

CITY OF CHASE, KANSAS

DECEMBER 31, 2009

CITY OF CHASE, KANSAS

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December 31, 2009

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## INDEPENDENT AUDITORS' REPORT

### The Mayor and City Council City of Chase, Kansas

We have audited the accompanying financial statements of the City of Chase, Kansas as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the City of Chase, Kansas's management. 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 guidance in the Kansas Municipal Audit Guide. Those standards and guidance 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 the 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 more fully in note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter 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 as of December 31, 2009, the changes in its financial position, or where applicable, its cash flows for the year then ended.

However, 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 Chase, Kansas as of December 31, 2009, and its cash receipts and expenditures and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in note 1.

The Mayor and City Council  
City of Chase, Kansas

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2010, on our consideration of the City of Chase, Kansas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Chase, Kansas taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole, on the basis of accounting described in note 1.

A handwritten signature in cursive script that reads "Lindburg Vogel Pierce Faris".

Certified Public Accountants

Hutchinson, Kansas  
October 4, 2010

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**The Mayor and City Council  
City of Chase, Kansas**

We have audited the financial statements of City of Chase, Kansas (the City) as of and for the year ended December 31, 2009, and have issued our report thereon dated October 4, 2010. In our report, our opinion on the financial statements was unqualified based on the 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. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2009-1 and 2009-2.

The Mayor and City Council  
City of Chase, Kansas

**Compliance and Other Matters**

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

City of Chase's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Lindburg Vogel Pierce Faris".

Certified Public Accountants

Hutchinson, Kansas  
October 4, 2010

Chartered

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Mayor and City Council  
City of Chase, Kansas

**Compliance**

We have audited the compliance of City of Chase, Kansas (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Chase, Kansas compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

**Internal Control Over Compliance**

Management of City of Chase is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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The Mayor and City Council  
City of Chase, Kansas

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-3 and 2009-4 to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Lindburg Vogel Pierce Jarvis".

Certified Public Accountants

Hutchinson, Kansas  
October 4, 2010

CITY OF CHASE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -  
REGULATORY BASIS

For the Year Ended December 31, 2009

Statement 1  
Page 1 of 2

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
<b>GOVERNMENTAL TYPE FUNDS</b>						
General	\$ 237,757	\$ 251,260	\$ 291,364	\$ 197,653	\$ 25,000	\$ 222,653
Special revenue						
Special highway	12,318	11,273	9,655	13,936	-	13,936
Special parks	3,329	457	-	3,786	-	3,786
Local sales tax	23,656	11,561	25,000	10,217	25,000	35,217
Capital improvements	6,647	-	-	6,647	-	6,647
Police seizure	784	-	-	784	-	784
Debt service						
Bond and interest	11,145	12,461	-	23,606	-	23,606
<b>PROPRIETARY TYPE FUNDS</b>						
Enterprise						
Water	143,443	73,452	82,463	134,432	-	134,432
Sewer	9,394	21,965	20,358	11,001	-	11,001
Water project	355,183	1,013,378	1,368,561	-	-	-
Sewer reserve	8,440	-	-	8,440	-	8,440
<b>TOTAL REPORTING ENTITY</b>	<b>\$ 812,096</b>	<b>\$ 1,395,807</b>	<b>\$ 1,797,401</b>	<b>\$ 410,502</b>	<b>\$ 50,000</b>	<b>\$ 460,502</b>

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

## CITY OF CHASE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -  
REGULATORY BASIS

For the Year Ended December 31, 2009

Statement 1  
Page 2 of 2

## COMPOSITION OF CASH

First Bank	
Checking and savings accounts	\$ 378,988
Petty cash	35
Certificates of deposit	<u>70,000</u>
	449,023
Utility accounts receivable	<u>11,479</u>
TOTAL REPORTING ENTITY	<u>\$ 460,502</u>

