

**CITY OF BASEHOR**  
**Financial Statements**  
**For the Year Ended December 31, 2002**



CITY OF BASEHOR  
 Financial Statements  
 For the Year Ended December 31, 2002

COUNCIL

William Hooker, Mayor

Julian Espinoza  
 Chris Garcia  
 Burl Gratny

Joseph Odle  
 Keith Sifford  
 Joseph Scherer

OFFICERS

Clerk  
 Treasurer

Mary Ann Mogle  
 Baron Powell

Assessed valuation \$ 13,478,619

	<u>Budget</u>	<u>Mill Levy</u>
Budgeted Funds		
General	\$ 760,825	10.326
Special Highway	79,400	-
Bond and Interest	544,218	18.313
Sewer	397,873	-
Solid Waste	<u>84,530</u>	<u>-</u>
	<u>\$ 1,866,846</u>	<u>28.639</u>



City of Basehor  
 Financial Statements  
 For the Year Ended December 31, 2002

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Certified Public Accountants

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, 2002, 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 than 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, 2002, 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, 2002, 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 June 3, 2003 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

June 3, 2003





City of Basehor  
 Summary of Cash Receipts, Expenditures and Unencumbered Cash  
 For the Year Ended December 31, 2002

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	\$ 319,796	\$ -	\$ 1,024,475	\$ 1,020,268	\$ 324,003	\$ 5,979	\$ 329,982
Special Revenue Funds:							
Special Highway	75,971	-	74,218	120,138	30,051	-	30,051
Special Parks and Recreation	33,037	-	38,980	11,734	60,283	-	60,283
Capital Improvements Reserve	242,192	-	8,179	138,401	111,970	-	111,970
Equipment Reserve	40,416	-	76,127	71,135	45,408	-	45,408
Debt Service Fund:							
Bond and Interest	58,980	-	532,777	414,359	177,398	-	177,398
Capital Projects Funds:							
Road Improvement	2,405	-	97,766	-	100,171	-	100,171
Falcon Lake Infrastructure	3,004,481	-	33,107	2,446,720	590,868	-	590,868
Enterprise Funds:							
Sewer	343,384	-	678,570	692,295	329,659	2,600	332,259
Solid Waste	17,073	-	87,187	88,865	15,395	-	15,395
<b>Total Primary Government</b>	<b>\$ 4,137,735</b>	<b>\$ -</b>	<b>\$ 2,651,386</b>	<b>\$ 5,003,915</b>	<b>\$ 1,785,206</b>	<b>\$ 8,579</b>	<b>\$ 1,793,785</b>

## Composition of Cash:

First State Bank & Trust	\$ 84,016
Checking	889,506
Money Market	838,000
Certificates of Deposit	
State of Kansas Pooled Money Investment Board	
Municipal Investment Pool	71,932
Community National Bank	
Certificates of Deposit	200,000
Outstanding Checks	<u>[289,669]</u>
<b>Total</b>	<b>\$ 1,793,785</b>

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



City of Basehor  
 Summary of Expenditures - Actual and Budget  
 For the Year Ended December 31, 2002

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Positive [Negative]</u>
General	\$ 760,825	\$ 122,225	\$ 883,050	\$ 1,020,268	\$ [137,218]
Special Revenue Funds:					
Special Highway	79,400	-	79,400	120,138	[40,738]
Special Parks and Recreation	-	13,630	13,630	11,734	1,896
Capital Improvements Reserve	-	-	-	138,401	[138,401]
Equipment Reserve	-	-	-	71,135	[71,135]
Debt Service Fund:					
Bond and Interest	544,218	-	544,218	414,359	129,859
Enterprise Funds:					
Sewer	397,873	248,284	646,157	692,295	[46,138]
Solid Waste	84,530	-	84,530	88,865	[4,335]

