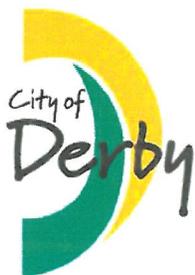


City of Derby, Kansas

# Comprehensive Annual Financial Report

for the fiscal year ending December 31, 2009



CITY OF DERBY, KANSAS

---

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

Prepared by:

Finance Department  
City of Derby, Kansas

CITY OF DERBY, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2009

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i – vi
Organizational Structure	vii
List of Elected and Appointed Officials	viii
FINANCIAL SECTION:	
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14 - 15
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17 - 18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	20 – 21
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Aquatic Park Fund	22
Statement of Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds	25 - 26
Notes to Basic Financial Statements	27 - 60

CITY OF DERBY, KANSAS  
COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2009

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
Required Supplementary Information:	
Schedule of Funding Progress – Post Employment Benefits	61
Other Supplementary Information:	
Combining Balance Sheet – Nonmajor Governmental Funds	62 - 63
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	64 - 65
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Special Street and Highway Fund	66
Special Parks and Recreation Fund	67
Law Enforcement Fund	68
Special Drug and Alcohol Fund	69
Library Fund	70
Library Employee Benefits Fund	71
Economic Development Reserve Fund	72
Debt Service Fund	73
Balance Sheet – Discretely Presented Component Unit	74
Schedule of Revenues, Expenditures and Changes in Fund Balance – Discretely Presented Component Unit	75
STATISTICAL SECTION:	
Net Assets by Component	76
Changes in Net Assets	77 - 78
Fund Balances, Governmental Funds	79
Changes in Fund Balances, Governmental Funds	80
Assessed Value and Estimated Actual Value of Taxable Property	81
Direct and Overlapping Property Tax Rates	82
Principal Property Tax Payers	83
Property Tax Levies and Collections	84
Legal Debt Margin Information	85
Ratios of Outstanding Debt by Type	86
Ratios of General Bonded Debt Outstanding	87
Governmental Activities Direct and Overlapping Debt	88

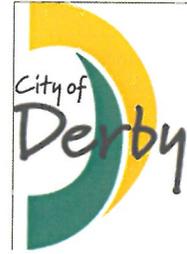
CITY OF DERBY, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2009

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
Demographic and Economic Statistics	89
Principal Employers	90
Full-Time Equivalent City Government Employees by Function	91
Operating Indicators by Programming Year	92
Capital Asset Statistics by Program/Function	93
 OTHER:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	94 - 95
Schedule of Findings and Responses	96
Schedule of Prior Year Findings and Responses	97 - 98



August 5, 2010

TO THE CITIZENS OF THE CITY OF DERBY, KANSAS  
HONORABLE MAYOR AND CITY COUNCIL

The Comprehensive Annual Financial Report of the City of Derby, Kansas for the fiscal year ended December 31, 2009 is hereby submitted for your review. Responsibility for the accuracy of the data presented, the completeness and fairness of the presentation, including all disclosures, rests with the City. A comprehensive framework of internal control has been established but because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statutes require an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants. The firm of Berberich Trahan & Co., P.A. has performed the audit this year. Their report for the December 31, 2009 financial statements is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

#### The Reporting Entity and Its Services

The City of Derby, Kansas is in Sedgwick County, located approximately three and one-half miles south of Wichita in south central Kansas. The City encompasses approximately 9.2 square miles and had an estimated population at the end of 2009 of 22,517.

The City was incorporated in 1869 and operates under the Mayor-Council-Manager form of government. The eight council members are elected by district ward and serve four-year terms. The Mayor is elected at large, for a four-year term, has veto power over certain Council action, presides over Council meetings and appoints certain City officials, subject to Council approval. The City Manager is appointed by the governing body and is charged with the efficient and effective administration of the City.

All funds and entities related to the City of Derby are included in the annual financial report. The City provides a full range of services, which include public safety (police and fire); water distribution and wastewater collection and treatment; public works functions (street and vehicle maintenance); culture and recreation (parks and an aquatic park); and a variety of supportive administrative services.

The Derby Public Library, although a separate legal entity, is reported as a discrete component unit. A Board, the appointees of which are approved by the City Council, governs the Library. The Library is not a separate taxing entity under State statutes, and the City levies taxes for the Library operation, which represents a significant portion of its total revenues.

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), debt service funds, and enterprise funds. Statutes require the budget to be *balanced*, meaning that estimated expenditures equal estimated revenues. A five-year Capital Improvement Plan is also adopted by the City Council, and the first year of that plan is included in the operating budget.

All budgets are prepared using the modified accrual basis further modified by the encumbrance method of accounting – that is, commitments evidenced by documents such as purchase orders and contracts in addition to disbursements and accounts payable are all recorded as expenditures although the actual funds have yet to be released to the billing source. Furthermore, the statutes provide for a public hearing on or before August 15<sup>th</sup> of each year and adoption of a final budget on or before August 25<sup>th</sup> of each year.

Supplemental appropriations and transfer among budget categories occasionally modify original appropriations but in order to exceed the total appropriation of a fund, an amendment must be approved by the City Council. In order to amend the budget, the proposed amendment must appear in the official City newspaper at least 10 days prior to a public hearing. Citizens also may address the City Council prior to the hearing. After the hearing the Council may then vote to amend the budget. Approved amendments are then submitted to the State Division of Accounts & Reports for record.

#### Economic Condition and Outlook

Derby, the 17<sup>th</sup> largest city in Kansas, is part of the Wichita Metropolitan Statistical Area (MSA) that includes Sedgwick, Butler, Harvey and Sumner counties, and the surrounding population totals nearly 596,000 residents.

Derby supports more than 560 businesses, ranging from modest home-based businesses to large manufacturing companies like BRG Precision Products, manufacturer of custom digital electronic clocks and time displays, and Mid Continent Controls, manufacturer of cabin management and in-flight entertainment systems for business jets. However, the City's economy is strongest in the construction industry, followed closely by retail, finance/insurance/real estate, and health-care related activities. Aircraft manufacturers Spirit AeroSystems and Boeing Integrated Defense Systems provide jobs for a significant portion of the community's residents, as does Derby School District #260.

Derby's strong pattern of residential growth has attracted restaurants, retailers, and educational institutions as well. In October 2008, a new shopping center known as Derby Marketplace opened featuring major retailers Target and Dillon's Marketplace, along with Petco, Hibbett Sports, Maurice's, Dress Barn, and other retailers and providers of various services. With nearly 600,000 square feet of retail space available, the Derby Marketplace will continue building as leases are signed with restaurants and additional retail shops. This growth will contribute to stable city-wide sales tax revenue in 2010, which is devoted to the library project, and increased property tax revenue in 2010, which helps fund most other City services, as well as programs of the Derby Recreation Commission. In August 2009, a Hampton Inn opened in Derby, and additional commercial development is expected in the future along Rock Road, Patriot, and K-15 Highway, as well as in the Derby Business Park.

Derby's 2010 assessed valuation is expected to grow 3.5% which is well above projections for most communities throughout the Mid-West. Assessed valuation at the beginning of 2010 included the final phase of the apartments and clubhouse at The Greens of Derby along with some smaller projects, which will provide for continued tax base growth. Mid America Orthopedics opened in the spring of 2010 along with some single-family residential growth throughout the year which will add to the 2011 assessed valuation.

However, the economic recession is beginning to affect Derby, as reflected in our share of the countywide retail sales tax. Collections during 2009 dropped by 2% as compared to 2008 and sales tax collections for 2010 are projected to decline by another 4.0%, but remain flat in 2011. Sales tax collections are reflecting a slowdown in manufacturing and other business activity in the Wichita MSA. That downturn has been accompanied by layoffs in the final quarter of 2008 and in 2009 but has stabilized in the first two quarters of 2010. A substantial challenge facing the Wichita MSA is the occasional attempt by other states to entice aircraft manufacturers to relocate their plants. Fortunately, the State of Kansas has indicated its commitment to aircraft manufacturing and its willingness to match incentives offered by other states. The city-wide retail sales tax grew 4% in 2009 due to the addition of stores in the Derby Marketplace and is then projected to level off in 2010 and remain flat in 2011.