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

## CITY OF CHASE, KANSAS

SUMMARY OF EXPENDITURES - REGULATORY BASIS (ACTUAL AND BUDGET)  
(BUDGETED FUNDS ONLY)

For the Year Ended December 31, 2009

Statement 2

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
<b>GOVERNMENTAL TYPE FUNDS</b>					
General	\$ 268,534	\$ 33,370	\$ 301,904	\$ 291,364	\$ (10,540)
Special revenue					
Special highway	21,510	-	21,510	9,655	(11,855)
Special parks	3,503	-	3,503	-	(3,503)
Local sales tax	26,436	-	26,436	25,000	(1,436)
Debt service					
Bond and interest	22,000	-	22,000	-	(22,000)
<b>PROPRIETARY TYPE FUNDS</b>					
Water	85,000	-	85,000	82,463	(2,537)
Sewer	23,000	-	23,000	20,358	(2,642)

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

## CITY OF CHASE, KANSAS

GENERAL FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
(ACTUAL AND BUDGET)  
For the Year Ended December 31, 2009

Statement 3  
Page 1 of 10

	Actual	Budget	Variance Over (Under)
<b>CASH RECEIPTS</b>			
Taxes			
Ad valorem property tax	\$ 79,054	\$ 88,423	\$ (9,369)
Back tax collections	5,713	-	5,713
Motor vehicle tax	29,083	24,573	4,510
Lavtr	1,038	-	1,038
Alcohol tax	-	340	(340)
Sales tax	40,730	20,000	20,730
	<u>155,618</u>	<u>133,336</u>	<u>22,282</u>
Licenses, fees, and permits			
Utility franchise tax	23,298	20,000	3,298
Miscellaneous permits and licenses	1,210	900	310
	<u>24,508</u>	<u>20,900</u>	<u>3,608</u>
Charges for services			
Refuse	22,967	26,000	(3,033)
	<u>850</u>	<u>-</u>	<u>850</u>
Fines, forfeitures, and penalties			
	4,791	1,000	3,791
	<u>3,368</u>	<u>-</u>	<u>3,368</u>
CDBG grant			
	30,002	-	30,002
	<u>9,156</u>	<u>-</u>	<u>9,156</u>
	<u>251,260</u>	<u>\$ 181,236</u>	<u>\$ 70,024</u>
<b>EXPENDITURES</b>			
General government			
Personal services	64,478	\$ 58,000	\$ 6,478
Contractual services	73,390	55,000	18,390
Commodities	50,461	50,000	461
Capital outlay	26,379	5,000	21,379
Loan payment fireman relief	1,356	1,356	-
Road improvement	51,652	65,178	(13,526)
	<u>267,716</u>	<u>234,534</u>	<u>33,182</u>

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

## CITY OF CHASE, KANSAS

GENERAL FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 2 of 10  Variance Over (Under) <u>          </u>
EXPENDITURES (continued)			
Refuse			
Contractual services	\$ 21,173	\$ 26,000	\$ (4,827)
Police			
Commodities	943	500	443
Contractual services	<u>266</u>	<u>3,000</u>	<u>(2,734)</u>
Total police	<u>1,209</u>	<u>3,500</u>	<u>(2,291)</u>
Fire			
Commodities	559	3,750	(3,191)
Contractual services	<u>707</u>	<u>750</u>	<u>(43)</u>
Total fire	<u>1,266</u>	<u>4,500</u>	<u>(3,234)</u>
	291,364	268,534	22,830
Adjustment for qualifying budget credits	<u>-</u>	<u>33,370</u>	<u>(33,370)</u>
TOTAL EXPENDITURES	<u>291,364</u>	<u>\$ 301,904</u>	<u>\$ (10,540)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(40,104)		
UNENCUMBERED CASH, BEGINNING	<u>237,757</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 197,653</u>		