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



City of Basehor  
General Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 501,723	\$ 448,662	\$ 53,061
Intergovernmental	16,417	12,641	3,776
Licenses and permits	157,193	65,700	91,493
Fines and fees	140,137	51,000	89,137
Use of money and property	12,780	9,450	3,330
Reimbursed expenses	122,225	-	122,225
Operating transfers in	<u>74,000</u>	<u>-</u>	<u>74,000</u>
Total Cash Receipts	<u>1,024,475</u>	<u>\$ 587,453</u>	<u>\$ 437,022</u>
Expenditures and Transfers Subject to Budget			
General Government			
Personnel	235,083	\$ 212,152	\$ [22,931]
Contractual services	309,483	101,650	[207,833]
Commodities	15,762	21,650	5,888
Capital outlay	7,660	9,850	2,190
Miscellaneous	1,794	-	[1,794]
Public Safety			
Personnel	203,123	194,191	[8,932]
Contractual services	42,691	31,275	[11,416]
Commodities	16,628	14,850	[1,778]
Capital outlay	5,759	6,000	241
Miscellaneous	338	-	[338]
Highways and Streets			
Personnel	63,721	52,582	[11,139]
Contractual services	14,095	18,250	4,155
Commodities	11,791	10,000	[1,791]
Capital outlay	6,304	6,000	[304]
Culture and Recreation			
Personnel	408	4,000	3,592
Contractual services	11,016	4,525	[6,491]
Commodities	4,612	3,850	[762]
Operating transfers out	70,000	70,000	-
Adjustments for qualifying budget credits	<u>-</u>	<u>122,225</u>	<u>122,225</u>
Total Expenditures and Transfers Subject to Budget	<u>1,020,268</u>	<u>\$ 883,050</u>	<u>\$ [137,218]</u>
Receipts Over [Under] Expenditures	4,207		
Unencumbered Cash, Beginning	<u>319,796</u>		
Unencumbered Cash, Ending	<u>\$ 324,003</u>		

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



City of Basehor  
Special Highway Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 5,974	\$ 4,290	\$ 1,684
Intergovernmental	<u>68,244</u>	<u>69,540</u>	<u>[1,296]</u>
Total Cash Receipts	<u>74,218</u>	<u>\$ 73,830</u>	<u>\$ 388</u>
Expenditures and Transfers Subject to Budget			
Contractual services	120,138	\$ 63,400	\$ [56,738]
Commodities	<u>-</u>	<u>16,000</u>	<u>16,000</u>
Total Expenditures and Transfers Subject to Budget	<u>120,138</u>	<u>\$ 79,400</u>	<u>\$ [40,738]</u>
Receipts Over [Under] Expenditures	[45,920]		
Unencumbered Cash, Beginning	<u>75,971</u>		
Unencumbered Cash, Ending	<u>\$ 30,051</u>		

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





City of Basehor  
Special Parks and Recreation Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 7,150	\$ 1,726	\$ 5,424
Fines and fees	18,200	3,000	15,200
Reimbursements	<u>13,630</u>	<u>-</u>	<u>13,630</u>
Total Cash Receipts	<u>38,980</u>	<u>\$ 4,726</u>	<u>\$ 34,254</u>
Expenditures and Transfers Subject to Budget			
Capital outlay	11,734	\$ -	\$ [11,734]
Adjustments for qualifying budget credits	<u>-</u>	<u>13,630</u>	<u>13,630</u>
Total Expenditures and Transfers Subject to Budget	<u>11,734</u>	<u>\$ 13,630</u>	<u>\$ 1,896</u>
Receipts Over [Under] Expenditures	27,246		
Unencumbered Cash, Beginning	<u>33,037</u>		
Unencumbered Cash, Ending	<u>\$ 60,283</u>		

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



City of Basehor  
 Capital Improvements Reserve Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Use of money & property	\$ 8,179	\$ 15,475	\$ [7,296]
Operating transfers in	<u>-</u>	<u>50,000</u>	<u>[50,000]</u>
Total Cash Receipts	<u>8,179</u>	<u>\$ 65,475</u>	<u>\$ [57,296]</u>
Expenditures and Transfers Subject to Budget			
Capital outlay	68,401	\$ -	\$ [68,401]
Operating transfers out	<u>70,000</u>	<u>-</u>	<u>[70,000]</u>
Total Expenditures and Transfers Subject to Budget	<u>138,401</u>	<u>\$ -</u>	<u>\$ [138,401]</u>
Receipts Over [Under] Expenditures	[130,222]		
Unencumbered Cash, Beginning	<u>242,192</u>		
Unencumbered Cash, Ending	<u>\$ 111,970</u>		