### Major Initiatives

Major projects in the 2010 Capital Improvements Program (CIP) are a \$4.0 million public works facility, a \$5.5 million sewer interceptor on the southeast edge of Derby, and \$3.2 million in improvements to the wastewater plant for the handling of bio-solids. Construction of the sewer projects will begin in 2010 and be completed in 2011. The public works facility began in 2009 and will be complete in 2010. Financing for the projects is in the form of \$10.255 million general obligation Build America Bonds, a \$3.2 million State Revolving Loan and a \$1.0 million federal grant.

### Long-term Financial Planning

Because Derby is growing at a moderate yet steady pace, infrastructure to new growth areas is required on a continual basis. At the same time, reinvestment needs to be made into the existing infrastructure to ensure that systems operate at optimum levels.

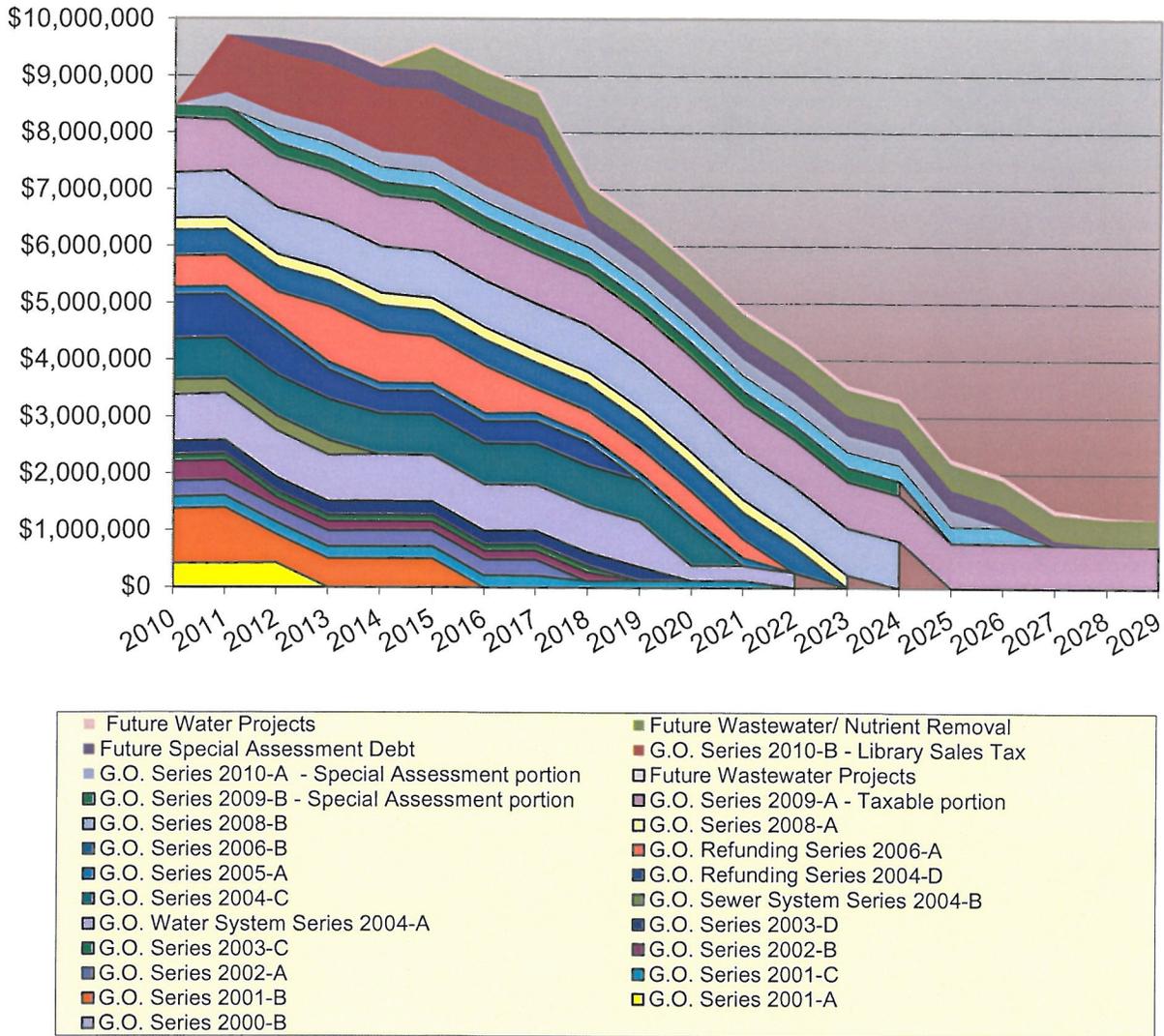
With annual budget constraints, there are few opportunities to use operating budgets to finance the required investment in new and remedial infrastructure construction on an annual basis. Therefore, the City uses financial alternatives to make sure that infrastructure is coordinated with new growth, and that remedial needs are also addressed.

The primary method of financing infrastructure upgrades or new construction is issuance of long-term bonds. These bonds come in the form of General Obligation, Revenue, and Special Assessment bonds. The City has also used Certificates of Participation, a form of lease to purchase, to finance the cost of new facilities.

According to State Law, cities of the Second Class may issue longer-term debt not to exceed 30 percent of total assessed valuation. However, such projects as sanitary sewer and water lines, and certain intersection improvements do not count against the total "debt lid". As of December 31, 2009, Derby has outstanding debt of \$77,275,000, but exempt projects reduce the direct debt to the \$36,804,781 total, meaning that Derby has additional debt capacity of \$13,978,907. The City Council had for many years an unofficial policy that direct debt, as a percentage of Assessed Valuation should not exceed 20%. In 2009 that practice was ratified with the adoption of the city's formal Debt Management Policy. The City Council has chosen to exceed the 20% limit to issue financing for projects authorized by the voters. In 2002, the voters of Derby authorized establishment of a ½% citywide retail sales tax to pay for the debt service and operation of an aquatic park not to exceed \$7,000,000. Prior to issuance of the aquatic park related debt in 2003, Derby's direct debt as a percentage of Assessed Valuation was 16.21% at year end 2002. In October 2007, the voters again authorized a ½% citywide retail sales tax to pay for the debt service and operation of a new library. The library sales tax became effective upon the sunset of the aquatic park tax which occurred December 31, 2009 upon the defeasance of the aquatic park bonds. The library was completed in the fall 2009 at a cost of \$7,000,000 and general obligation bonds issued in 2010 to refund the temporary notes.