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

CITY OF CHASE, KANSAS  
 SPECIAL HIGHWAY FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 3 of 10  Variance Over (Under) <u>          </u>
CASH RECEIPTS			
State payments	\$ 11,273	\$ 13,640	\$ (2,367)
EXPENDITURES			
Personal services	5,574	\$ -	\$ 5,574
Commodities	4,081	21,510	(17,429)
TOTAL EXPENDITURES	9,655	\$ 21,510	\$ (11,855)
RECEIPTS OVER (UNDER) EXPENDITURES	1,618		
UNENCUMBERED CASH, BEGINNING	12,318		
UNENCUMBERED CASH, ENDING	\$ 13,936		

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

CITY OF CHASE, KANSAS  
SPECIAL PARKS FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
(ACTUAL AND BUDGET)  
For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 4 of 10  Variance Over (Under)
CASH RECEIPTS			
Liquor tax	\$ 457	<u>\$ 340</u>	<u>\$ 117</u>
EXPENDITURES			
Parks	<u>-</u>	<u>\$ 3,503</u>	<u>\$ (3,503)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	457		
UNENCUMBERED CASH, BEGINNING	<u>3,329</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 3,786</u>		

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

CITY OF CHASE, KANSAS  
 LOCAL SALES TAX FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 5 of 10  Variance Over (Under)
CASH RECEIPTS			
Sales tax	\$ 11,561	<u>\$ 8,500</u>	<u>\$ 3,061</u>
EXPENDITURES			
Road improvements	<u>25,000</u>	<u>\$ 26,436</u>	<u>\$ (1,436)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(13,439)		
UNENCUMBERED CASH, BEGINNING	<u>23,656</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 10,217</u>		

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

CITY OF CHASE, KANSAS  
 BOND AND INTEREST FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

Statement 3  
Page 6 of 10

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
<b>CASH RECEIPTS</b>			
Ad valorem property tax	\$ 7,695	\$ 8,607	\$ (912)
Back tax collections	548	-	548
Lavtr	101	-	101
Motor vehicle tax	2,712	2,241	471
Transfer from water fund	1,405	-	1,405
	<u>12,461</u>	<u>\$ 10,848</u>	<u>\$ 1,613</u>
<b>EXPENDITURES</b>			
Bond principal	-	\$ 22,000	\$ (22,000)
Bond interest	-	-	-
	<u>-</u>	<u>\$ 22,000</u>	<u>\$ (22,000)</u>
<b>RECEIPTS OVER (UNDER) EXPENDITURES</b>	12,461		
<b>UNENCUMBERED CASH, BEGINNING</b>	<u>11,145</u>		
<b>UNENCUMBERED CASH, ENDING</b>	<u>\$ 23,606</u>		

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

## CITY OF CHASE, KANSAS

WATER FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 7 of 10  Variance Over (Under)
<b>CASH RECEIPTS</b>			
Charges for service	\$ 71,923	\$ 75,000	\$ (3,077)
Miscellaneous	15	-	15
Tyrell road	1,514	-	1,514
	<u>73,452</u>	<u>\$ 75,000</u>	<u>\$ (1,548)</u>
<b>TOTAL CASH RECEIPTS</b>			
<b>EXPENDITURES</b>			
Personal services	24,915	30,000	\$ (5,085)
Contractual services	7,989	20,000	(12,011)
Commodities	22,965	15,000	7,965
Transfer to water project	25,189	-	25,189
Debt service	1,405	20,000	(18,595)
	<u>82,463</u>	<u>\$ 85,000</u>	<u>\$ (2,537)</u>
<b>TOTAL EXPENDITURES</b>			
RECEIPTS OVER (UNDER) EXPENDITURES	(9,011)		
UNENCUMBERED CASH, BEGINNING	<u>143,443</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 134,432</u>		

