates some of the FIRREA requirements mentioned above. Please become familiar with KSA 9-1402 and 9-1405 and consult with your attorney if you have any legal questions. Also, if you have any questions about the above, please let me know.

This letter is intended for the information of the Mayor, City Council and management and should not be used by anyone other than these specified parties.

Lowenthal, Singleton, Webb & Wilson

Professional Association

March 15, 2005