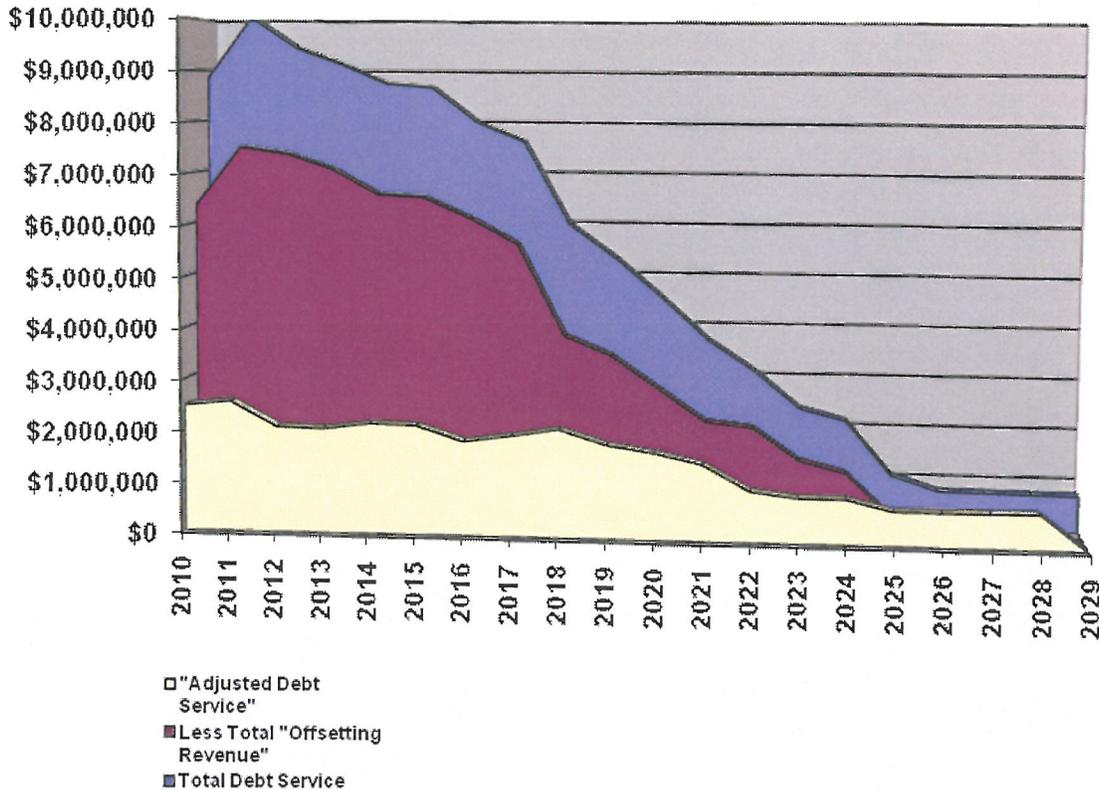
The chart on the next page incorporates the debt to be issued to finance CIP projects in 2010 and beyond, with the existing outstanding bond issues. This chart illustrates the temporary increase in total debt which should be followed by a gradual reduction after 2015. An increase in debt is projected in 2015 to finance a \$5.0 million nutrient removal project at the city's wastewater treatment facility in order to comply with EPA requirements. In addition to this project, the 2011 CIP includes a \$2.7 million street reconstruction project of Meadowlark, an arterial on the south side of the Derby Marketplace to serve the city's growth to the east city limits. Other than these two projects, the CIP for the years 2010 through 2015 includes small projects which will allow the city's debt load to diminish and the direct debt as a percentage of Assessed Valuation gradually return to the 20% target.

## General Obligation Debt Service Schedule (2010-2029)



Much of Derby's outstanding debt has offsetting revenues that are paid in through special assessments, Derby Recreation Commission rent payments and dividend transfers from El Paso Water Company. Dividends received from El Paso Water Company are a reimbursement for principal and interest paid out of the City's Bond and Interest Fund. The chart on the following page shows a snapshot of the level of adjusted debt service which is the balance of the debt service once the offsetting revenues are deducted.

## General Obligation Bonds Adjusted Debt Service Compared to Total Debt Service



### Awards and Acknowledgments

The City has received the Government Finance Officers Association Distinguished Budget Presentation award for its annual budgets for the years 2005 through 2010. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

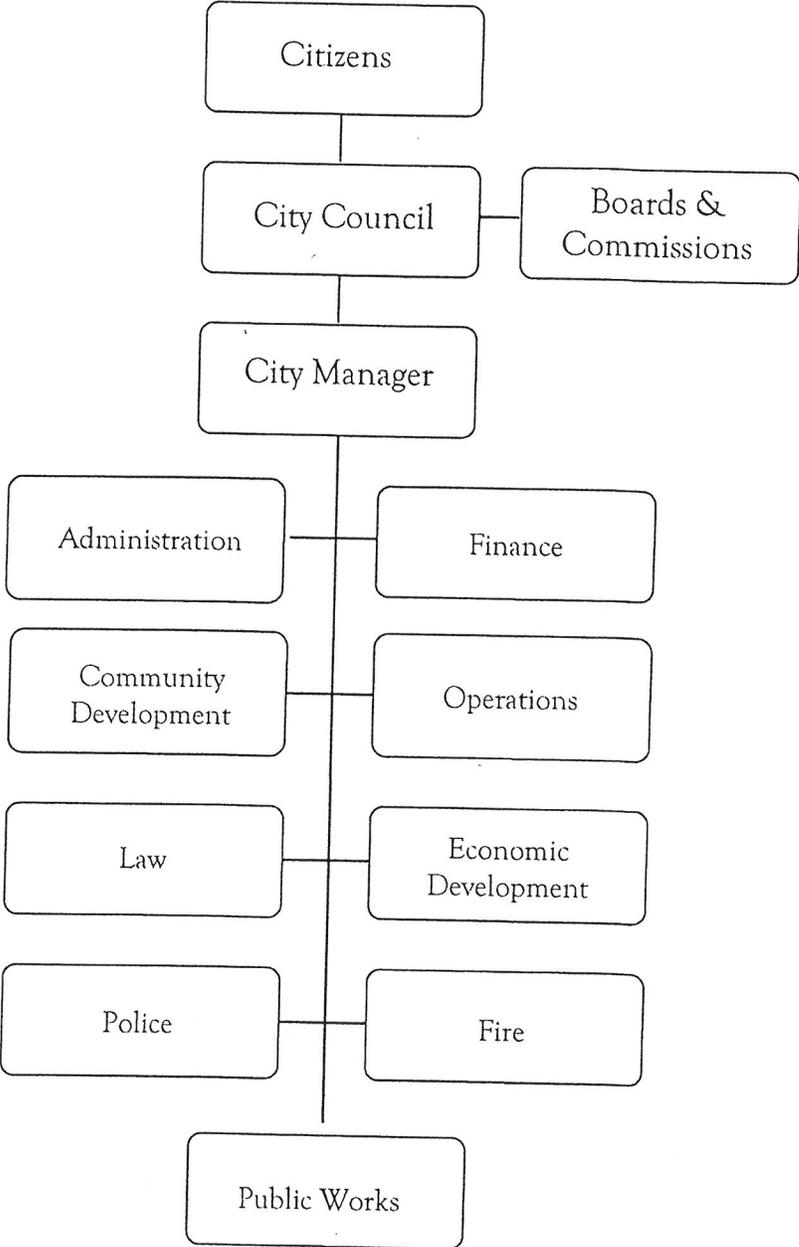
The preparation of this report would not have been possible without the efficient and dedicated service of the staff of the finance department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Derby's finances.

Respectfully submitted,

Kathleen B. Sexton  
City Manager

Jean Epperson  
Director of Finance/City Clerk

# CITY OF DERBY, KANSAS ORGANIZATIONAL STRUCTURE



City of Derby, Kansas  
List of Elected and Appointed Officials  
December 31, 2009

Elected Officials

		<u>Term of Office</u>
Mayor	Dion P. Avello	2005-2011
Council President	Mark Staats	2007-2011
Councilmember	Cheryl Bannon	2007-2011
Councilmember	Jim Craig	2009-2013
Councilmember	Thomas Haynes	2009-2013
Councilmember	Heath Horyna	2008-2011
Councilmember	Jim Meidinger	2007-2011
Councilmember	Vaughn G. Nun	2009-2013
Councilmember	Chuck Warren	2009-2013

Appointed Officials

City Manager	Kathleen B. Sexton
Assistant City Manager	Stephanie Knebel
Finance Director/City Clerk	Jean Epperson
City Attorney	Phil Alexander
Director of Operations	Ted Austin
Police Chief	Robert Lee
Public Works Director	Robert Mendoza
Community Development Director	Charles Brown
Fire Chief	Brad Smith
Director of Community Development	Allison Moeding



BERBERICH TRAHAN & CO., P.A.  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and City Council  
City of Derby, Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Derby, Kansas (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and applicable provisions of 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 opinions. The financial statements of the Derby Public Library (discretely presented) and El Paso Water Company, Inc. (blended) component units were not audited in accordance with *Government Auditing Standards*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Derby, Kansas, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and the aquatic park fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the 2008 financial statements and, therefore the January 1, 2009 net asset balances, have been restated to reflect revised estimated historical costs of certain capital assets.