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

CITY OF CHASE, KANSAS  
 SEWER UTILITY FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Statement 3 Page 8 of 10  Variance Over (Under)
<b>CASH RECEIPTS</b>			
Charges for service	\$ 21,965	\$ 21,000	\$ 965
<b>EXPENDITURES</b>			
Personal services	12,383	15,000	\$ (2,617)
Contractual services	3,685	4,000	(315)
Commodities	4,290	4,000	290
<b>TOTAL EXPENDITURES</b>	<u>20,358</u>	<u>\$ 23,000</u>	<u>\$ (2,642)</u>
<b>RECEIPTS OVER (UNDER) EXPENDITURES</b>	1,607		
<b>UNENCUMBERED CASH, BEGINNING</b>	<u>9,394</u>		
<b>UNENCUMBERED CASH, ENDING</b>	<u>\$ 11,001</u>		

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

CITY OF CHASE, KANSAS  
 SPECIAL REVENUE NONBUDGETED FUNDS  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2009

Statement 3  
 Page 9 of 10

	Capital Improvement	Police Seizure
CASH RECEIPTS	\$ -	\$ -
EXPENDITURES		
Police	-	-
RECEIPTS OVER (UNDER) EXPENDITURES	-	-
UNENCUMBERED CASH, BEGINNING	6,647	784
UNENCUMBERED CASH, ENDING	\$ 6,647	\$ 784

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

## CITY OF CHASE, KANSAS

ENTERPRISE NONBUDGETED FUNDS  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2009

	Water Project	Sewer Utility Reserve
Statement 3 Page 10 of 10		
CASH RECEIPTS		
Loan proceeds	\$ 779,000	\$ -
Federal grant	184,000	-
Transfer City's share of cost	50,378	-
TOTAL CASH RECEIPTS	1,013,378	-
EXPENDITURES		
Construction and engineering	691,561	-
Retire temporary notes	677,000	-
TOTAL EXPENDITURES	1,368,561	-
RECEIPTS OVER (UNDER) EXPENDITURES	(355,183)	-
UNENCUMBERED CASH, BEGINNING	355,183	8,440
UNENCUMBERED CASH, ENDING	\$ -	\$ 8,440

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

CITY OF CHASE, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Chase, Kansas (the City) is a municipal corporation governed by an elected mayor and city council. There are no component units of the City.

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

The following types of funds comprise the financial activities of the City for the year of 2009:

**Governmental funds**

General fund—to account for all unrestricted resources except those required to be accounted for in another fund.

Special revenue funds—to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt service fund—to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City.

**Proprietary funds**

Enterprise funds—to account for operations that are financed and operated in a manner similar to private business enterprises—where the stated intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. 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. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

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

### Interest Income

Unless otherwise designated, all investment income is credited to the general fund.

### Vacation, Sick Leave, and Other Compensated Absences

The City does not accrue amounts for compensated absences. The amounts are not deemed material in relationship to the financial statements taken as a whole.

### Departure From Accounting Principles Generally Accepted in the United States

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, 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. General fixed assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, capital leases, and compensated absences are not presented in the financial statements. The required balance sheet, income statement, and the statement of cash flows are not presented for proprietary fund types. Accounting principles generally accepted in the United States require these fund types to be accounted for by the full accrual method of accounting.

### Utility Accounts Receivable

The City records water revenues billed to its customers when meters are read on a monthly basis. Charges for sewage treatment are billed monthly. It is not practicable to estimate unbilled service receivables at December 31, 2009, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole. Accounts are considered past due on the twenty-sixth of every month. The allowance for bad debt is based on management's assessment of the collectability of specific accounts and are written off when judged to be uncollectible. Accounts receivable are reviewed monthly by management.

### Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### Policy for Applying FASB Pronouncements to Proprietary Funds

Private-Sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

### Budgets

Kansas statutes require that an annual operating budget be legally adopted for all funds (including debt service and enterprise funds) unless exempted by specific statute. The statutes provided for the following sequence and timetable in adoption of the legal annual operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for further payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

Original appropriations are modified by supplemental appropriations and transfers among budget categories. The City commission approves all significant changes.