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



City of Basehor  
 Equipment Reserve Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Use of money & property	\$ 1,127	\$ 1,125	\$ 2
Operating transfers in	<u>75,000</u>	<u>20,000</u>	<u>55,000</u>
Total Cash Receipts	<u>76,127</u>	<u>\$ 21,125</u>	<u>\$ 55,002</u>
Expenditures and Transfers Subject to Budget			
Capital outlay	<u>71,135</u>	\$ -	\$ [71,135]
Total Expenditures and Transfers Subject to Budget	<u>71,135</u>	<u>\$ -</u>	<u>\$ [71,135]</u>
Receipts Over [Under] Expenditures	4,992		
Unencumbered Cash, Beginning	<u>40,416</u>		
Unencumbered Cash, Ending	<u>\$ 45,408</u>		

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



City of Basehor  
 Bond and Interest Fund  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	<u>Variance Positive [Negative]</u>
Cash Receipts			
Taxes	\$ 247,768	\$ 252,838	\$ [5,070]
Use of money and property	2,957	3,050	[93]
Special assessments	17,052	21,543	[4,491]
Operating transfers in	<u>265,000</u>	<u>235,000</u>	<u>30,000</u>
 Total Cash Receipts	 <u>532,777</u>	 <u>\$ 512,431</u>	 <u>\$ 20,346</u>
 Expenditures and Transfers Subject to Budget			
Principal	226,322	\$ 168,051	\$ [58,271]
Interest and other charges	188,037	220,305	32,268
Other debt service	<u>-</u>	<u>155,862</u>	<u>155,862</u>
 Total Expenditures and Transfers Subject to Budget	 <u>414,359</u>	 <u>\$ 544,218</u>	 <u>\$ 129,859</u>
 Receipts Over [Under] Expenditures	 118,418		
 Unencumbered Cash, Beginning	 <u>58,980</u>		
 Unencumbered Cash, Ending	 <u>\$ 177,398</u>		

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





City of Basehor  
 Road Improvements Fund  
 Statement of Cash Receipts and Expenditures - Actual\*  
 For the Year Ended December 31, 2002

	<u>Actual</u>
Cash Receipts	
Taxes	\$ 97,048
Use of money & property	<u>718</u>
 Total Cash Receipts	 <u>97,766</u>
 Expenditures and Transfers	
Capital outlay	<u>-</u>
 Total Expenditures and Transfers	 <u>-</u>
 Receipts Over [Under] Expenditures	 97,766
 Unencumbered Cash, Beginning	 <u>2,405</u>
 Unencumbered Cash, Ending	 <u>\$ 100,171</u>

\* - This fund is not required to be budgeted.

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



City of Basehor  
 Falcon Lake Infrastructure Fund  
 Statement of Cash Receipts and Expenditures - Actual\*  
 For the Year Ended December 31, 2002

	<u>Actual</u>
Cash Receipts	
Use of money & property	<u>\$ 33,107</u>
 Total Cash Receipts	 <u>33,107</u>
 Expenditures and Transfers	
Contractual services	143,248
Capital outlay	2,169,672
Interest expense	<u>133,800</u>
 Total Expenditures and Transfers	 <u>2,446,720</u>
 Receipts Over [Under] Expenditures	 [2,413,613]
 Unencumbered Cash, Beginning	 <u>3,004,481</u>
 Unencumbered Cash, Ending	 <u>\$ 590,868</u>

\* - This fund is not required to be budgeted.

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



City of Basehor  
Sewer Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges to customers	\$ 417,990	\$ 360,740	\$ 57,250
Interest income	12,296	9,265	3,031
Bond proceeds	248,284	-	248,284
Operating transfers in	<u>-</u>	<u>4,417</u>	<u>[4,417]</u>
Total Cash Receipts	<u>678,570</u>	<u>\$ 374,422</u>	<u>\$ 304,148</u>
Expenditures and Transfers Subject to Budget			
Personnel	62,397	\$ 68,956	\$ 6,559
Contractual	62,544	76,675	14,131
Commodities	11,597	7,825	[3,772]
Capital outlay	290,757	5,000	[285,757]
Operating transfers out	265,000	239,417	[25,583]
Adjustments for qualifying budget credits	<u>-</u>	<u>248,284</u>	<u>248,284</u>
Total Expenditures and Transfers Subject to Budget	<u>692,295</u>	<u>\$ 646,157</u>	<u>\$ [46,138]</u>
Receipts Over [Under] Expenditures	[13,725]		
Unencumbered Cash, Beginning	<u>343,384</u>		
Unencumbered Cash, Ending	<u>\$ 329,659</u>		