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd., Topeka, KS 66611-2050 t 785-234-3427 toll-free 800-530-5526 f 785-233-1788 btandco@cpa.com

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2010, on our consideration of the City's 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Berberich Trahan & Co., P.A.*

August 5, 2010

## CITY OF DERBY, KANSAS

### Management's Discussion and Analysis

This section of the City of Derby's annual financial report is designed to provide readers an overview and analysis of the financial activities during the fiscal year that ended on December 31, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

#### Financial Highlights

- The assets of the City exceeded its liabilities at the close of 2009 by \$138,099,482. Of this amount, \$19,541,252 of unrestricted net assets may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$1,707,384, or 1.25 percent, from \$136,392,098 as restated at year-end 2008.
- At year end 2009, the City of Derby's governmental funds reported combined ending fund balances of \$22,178,951, a decrease of \$1,606,090 or 6.75%.
- At the end of 2009, the budgetary fund balance for the general fund was \$6,260,637 or 43.95 percent of the general fund non-GAAP budgetary expenditures.
- The City's total bonded debt and capital leases increased by \$6,974,735 during 2009 to \$79,140,877 to accommodate the demand for infrastructure to primarily serve the growth of the city.

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

#### *Government-Wide Financial Statements*

The government-wide financial statements are designed to provide readers with a broad overview of the city's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities is focused on both the gross and net cost of various functions (including governmental, business-type and component unit), which are supported by the City of Derby's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and or subsidy to various business-type activities and/or component units.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Governmental Activities reflect the City's basic services, including general government, police, fire, public works, economic development, culture and recreation. Property, sales, and gasoline taxes along with franchise fees and court fees, licenses and permits finance the majority of these services. The Business-Type Activities reflect private sector type operations (Sewer and Water utilities), where the fee for service typically covers all or most of the cost of operation, including depreciation.

The government-wide financial statements include not only the City of Derby itself (known as the primary government), but also a legally separate Derby Public Library for which the City of Derby is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government. El Paso Water Company, Inc., although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide statements can be found on pages 12-13 of the audited financial statements.

### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Derby maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund, library sales tax fund, and aquatic park fund, all of which are considered to be major funds. Data from the other 11 funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 – 22 of this report.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in the proprietary funds. The sewer and water utilities comprise the proprietary funds for the City of Derby. Proprietary funds, like the government-wide statement, provide both long- and short-term financial information. The basic proprietary fund financial statements can be found on pages 23 – 26 of this financial report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 – 60 of this financial report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide other post employment benefits to its employees and *other supplementary information* such as the combining statements of the nonmajor governmental funds and the fund financial statements of the discretely presented component unit, the Derby Public Library.

### **Governmental-Wide Financial Analysis**

Net assets serve as one useful indicator over time of a government's financial position. Net assets of the City of Derby exceeded liabilities by \$138,099,482 as of December 31, 2009.

The City's investment in capital assets consists of land, buildings, equipment, construction in progress and infrastructure, less any outstanding debt used to acquire those assets and accumulated depreciation of existing capital assets. The City of Derby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The largest portion of net assets, \$82,161,841 or 59.49% is now the investment in capital assets net of related debt. An independent valuation of the city's infrastructure was obtained which resulted in a prior period adjustment of \$68,470,239. The next largest portion, \$36,396,389 or 26.36% of the City's net assets is restricted due to project financing or bond covenants. The remaining 14.15% or \$19,541,252 is unrestricted net assets, which may be used to meet the city's ongoing obligation to citizens and creditors.

The increase in current assets and long-term liabilities of business-type activities consists of the bond proceeds and subsequent liability related to the issuance of general obligation bonds for the construction of an interceptor sewer project to expand the city's collection system.

**TABLE A-1  
CITY OF DERBY'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 73,671,453	\$ 76,253,419	\$ 10,217,816	\$ 5,962,713	\$ 83,889,269	\$ 82,216,132
Capital assets	<u>124,271,695</u>	<u>48,210,555</u>	<u>20,311,290</u>	<u>21,763,953</u>	<u>144,582,985</u>	<u>69,974,508</u>
Total assets	<u>197,943,148</u>	<u>124,463,974</u>	<u>30,529,106</u>	<u>27,726,666</u>	<u>228,472,254</u>	<u>152,190,640</u>
Other liabilities	9,140,483	10,217,836	603,646	418,708	9,744,129	10,636,544
Long-term liabilities	<u>68,471,398</u>	<u>64,852,248</u>	<u>12,157,245</u>	<u>8,779,989</u>	<u>80,628,643</u>	<u>73,632,237</u>
Total Liabilities	<u>77,611,881</u>	<u>75,070,084</u>	<u>12,760,891</u>	<u>9,198,697</u>	<u>90,372,772</u>	<u>84,268,781</u>
Net assets:						
Invested in capital assets, Net of related debt	73,974,575	3,219,616	8,187,266	13,017,185	82,161,841	16,236,801
Restricted	36,396,389	36,182,429	-	-	36,396,389	36,182,429
Unrestricted	<u>9,960,303</u>	<u>9,991,845</u>	<u>9,580,949</u>	<u>5,510,784</u>	<u>19,541,252</u>	<u>15,502,629</u>
Total net assets	<u>\$ 120,331,267</u>	<u>\$ 49,393,890</u>	<u>\$17,768,215</u>	<u>\$ 18,527,969</u>	<u>\$ 138,099,482</u>	<u>\$ 67,921,859</u>

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

**Analysis of the City's Operations** – The following table (Table A-2) provides a summary of the City's operations for the year ended December 31, 2009. Derby's net assets at year-end 2009 of \$138,099,482 reflect a slight increase in the total amount of \$1,707,384, or 1.25%. The majority of the change in net assets is due to the completion of several public works capital projects which are reflected in the \$6,747,181 expenses in 2009 compared to \$3,488,242 expenses in 2008. Capital grants and contributions also declined from \$12,523,125 in 2008 to \$4,261,052 in 2009.

**TABLE A-2  
CITY OF DERBY'S CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,001,421	\$ 2,409,270	\$ 5,073,365	\$ 4,964,332	\$ 8,074,786	\$ 7,373,602
Operating Grants & Contributions	1,172,334	1,199,082	-	-	1,172,334	1,199,082
Capital Grants & Contributions	4,261,052	12,523,125	-	-	4,261,052	12,523,125
General Revenues:						
Property taxes	8,870,181	8,196,080	-	-	8,870,181	8,196,080
Sales Tax	5,234,141	5,224,113	-	-	5,234,141	5,224,113
Franchise Taxes	1,528,728	1,495,724	-	-	1,528,728	1,495,724
Excise Tax	13,148	15,649	-	-	13,148	15,649
Investment Earnings	219,359	487,796	44,144	160,820	263,503	648,616
Gain on sale of capital assets	<u>17,015</u>	<u>462,299</u>	<u>-</u>	<u>-</u>	<u>17,015</u>	<u>462,299</u>
<b>Total Revenues</b>	<u>24,317,379</u>	<u>32,013,138</u>	<u>5,117,509</u>	<u>5,125,152</u>	<u>29,434,888</u>	<u>37,138,290</u>
Expenses:						
General Government	6,907,535	6,914,324	-	-	6,907,535	6,914,324
Public Safety	4,118,615	3,648,554	-	-	4,118,615	3,648,554
Public Works	6,747,181	3,488,242	-	-	6,747,181	3,488,242
Culture & Recreation	1,471,358	1,520,850	-	-	1,471,358	1,520,850
Economic Development	385,894	114,391	-	-	385,894	114,391
Interest on long-term debt	2,959,029	2,603,418	-	-	2,959,029	2,603,418
Water system	-	-	3,224,407	3,335,684	3,224,407	3,335,684
Sewer system	<u>-</u>	<u>-</u>	<u>1,913,485</u>	<u>1,618,462</u>	<u>1,913,485</u>	<u>1,618,462</u>
<b>Total Expenses</b>	<u>22,589,612</u>	<u>18,289,779</u>	<u>5,137,892</u>	<u>4,954,146</u>	<u>27,727,504</u>	<u>23,243,925</u>
Increases in net assets						
before transfers	1,727,767	13,723,359	(20,383)	171,006	1,707,384	13,894,365
Transfers	<u>(414,412)</u>	<u>(1,392,397)</u>	<u>414,412</u>	<u>1,392,397</u>	<u>-</u>	<u>-</u>
Increase/(Decrease) in Net Assets	<u>1,313,355</u>	<u>12,330,962</u>	<u>394,029</u>	<u>1,563,403</u>	<u>1,707,384</u>	<u>13,894,365</u>
Net assets as previously stated	49,393,890	37,062,928	18,527,969	16,964,566	67,921,859	54,027,494
Prior period adjustments	<u>69,624,022</u>	<u>-</u>	<u>(1,153,783)</u>	<u>-</u>	<u>68,470,239</u>	<u>-</u>
Net Assets 12/31/2008 Restated	<u>119,017,912</u>	<u>37,062,928</u>	<u>17,374,186</u>	<u>16,964,566</u>	<u>136,392,098</u>	<u>54,027,494</u>
<b>Net Assets</b>	<u>\$120,331,267</u>	<u>\$49,393,890</u>	<u>\$17,768,215</u>	<u>\$18,527,969</u>	<u>\$138,099,482</u>	<u>\$ 67,921,859</u>