A legal operating budget is not required for capital projects fund, enterprise utility reserve funds, permanent funds, and the following special revenue funds:

Capital improvement

Police seizure

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

These taxes become a lien against all property November 1. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20 and May 10. Taxes levied to finance the budget are made available to the City after January 1 and are distributed by the county treasurer generally in the months of January and June. Delinquent tax collections are distributed throughout the year.

### NOTE 2—DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of this pool is displayed on the Summary of Cash Receipts, Expenditures, and Unencumbered Cash.

K.S.A. 9-1401 established the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; United States government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

#### Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

#### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2009.

#### Deposits

At year end, the carrying amount of the City's deposits, including certificates of deposit was \$448,988. The bank balance was \$461,989. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$211,989 was collateralized by pledged securities held under joint custody receipts issued by a third-party in the City's name.

#### NOTE 3—LONG-TERM DEBT

Terms for long-term liabilities for the City for the year ended December 31, 2009, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Interest Due</u>	<u>Principal Due</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
General obligation bonds						
Series 2009A	4.250%	06/18/09	06-18	06-18	\$ 701,000	06/18/49
Series 2009B	3.625%	06/18/09	06-18	06-18	78,000	06/18/49
Loans						
Chase Firefighters Relief Association	1.000%	04/15/04	01-15	01-15	30,000	04/15/29
Temporary notes						
Series 2008	3.000%	10/15/08	10-15	10-15	677,000	10/15/09
Capital leases						
Mower	4.250%	10/24/08	Monthly	Monthly	8,000	11/01/11

Changes in long-term liabilities for the City for the year ended December 31, 2009, were as follows:

Issue	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
<b>General obligation bonds</b>					
Series 2009A	\$ -	\$ 701,000	\$ -	\$ 701,000	\$ -
Series 2009B	-	78,000	-	78,000	-
<b>Loans</b>					
Chase Firefighters Relief Association	25,712	-	1,099	24,613	257
<b>Temporary notes</b>					
Series 2008	677,000	-	677,000	-	15,515
<b>Capital leases</b>					
Mower	7,798	-	2,574	5,224	282
	<u>\$ 710,510</u>	<u>\$ 779,000</u>	<u>\$ 680,673</u>	<u>\$ 808,837</u>	<u>\$ 16,054</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Principal			Interest			Total Principal and Interest
	General Obligation Bonds	Loans	Capital Leases	General Obligation Bonds	Loans	Capital Leases	
2010	\$ 7,849	\$ 1,110	\$ 2,686	\$ 32,620	\$ 246	\$ 170	\$ 44,681
2011	8,177	1,121	2,538	32,292	235	81	44,444
2012	8,519	1,132	-	31,950	224	-	41,825
2013	8,874	1,144	-	31,595	213	-	41,826
2014	9,246	1,155	-	31,223	201	-	41,825
2015-2019	52,359	5,950	-	149,986	830	-	209,125
2020-2024	64,263	6,254	-	138,082	526	-	209,125
2025-2029	78,879	6,747	-	123,466	207	-	209,299
2030-2034	96,828	-	-	105,517	-	-	202,345
2035-2039	118,871	-	-	83,474	-	-	202,345
2040-2044	145,943	-	-	56,402	-	-	202,345
2045-2049	179,192	-	-	23,152	-	-	202,344
	<u>\$ 779,000</u>	<u>\$ 24,613</u>	<u>\$ 5,224</u>	<u>\$ 839,759</u>	<u>\$ 2,682</u>	<u>\$ 251</u>	<u>\$ 1,651,529</u>

## NOTE 4—INTERFUND TRANSFERS

Operating transfers for the year ended December 31, 2009, consisted of the following:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General fund	Water project fund	City ordinance	\$ 25,189
Water fund	Water project fund	City ordinance	25,189
Water fund	Bond and interest	City ordinance	1,405

## NOTE 5—RISK MANAGEMENT

The City is subject to certain risks such as torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from third parties. There have been no significant reductions in insurance coverage from the prior year and there have been no settled claims in excess of insurance coverage for the prior three years.