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



City of Basehor  
Solid Waste Fund  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2002

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges to customers	\$ 87,187	\$ 93,250	\$ [6,063]
 Total Cash Receipts	 <u>87,187</u>	 <u>\$ 93,250</u>	 <u>\$ [6,063]</u>
 Expenditures and Transfers Subject to Budget			
Personnel	9,173	\$ 12,305	\$ 3,132
Contractual	68,689	70,200	1,511
Commodities	2,003	2,025	22
Operating transfers out	<u>9,000</u>	<u>-</u>	<u>[9,000]</u>
 Total Expenditures and Transfers Subject to Budget	 <u>88,865</u>	 <u>\$ 84,530</u>	 <u>\$ [4,335]</u>
 Receipts Over [Under] Expenditures	 [1,678]		
 Unencumbered Cash, Beginning	 <u>17,073</u>		
 Unencumbered Cash, Ending	 <u>\$ 15,395</u>		

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





City of Basehor  
Statement of Changes in Long Term Debt  
For the Year Ended December 31, 2002

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>
General Obligation Bonds								
Street Repairs & Improvements	Various	11/01/93	\$ 100,000	11/01/17	\$ 35,000	\$ -	\$ 5,000	\$ 30,000
Sewer District #12	Various	08/01/97	256,592	11/01/08	<u>225,000</u>	<u>-</u>	<u>10,000</u>	<u>215,000</u>
					<u>260,000</u>	<u>-</u>	<u>15,000</u>	<u>245,000</u>
Temporary Notes								
Temporary Note	4.00%	09/01/01	3,345,000	09/01/03	<u>3,345,000</u>	<u>-</u>	<u>-</u>	<u>3,345,000</u>
Revolving Loan								
Kansas Department of Health & Environment	2.82%	09/01/00	7,192,600	03/01/20	<u>5,726,616</u>	<u>248,284</u>	<u>211,322</u>	<u>5,763,578</u>
					<u>\$9,331,616</u>	<u>\$248,284</u>	<u>\$ 226,322</u>	<u>\$ 9,353,578</u>

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



City of Basehor  
Notes to the Financial Statements  
For the Year Ended December 31, 2002

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.



City of Basehor  
Notes to the Financial Statements  
For the Year Ended December 31, 2002

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 2002 budget was not amended.

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.



City of Basehor  
Notes to the Financial Statements  
For the Year Ended December 31, 2002

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.

Actual exceeded budgeted expenditures in the General, Special Highway, Capital Improvements Reserve, Equipment Reserve, Sewer and Solid Waste funds, which is a violation of KSA 79-2935.

NOTE 2 - Deposits

At year-end the carrying amount of the City's deposits was \$1,721,853 and the bank balance was \$2,011,522. 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 \$71,932 deposited in the Kansas Municipal Investment Pool at December 31, 2002.

NOTE 3 - Retirement Plan

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 \$417,985. Total gross payroll was \$467,868. The contribution for the year ending December 31, 2002 was \$11,980 from employees and \$41,779 from employer representing 2.87% and 9.9% of covered payroll, respectively.

NOTE 4 - Long-Term Debt

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

	<u>Date Issued</u>	<u>Date Matured</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Ending Amount</u>
Street Repairs & Improvement	1993	2008	\$ 100,000	4.75 - 5.25%	\$ 30,000
Sewer District #12	1997	2017	<u>256,592</u>	4.55 - 6.50%	<u>215,000</u>
Total			<u>\$ 356,592</u>		<u>\$ 245,000</u>

Following is a summary of changes in long-term debt for the year ended December 31, 2002:

<u>Type of Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
General obligation bonds	\$ 260,000	\$ -	\$ 15,000	\$ 245,000
Total	<u>\$ 260,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 245,000</u>





City of Basehor  
Notes to the Financial Statements  
For the Year Ended December 31, 2002

NOTE 4 - Long-Term Debt, Continued

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
2003	\$ 15,000	\$ 12,456	\$ 27,456
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 - 2012	80,000	35,055	115,055
2013 - 2017	90,000	15,071	105,071
Totals	<u>\$ 245,000</u>	<u>\$ 104,562</u>	<u>\$ 349,562</u>

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 \$7,192,600 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.