Key elements in the change in net assets follow:

- Capital grant revenues consist primarily of funds contributed by the Kansas Department of Transportation for infrastructure projects such as the reconstruction of the Buckner and Meadowlark intersection of which the asset was added to the city's inventory in 2009.
- Property tax revenue increased by \$674,101 or 8.2% due to increased assessed valuation while the mill levy dropped almost one-half mill from 48.155 mills to 47.756 mills.
- Sales tax revenues were flat due to the effects of the national recession on local spending. An increase in receipts of a city-wide retail sales tax was offset by a decline in the county-wide retail sales tax.
- Charges for services increased by \$701,184 or 9.5% due in part to reimbursement for payment of Derby Recreation Commission debt of \$530,000.
- Investment earnings declined 41.39% or \$268,437 due to the negative impact of the national recession on interest rates.
- A gain on the sale of capital assets occurred from the sale of land in the city's industrial park for business development. The gain reflected in 2008 consisted of the exchange of land with the school district for a library site.
- Public safety expenditures consist of police and fire response services and increased by \$470,061 or 12.88%.
- Public works expenditures increased by \$3,258,939 or 93.43% due to the construction of infrastructure to serve commercial and residential subdivisions within the City along with an increase in depreciation expense due to the restatement of the City's infrastructure assets.
- Interest on long-term debt increased by \$355,611 or 13.66%.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

**Governmental funds** - The combined fund balance for the governmental funds as of December 31, 2009 decreased by \$1,606,090 to \$22,178,951. This was largely due to the redemption of bonds from the aquatic park fund.

Property taxes of \$8,870,181 represent the largest single source of governmental activity revenue for the City of Derby. Taxes on retail sales in the amount of \$5,234,141 are the next largest source of revenue at 22.22% of the city's revenues. Special assessments of \$3,271,171 pay the debt service for infrastructure to serve various properties represent 13.89% of the city's revenue in 2009. Franchise fees of \$1,528,728 represent 6.5% of the revenue stream.

The general fund is the chief operating fund of the City of Derby. At the end of the 2009, unreserved, undesignated fund balance of the general fund was \$6,104,606. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved, undesignated fund balance represents 43.04% of total general fund expenditures, while total fund balance represents 46.2% of that same amount. This percentage is unusually high due to capital projects that are planned in 2010 and 2011.

The debt service fund has a total unreserved fund balance of \$524,334. The primary revenue source for this fund is special assessments, followed by ad valorem property taxes. Property taxes are levied to pay the debt associated with city-at-large improvements such as buildings and arterial roadways.

The capital projects fund has a total fund balance of \$7,922,862 of which \$3,974,300 is reserved for encumbrances. The primary source of revenue for this fund is temporary financing to construct infrastructure which will be permanently financed with the issuance of long-term debt.

The aquatic park fund has a total fund balance of \$2,342,738 of which 100% is unreserved. The substantial decline in fund balance from 2008 is due to the payment to advance refund and defease the aquatic park bonds in the amount of \$5,337,820. Sales tax receipts had accumulated over several years in a redemption account in this fund for the defeasance of the bonds enabling retirement six years earlier than the original bond issue.

**Proprietary funds** – The City’s proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Utilities at the end of 2009 total \$9,580,949. As stated earlier, unrestricted net assets are to be used for ongoing and future obligations and improvements to the utilities.

Total net assets of the proprietary funds increased by \$394,029 from \$17,374,186 at year end 2008 as restated to \$17,768,215. Net assets as of 2008 were restated as the result of the independent valuation of the water and sewer system assets owned by the City. The increase in net assets in 2009 is primarily due to capital contributions of \$827,591 consisting of the addition of water and sewer lines.

### **General Fund Budgetary Highlights**

Careful monitoring of expenditures and growth in ad valorem tax revenues allowed Derby to carry over \$6,260,637 into 2010, a decrease of \$333,012 over the prior year carryover. The decrease in carryover occurred to provide funding in the following year for capital projects that were not completed in 2008 and is reflected in the \$714,806 negative variance in capital outlay expenditures.

The largest budget variance in revenues is primarily due to higher than anticipated growth in building permits and the timing of capital grant reimbursements and reductions in sales tax, franchise fees and interest earnings. Licenses and building permits experienced favorable variances of \$100,091, and intergovernmental revenue was favorable by \$161,401 primarily due to reimbursement from the State of Kansas for a bike path project. Investment earnings reflect a negative variance of \$88,545 due to the higher than anticipated drop in interest rates. The city’s share of the county-wide retail sales decreased \$66,741 from \$3,337,769 in 2008 to \$3,271,028 or 2.0% in 2009. The variance of sales tax to budget was slightly higher at \$91,972 due to the timing of the 2009 budget preparation. The 2009 budget was approved prior to the start of the economic downturn in late 2008 so sales taxes were predicted to increase in 2009 rather than to decrease.

The largest budget variance in expenditures is reflected in contingencies which consist of cash reserves for the following year carryover balance of \$2,543,599. The next largest variance of capital outlay of \$714,806 represents projects that were planned for construction in 2008 but occurred in 2009.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City of Derby’s investment in capital assets for its governmental and business-type activities as of December 31, 2009 was \$144,582,985, net of depreciation. This investment in capital assets includes land, buildings, machinery and equipment, an aquatic park, water distribution and sewer collection systems, and infrastructure and construction in progress.

Major projects undertaken during 2009 were the construction of infrastructure to serve The Oaks, Tall Tree, Stone Creek, and Derby Corporate Park subdivisions and the reconstruction of Buckner Street, an arterial street on the west side of the city. In addition, construction of a new library was completed during 2009.

**Table A-3**  
**CITY OF DERBY'S CAPITAL ASSETS**  
**Net of Depreciation**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 31,585,492	\$ 1,510,206	\$ 725,966	\$ 725,966	\$ 32,311,458	\$ 2,236,172
Construction in Progress	2,757,204	2,625,867	563,621	1,171,445	3,320,825	3,797,312
Buildings	14,562,808	8,708,388	6,480,429	6,851,981	21,043,237	15,560,369
Equipment & Machinery	1,501,099	1,642,474	180,161	168,605	1,681,260	1,811,079
Improvements	3,393,007	3,492,550	-	-	3,393,007	3,492,550
Infrastructure	70,472,085	30,231,070	12,361,113	12,845,956	82,833,198	43,077,026
<b>Total Capital Assets (Net)</b>	<b>\$ 124,271,695</b>	<b>\$ 48,210,555</b>	<b>\$ 20,311,290</b>	<b>\$ 21,763,953</b>	<b>\$ 144,582,985</b>	<b>\$ 69,974,508</b>

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

#### Debt Administration

At year-end the City of Derby had \$79,140,877 in bonds, notes, certificates of participation and capital leases outstanding. This is an increase of \$6,974,735 from \$72,166,142 at the end of 2008. This increase can be attributed to the issuance of \$6,880,000 of temporary notes during 2009 to provide infrastructure for several subdivisions within the City and the partial financing for the new library. Bonds in the amount of \$12,935,000 were issued in 2009 to provide permanent financing for infrastructure in the subdivisions identified in the capital assets discussion above and the construction of a new public works facility, and a sewer interceptor to serve new growth areas to the southeast of the city. More detailed information about the City's long-term liabilities is presented in Note 10 to the financial statements.