## NOTE 6—COMMITMENTS

At year-end, capital project authorizations with approved change orders compared with expenditures from inceptions are as follows:

	<u>Expenditures to Date 12/31/09</u>	<u>Project Authorization</u>
Street project	<u>\$ 26,652</u>	<u>\$ 381,321</u>

## NOTE 7—DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law established and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs, 611 South Kansas Avenue, Suite 100, Topeka, KS 66603-3803, or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4.00% 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 rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The KPERs average employer rate established for 2009, was 6.54%. The City's employer contributions to KPERs for the years ended December 31, 2009, 2008, and 2007, were \$6,343, \$6,905, and \$3,570, respectively, equal to the required contributions for each year.

CITY OF CHASE, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2009

Schedule 1  
 Page 1

Federal Grantor/Pass-Through Grantor/Program Title	American Recovery and Reinvestment Act of 2009	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
United States Department of Agriculture Community facilities loans and grants		10.766		\$ 963,000
Department of Housing and Urban Development Pass-through from Kansas Department of Commerce Community development block grant	ARRA	14.228	09-PF-922	<u>30,002</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b><u>\$ 993,002</u></b>

See accompanying notes to schedule of expenditures of federal awards.

## CITY OF CHASE, KANSAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2009Schedule 1  
Page 2

## NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Chase, Kansas and is presented on the statutory basis of accounting as described in note 1. Expenditures include disbursements, accounts payable, and encumbrances. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

CITY OF CHASE, KANSAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended December 31, 2009

Schedule 2  
 Page 1

**SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued	Unqualified (Statutory basis)
Internal control over financial reporting Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

**Major Programs**

	<u>CFDA #</u>	
United States Department of Agriculture Community facilities loans and grants	10.766	
Dollar threshold used to distinguish between type A and type B programs	\$	300,000
Auditee qualified as low-risk auditee?		No

CITY OF CHASE, KANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2009

Schedule 2  
Page 2

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**MATERIAL WEAKNESSES**

2009-1 Segregation of Duties

Condition: There is a lack of appropriate segregation of duties related to all accounting functions.

Criteria: The City is responsible for establishing and maintaining effective internal controls.

Cause: The City does not have adequate funds or training to achieve the proper segregation of duties.

Effect: Without the proper segregation of duties, the risk that the City's financial statements may be materially misstated increases and the City's responsibility to prevent and detect fraud may be at risk.

Recommendation: Other procedures need to be implemented to the extent possible to lessen the effect of the lack of segregation of duties.

Grantee Response: The City does not have sufficient funds to adequately staff the office to achieve the proper segregation of duties. The City Council does review all expenditures prior to final disbursement and multiple signatures are required on all checks. The City also has contracted for an independent audit of its financial statements even when not required under state statutes.

2009-2 Internal Controls over Compliance with Federal Programs

Condition: The City has no policies or procedures in place over internal controls related to federal programs.

Criteria: The City is responsible for establishing and maintaining effective internal controls over compliance with federal programs.

Effect: The lack of internal controls over compliance with federal programs place the City at a greater risk of not detecting or preventing noncompliance with federal programs.

Cause: The City does not have adequate funds or training to design and implement a program of internal controls for federal grants that are rarely awarded to the City.

Recommendation: To the extent possible, the City should establish controls over compliance with federal programs.

Grantee Response: The City agrees with the finding. The City understands the need for proper internal controls and accordingly has hired a third party administrator to assist the City in an effort to follow all the requirements of the federal programs.

CITY OF CHASE, KANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2009

Schedule 2  
Page 3

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

UNITED STATES DEPARTMENT OF AGRICULTURE  
Community facilities loans and grants

CFDA 10.766

**MATERIAL WEAKNESSES**

2009-3 Segregation of Duties

The material weakness at Finding 2009-1 also applies to this grant.

2009-4 Internal Controls over Compliance with Federal Programs

The material weakness at Finding 2009-2 also applies to this grant.