Following is a summary of changes in revolving loan for the year ended December 31, 2002:

<u>Type of Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
KDHE Revolving Loan	<u>\$ 5,726,616</u>	<u>\$ 248,284</u>	<u>\$ 211,322</u>	<u>\$ 5,763,578</u>

The City has yet to receive all of the proceeds on this loan. The following displays annual debt service requirement to maturity for loans payable to be paid from service revenues, for the full proceed amount:

<u>Year</u>	<u>Interest and Service Fee</u>	<u>Principal Payment</u>	<u>Total Payment</u>
2003	\$ 201,483	\$ 192,655	\$ 394,138
2004	196,009	198,614	394,623
2005	190,365	242,759	433,124
2006	182,931	288,852	471,783
2007	174,723	297,788	472,511
2008 - 2012	735,740	1,834,035	2,569,775
2013 - 2017	432,084	2,577,546	3,009,630
2018 - 2020	66,673	1,560,351	1,627,024
Totals	<u>\$ 2,180,008</u>	<u>\$ 7,192,600</u>	<u>\$ 9,372,608</u>

*Temporary Notes.* \$3,345,000 of temporary notes were issued in 2001, due in full on September 1, 2003, to fund construction of infrastructure, pending permanent financing.



City of Basehor  
Notes to the Financial Statements  
For the Year Ended December 31, 2002

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 2002 follows:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 74,000	\$ 70,000
Capital Improvements Reserve	-	70,000
Equipment Reserve	75,000	-
Bond and Interest	265,000	-
Sewer	-	265,000
Solid Waste	-	9,000
	<u>\$ 414,000</u>	<u>\$ 414,000</u>

NOTE 8 - Subsequent Event

In May 2003, the City reached an agreement in an embezzlement case involving a former employee. Based on the estimated losses, the City received \$15,000 as a settlement. The funds were distributed as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 7,365
Sewer	6,405
Solid Waste	<u>1,230</u>
Total	<u>\$ 15,000</u>



**LOWENTHAL SINGLETON WEBB & WILSON**  
P R O F E S S I O N A L   A S S O C I A T I O N

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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 City of Basehor, Kansas, as of and for the year ended December 31, 2002, and have issued our report thereon dated June 3, 2003. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The loan agreement No. 1463-01 between the City and the State of Kansas to finance Sewer Fund improvements requires that the City "impose and collect such rates, fees and charges for the use and services furnished by or through the system...which are sufficient to (a) pay the cost of the operation of the system, (b) pay the principal of and interest on the loan as and when the same become due and (c) pay all other amounts due under the loan agreement." The City is not in compliance with this requirement as the Sewer Fund continues to operate at a loss. The possible effect of this noncompliance is the inability of the City to pay required future principal and interest payments on loan agreement 1463-01. This could result in the imposition by the State of Kansas of certain measures to collect these payments from other revenue sources of the City controlled by the State of Kansas and the disqualification of the City from future participation in the state revolving loan programs. The City's response, to the compliance issue, is that it recognizes that its Sewer Fund balance is in a negative status and that such status is unacceptable. The City will review its Sewer Fund rate structure and its Sewer Fund expenditures and will take whatever action is necessary to bring the Sewer Fund balance into a positive status. The City will continue to insure that all obligations of the Sewer Fund are discharged in a timely manner.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are as follows: The cash receipting and posting procedures established by the City were not consistently followed in 2002 resulting in an embezzlement of cash by an employee. The consistent separation of physical and accounting controls over cash is vital in maintaining an adequate internal control environment.



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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We did, however, note 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 June 3, 2003.

This report is intended for the information of the Mayor and City Council, management and awarding agencies and pass-through entities and should not be used by anyone other than those specified parties.

*Lowenthal, Singleton, Webb & Wilson*

Professional Association

June 3, 2003