**Table A-4**  
**City of Derby Outstanding Debt**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General						
Obligation Bonds	\$ 54,135,000	\$ 54,960,000	\$ 11,870,000	\$ 8,500,000	\$ 66,005,000	\$ 63,460,000
Certificates of Participation	1,565,000	1,860,000	-	-	1,565,000	1,860,000
Capital Leases	877	6,142	-	-	877	6,142
Temporary Notes	<u>11,570,000</u>	<u>6,840,000</u>	<u>-</u>	<u>-</u>	<u>11,570,000</u>	<u>6,840,000</u>
<b>Total</b>	<b>\$ 67,270,877</b>	<b>\$ 63,666,142</b>	<b>\$ 11,870,000</b>	<b>\$ 8,500,000</b>	<b>\$ 79,140,877</b>	<b>\$ 72,166,142</b>

The City's general obligation bonds have been rated AA- by Standard & Poor's. The Moody's Investors Services rating changed from A2 to Aa3 based upon its new global scale. Both ratings were reaffirmed in 2010.

## ECONOMIC FACTORS

With more than 560 businesses operating inside its boundaries, the City of Derby benefits from an ideal mix of service, retail, medical and manufacturing companies. More than 4,200 workers are employed at Derby firms ranging in size from 1 to 100, and Derby's strongest business sectors include construction, finance and insurance, real estate, health care and retail.

In recent years, Derby's long history of steady growth has seen it develop into a major retail trade center serving residents from the surrounding communities. Derby's conveniently located retail shopping centers have proven to be a draw for new customers from Sedgwick, Butler, Sumner and Cowley counties as well as from northern Oklahoma.

Not surprisingly, the continued growth of retail development in Derby has led to increased sales tax collections and total assessed valuation. Foremost among these retail developments is Derby Marketplace, a 650,000 square foot shopping center that opened in late 2008 and is anchored by Target and Dillon's Marketplace. Along with the Stone Creek Commercial development at K-15 and 63rd Street, currently anchored by Lowe's (2004) and Kohl's (2007), Derby's retail areas will continue to provide outstanding development opportunities for the community.

Derby is located just a few miles from McConnell Air Force Base, home of Team McConnell, one of three Supertanker KC-135 Stratotanker wings in the Air Force. Team McConnell is made up of the 22nd Air Refueling Wing, the 931st Air Refueling Group (Air Force Reserve) and the 184th Intelligence Wing (Kansas Air National Guard.)

### Derby's Profile

➤ Median Age (2007 American Community Survey)	33.8 years
➤ Median Family Income	\$77,524
➤ Average Home Value (2007)	\$133,900
➤ Average New Home Value (2007)	\$177,227
➤ Housing Units	7,942
➤ Unemployment (Sedgwick County)	7.6%

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Department, 611 Mulberry, Derby, KS 67037 or by phone at (316) 788-1519.

CITY OF DERBY, KANSAS

STATEMENT OF NET ASSETS

December 31, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Library Board
<b>Assets:</b>				
Deposits and investments	\$ 21,193,641	\$ 9,435,935	\$ 30,629,576	\$ 123,116
Receivables, net of allowance for uncollectibles:				
Taxes	9,161,704	-	9,161,704	-
Special assessments	41,899,980	-	41,899,980	-
Accounts	192,885	488,527	681,412	-
Interest	31,379	-	31,379	-
Deferred charges	863,886	251,295	1,115,181	-
Prepaid items	156,031	17,372	173,403	17,346
Inventories	172,151	24,483	196,634	-
Internal balances	(204)	204	-	-
Capital assets, net of accumulated depreciation, where applicable:				
Land	1,518,782	725,966	2,244,748	-
Land - right of way	30,066,710	-	30,066,710	-
Construction in progress	2,757,204	563,621	3,320,825	-
Buildings and systems	14,562,808	6,480,429	21,043,237	-
Improvements	3,393,007	-	3,393,007	-
Machinery and equipment	1,501,099	180,161	1,681,260	289,170
Infrastructure	70,472,085	12,361,113	82,833,198	-
Total assets	<u>197,943,148</u>	<u>30,529,106</u>	<u>228,472,254</u>	<u>429,632</u>
<b>Liabilities:</b>				
Accounts payable	346,357	511,897	858,254	9,790
Accrued liabilities	560,357	38,635	598,992	-
Accrued interest payable	411,847	53,114	464,961	-
Unearned revenue	7,821,922	-	7,821,922	-
Noncurrent liabilities:				
Due within one year	7,681,276	882,817	8,564,093	-
Due in more than one year	60,790,122	11,274,428	72,064,550	-
Total liabilities	<u>77,611,881</u>	<u>12,760,891</u>	<u>90,372,772</u>	<u>9,790</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	73,974,575	8,187,266	82,161,841	289,170
Restricted for:				
Debt service	31,320,924	-	31,320,924	-
Capital projects	1,532,107	-	1,532,107	-
Culture and recreation	2,342,738	-	2,342,738	-
Streets	627,790	-	627,790	-
Library operations	38,580	-	38,580	-
Other purposes	534,250	-	534,250	-
Unrestricted	9,960,303	9,580,949	19,541,252	130,672
Total net assets	<u>\$ 120,331,267</u>	<u>\$ 17,768,215</u>	<u>\$ 138,099,482</u>	<u>\$ 419,842</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS  
STATEMENT OF ACTIVITIES

Year Ended December 31, 2009

Functions/Programs Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Governmental activities:								
General government	\$ 6,907,535	\$ 1,709,449	\$ 140,520	\$ 221,962	\$ (4,835,604)	\$ -	\$ (4,835,604)	\$ -
Public safety	4,118,615	703,230	147,615	-	(3,267,770)	-	(3,267,770)	-
Public works	6,747,181	310,795	829,840	4,039,090	(1,567,456)	-	(1,567,456)	-
Culture and recreation	1,471,358	277,947	54,359	-	(1,139,052)	-	(1,139,052)	-
Economic development	385,894	-	-	-	(385,894)	-	(385,894)	-
Interest on long-term debt	2,959,029	-	-	-	(2,959,029)	-	(2,959,029)	-
Total governmental activities	22,589,612	3,001,421	1,172,334	4,261,052	(14,154,805)	-	(14,154,805)	-
Business-type activities:								
Sewer	1,913,485	2,286,388	-	-	-	372,903	372,903	-
Water	3,224,407	2,786,977	-	-	-	(437,430)	(437,430)	-
Total business-type activities	5,137,892	5,073,365	-	-	-	(64,527)	(64,527)	-
Total primary government	\$ 27,727,504	\$ 8,074,786	\$ 1,172,334	\$ 4,261,052	(14,154,805)	(64,527)	(14,219,332)	-
Component unit:								
Library Board	\$ 442,569	\$ 31,932	\$ 62,786	\$ -				(347,851)
General revenues:								
Property taxes					8,870,181	-	8,870,181	279,853
Sales taxes					5,234,141	-	5,234,141	-
Franchise taxes					1,528,728	-	1,528,728	-
Excise taxes					13,148	-	13,148	-
Unrestricted investment earnings					219,359	44,144	263,503	-
Gain on sale of capital assets					17,015	-	17,015	1,700
Transfers					(414,412)	414,412	-	-
Total general revenues and transfers					15,468,160	458,556	15,926,716	281,553
Change in net assets					1,313,355	394,029	1,707,384	(66,298)
Net assets, beginning of year as previously stated					49,393,890	18,527,969	67,921,859	486,140
Prior period adjustment					69,624,022	(1,153,783)	68,470,239	-
Net assets, beginning of year as restated					119,017,912	17,374,186	136,392,098	486,140
Net assets, end of year					\$ 120,331,267	\$ 17,768,215	\$ 138,099,482	\$ 419,842

See accompanying notes to basic financial statements.

Major Funds				
Capital Projects	Library Sales Tax	Aquatic Park	Nonmajor Funds	Total Governmental
\$ 7,811,923	\$ 312,553	\$ 1,776,120	\$ 4,539,502	\$ 21,193,641
-	-	573,277	830,651	9,161,704
-	-	-	-	41,899,980
112,739	-	-	-	192,885
-	-	-	-	31,379
-	-	-	-	156,031
-	-	-	-	172,151
<u>\$ 7,924,662</u>	<u>\$ 312,553</u>	<u>\$ 2,349,397</u>	<u>\$ 5,370,153</u>	<u>\$ 72,807,771</u>
\$ 1,800	\$ 10,561	\$ 6,659	\$ 5,562	\$ 346,357
-	-	-	-	560,357
-	-	-	830,651	49,721,902
-	-	-	-	204
<u>1,800</u>	<u>10,561</u>	<u>6,659</u>	<u>836,213</u>	<u>50,628,820</u>
3,974,300	-	-	39,525	4,306,273
-	-	-	-	156,031
-	-	-	-	6,104,606
-	-	-	-	524,334
-	-	2,342,738	4,494,415	6,837,153
<u>3,948,562</u>	<u>301,992</u>	<u>-</u>	<u>-</u>	<u>4,250,554</u>
<u>7,922,862</u>	<u>301,992</u>	<u>2,342,738</u>	<u>4,533,940</u>	<u>22,178,951</u>
<u>\$ 7,924,662</u>	<u>\$ 312,553</u>	<u>\$ 2,349,397</u>	<u>\$ 5,370,153</u>	<u>\$ 72,807,771</u>

CITY OF DERBY, KANSAS

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2009

Total fund balances in Governmental Funds Balance Sheet	\$ 22,178,951
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	124,271,695
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	41,899,980
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(68,019,359)</u>
Net assets of governmental activities	<u><u>\$ 120,331,267</u></u>

See accompanying notes to basic financial statements.

Major Funds				
Capital Projects	Library Sales Tax	Aquatic Park	Nonmajor Funds	Total Governmental
\$ -	\$ -	\$ -	\$ 1,044,676	\$ 8,870,181
-	-	-	1,486	13,148
-	-	1,963,113	-	5,234,141
-	-	-	-	1,528,728
1,949	-	-	-	3,271,171
-	-	-	932,619	1,535,086
-	-	-	-	510,876
-	-	18,741	-	259,019
-	-	-	-	737,583
15,752	8,313	58,738	25	219,359
-	-	239,816	908	1,378,551
<u>17,701</u>	<u>8,313</u>	<u>2,280,408</u>	<u>1,979,714</u>	<u>23,557,843</u>
-	-	-	901,460	5,603,496
-	-	-	718,820	3,481,832
-	-	-	-	3,687,352
-	-	331,346	-	1,089,746
-	-	-	23,053	385,894
2,150,000	-	5,872,820	-	12,648,085
122,681	116,055	173,667	-	2,212,110
213,139	19,638	16,381	-	249,158
<u>4,236,221</u>	<u>5,074,079</u>	<u>42,600</u>	<u>1,140,386</u>	<u>12,044,570</u>
<u>6,722,041</u>	<u>5,209,772</u>	<u>6,436,814</u>	<u>2,783,719</u>	<u>41,402,243</u>
(6,704,340)	(5,201,459)	(4,156,406)	(804,005)	(17,844,400)
-	-	-	23,632	23,632
2,755,000	4,125,000	-	-	6,880,000
8,860,000	-	-	-	8,860,000
61,499	-	-	-	61,499
-	-	-	285,000	1,120,144
<u>(350,000)</u>	<u>-</u>	<u>-</u>	<u>(81,965)</u>	<u>(706,965)</u>
<u>11,326,499</u>	<u>4,125,000</u>	<u>-</u>	<u>226,667</u>	<u>16,238,310</u>
4,622,159	(1,076,459)	(4,156,406)	(577,338)	(1,606,090)
<u>3,300,703</u>	<u>1,378,451</u>	<u>6,499,144</u>	<u>5,111,278</u>	<u>23,785,041</u>
<u>\$ 7,922,862</u>	<u>\$ 301,992</u>	<u>\$ 2,342,738</u>	<u>\$ 4,533,940</u>	<u>\$ 22,178,951</u>

CITY OF DERBY, KANSAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2009

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances - total governmental funds	\$ (1,606,090)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	6,590,762
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, disposals, donations) is to decrease net assets	(644,560)
Capital contributions are not recorded in the governmental funds because there has been no flow of current financial resources.	490,917
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	251,603
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,518,998)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(250,279)</u>
Change in net assets of governmental activities	<u><u>\$ 1,313,355</u></u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes:			
Ad valorem property tax	\$ 5,673,918	\$ 5,680,399	\$ 6,481
Delinquent tax	60,000	101,431	41,431
Motor vehicle tax	823,418	840,659	17,241
Excise tax	9,629	9,971	342
Sales tax	3,363,000	3,271,028	(91,972)
Franchise tax	1,624,860	1,528,728	(96,132)
Intergovernmental	437,137	598,538	161,401
Licenses and permits	410,785	510,876	100,091
Fines and fees	700,000	737,583	37,583
Investment earnings	200,000	111,455	(88,545)
Charges for services	135,600	240,278	104,678
Other	412,000	206,561	(205,439)
<b>Total revenues</b>	<b>13,850,347</b>	<b>13,837,507</b>	<b>(12,840)</b>
Expenditures:			
Administration	677,415	442,494	234,921
Employee benefits	2,505,018	2,462,900	42,118
Law enforcement	3,093,154	2,837,033	256,121
Finance	798,002	674,139	123,863
Fire	684,891	850,318	(165,427)
Engineering	871,732	838,530	33,202
Public works and parks	1,051,012	933,180	117,832
Law department	175,231	378,973	(203,742)
Operations	867,389	793,384	74,005
Utilities	571,810	514,837	56,973
Economic development	99,471	178,037	(78,566)
Insurance recovery	40,000	9,018	30,982
Liability insurance	208,000	167,468	40,532
Equipment	601,375	206,647	394,728
Capital outlay	1,509,674	2,224,480	(714,806)
Reimbursables	300,000	221,316	78,684
Contingencies	2,600,732	57,133	2,543,599
Library	96,436	42,670	53,766
Transportation	-	52,747	(52,747)
Debt service:			
Principal	295,000	300,265	(5,265)
Interest and fiscal charges	69,283	59,950	9,333
<b>Total expenditures</b>	<b>\$ 17,115,625</b>	<b>\$ 14,245,519</b>	<b>\$ 2,870,106</b>

(Continued)

CITY OF DERBY, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Other financing sources (uses):			
Transfers in	\$ 350,000	\$ 350,000	\$ -
Transfers out	(225,000)	(275,000)	(50,000)
Total other financing sources (uses)	125,000	75,000	(50,000)
Net change in fund balances	(3,140,278)	(333,012)	2,807,266
Fund balances, beginning of year	3,140,278	6,593,649	3,453,371
Fund balances, end of year	<u>\$ -</u>	6,260,637	<u>\$ 6,260,637</u>

Explanation of difference between budgetary and GAAP fund balances:

Encumbrances for equipment and supplies ordered but not received are  
not recorded for GAAP purposes until received

GAAP fund balance, end of year

292,448
<u>\$ 6,553,085</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

AQUATIC PARK FUND

Year Ended December 31, 2009

	Original Budgeted Amounts	Amended and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Sales tax	\$ 1,940,980	\$ 1,940,980	\$ 1,963,113	\$ 22,133
Charges for services	30,000	30,000	18,741	(11,259)
Investment earnings	123,000	123,000	58,738	(64,262)
Other	200,000	200,000	239,816	39,816
<b>Total revenues</b>	<b>2,293,980</b>	<b>2,293,980</b>	<b>2,280,408</b>	<b>(13,572)</b>
<b>Expenditures:</b>				
Contractual services	237,120	237,120	319,806	(82,686)
Capital outlay	159,048	159,048	42,600	116,448
Sponsorship program	11,457	11,457	11,540	(83)
Debt service:				
Principal	535,000	535,000	5,872,820	(5,337,820)
Interest and fiscal charges	173,669	173,669	190,048	(16,379)
<b>Total expenditures</b>	<b>1,116,294</b>	<b>1,116,294</b>	<b>6,436,814</b>	<b>(5,320,520)</b>
Net change in fund balances	1,177,686	1,177,686	(4,156,406)	(5,334,092)
Fund balances, beginning of year	5,906,802	5,906,802	6,499,144	592,342
Fund balances, end of year	\$ 7,084,488	\$ 7,084,488	\$ 2,342,738	\$ (4,741,750)

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS

December 31, 2009

	Sewer	Water	Total
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 6,740,472	\$ 2,695,463	\$ 9,435,935
Accounts receivable (net of allowance for uncollectibles)	221,131	267,396	488,527
Due from other funds	218,962	-	218,962
Inventories	-	24,483	24,483
Prepaid items	-	17,372	17,372
Total current assets	<u>7,180,565</u>	<u>3,004,714</u>	<u>10,185,279</u>
Noncurrent assets:			
Deferred charges	106,056	145,239	251,295
Capital assets:			
Land	48,777	677,189	725,966
Construction in progress	559,489	4,132	563,621
Buildings	6,224,542	4,476,103	10,700,645
Infrastructure	12,710,557	18,436,876	31,147,433
Machinery and equipment	1,209,743	258,902	1,468,645
Accumulated depreciation	(11,804,588)	(12,490,432)	(24,295,020)
Total capital assets	<u>8,948,520</u>	<u>11,362,770</u>	<u>20,311,290</u>
Total noncurrent assets	<u>9,054,576</u>	<u>11,508,009</u>	<u>20,562,585</u>
Total assets	<u>16,235,141</u>	<u>14,512,723</u>	<u>30,747,864</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	188,408	323,489	511,897
Due to other funds	-	218,758	218,758
Accrued expenses	23,883	14,752	38,635
Compensated absences	12,817	-	12,817
Accrued interest payable	30,117	22,997	53,114
Current portion of bonds payable	355,000	515,000	870,000
Total current liabilities	<u>610,225</u>	<u>1,094,996</u>	<u>1,705,221</u>
Noncurrent liabilities:			
Compensated absences	20,404	-	20,404
Bonds payable, net	4,697,183	6,556,841	11,254,024
Total noncurrent liabilities	<u>4,717,587</u>	<u>6,556,841</u>	<u>11,274,428</u>
Total liabilities	<u>5,327,812</u>	<u>7,651,837</u>	<u>12,979,649</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	3,896,337	4,290,929	8,187,266
Unrestricted	7,010,992	2,569,957	9,580,949
Total net assets	<u>\$ 10,907,329</u>	<u>\$ 6,860,886</u>	<u>\$ 17,768,215</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS

Year Ended December 31, 2009

	Sewer	Water	Total
Operating revenues:			
Charges for sales and services	\$ 2,285,250	\$ 2,786,977	\$ 5,072,227
Miscellaneous	1,138	-	1,138
Total operating revenues	<u>2,286,388</u>	<u>2,786,977</u>	<u>5,073,365</u>
Operating expenses:			
Personnel services	662,149	392,405	1,054,554
Contractual services	186,129	1,584,544	1,770,673
Supplies	98,904	14,898	113,802
Utilities	220,147	19,883	240,030
Depreciation and amortization	683,529	893,999	1,577,528
Total operating expenses	<u>1,850,858</u>	<u>2,905,729</u>	<u>4,756,587</u>
Operating income (loss)	<u>435,530</u>	<u>(118,752)</u>	<u>316,778</u>
Nonoperating revenues (expenses):			
Interest revenue	19,865	24,279	44,144
Interest expense	(62,627)	(318,678)	(381,305)
Total nonoperating revenues (expenses)	<u>(42,762)</u>	<u>(294,399)</u>	<u>(337,161)</u>
Income (loss) before transfers and contributions	392,768	(413,151)	(20,383)
Capital contributions	301,006	526,585	827,591
Transfers out	(413,179)	-	(413,179)
Changes in net assets	<u>280,595</u>	<u>113,434</u>	<u>394,029</u>
Total net assets, beginning of year as previously stated	9,366,114	9,161,855	18,527,969
Prior period adjustment	<u>1,260,620</u>	<u>(2,414,403)</u>	<u>(1,153,783)</u>
Total net assets, beginning of year as restated	<u>10,626,734</u>	<u>6,747,452</u>	<u>17,374,186</u>
Total net assets, end of year	<u>\$ 10,907,329</u>	<u>\$ 6,860,886</u>	<u>\$ 17,768,215</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS

Year Ended December 31, 2009

	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,264,804	\$ 2,771,824	\$ 5,036,628
Payments to suppliers	(396,754)	(1,559,352)	(1,956,106)
Payments to employees	(658,492)	(398,779)	(1,057,271)
Other receipts	1,138	-	1,138
Net cash provided by operating activities	<u>1,210,696</u>	<u>813,693</u>	<u>2,024,389</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	<u>(413,179)</u>	<u>-</u>	<u>(413,179)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(315,438)	(132,147)	(447,585)
Proceeds from capital debt	4,100,105	-	4,100,105
Principal paid on general obligation debt	(205,000)	(500,000)	(705,000)
Interest paid on general obligation debt	(37,050)	(318,678)	(355,728)
Other financing costs	<u>(74,017)</u>	<u>-</u>	<u>(74,017)</u>
Net cash provided by (used in) capital and related financing activities	<u>3,468,600</u>	<u>(950,825)</u>	<u>2,517,775</u>
Cash flows from investing activities:			
Interest received	<u>19,865</u>	<u>24,279</u>	<u>44,144</u>
Net increase (decrease) in cash and cash equivalents	4,285,982	(112,853)	4,173,129
Cash and cash equivalents, beginning of year	<u>2,454,490</u>	<u>2,808,316</u>	<u>5,262,806</u>
Cash and cash equivalents, end of year	<u>\$ 6,740,472</u>	<u>\$ 2,695,463</u>	<u>\$ 9,435,935</u>

(Continued)

CITY OF DERBY, KANSAS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 (Continued)

Year Ended December 31, 2009

	Sewer	Water	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 435,530	\$ (118,752)	\$ 316,778
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Items not requiring cash:			
Depreciation and amortization expense	683,529	893,999	1,577,528
Changes in:			
Accounts receivable	(20,446)	(15,153)	(35,599)
Prepaid items	-	(3,172)	(3,172)
Inventories	-	9,493	9,493
Accounts payable	108,426	53,652	162,078
Accrued expenses	3,657	(6,374)	(2,717)
Net cash provided by operating activities	<u>\$ 1,210,696</u>	<u>\$ 813,693</u>	<u>\$ 2,024,389</u>

Noncash capital financing activities:

Contributions of capital assets of \$ 301,006 and \$ 526,585 were acquired in the sewer fund and water fund, respectively, from other governmental funds.

See accompanying notes to basic financial statements.

# CITY OF DERBY, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2009

### 1 - Summary of Significant Accounting Policies

#### Reporting Entity

The City of Derby, Kansas (the City) is a municipal corporation governed by an elected mayor, eight-member council, and city manager. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

*Blended Component Unit.* In January 1999 the City acquired 100% of the outstanding capital stock of the El Paso Water Company, Inc. (the Company). The Company has received a Private Letter Ruling stating that it is a public utility for purposes of the Internal Revenue Code, and, accordingly, is income tax-exempt. Although the Company is a legally separate organization, the City is financially accountable for the component unit. In addition, the Company's governing body is substantially the same as the governing body of the City. The financial statements of the Company have been included within the City's reporting entity as a proprietary fund. Separately issued financial statements for the Company are available from the Company's administrative offices.

*Discretely Presented Component Unit.* The Derby Public Library (the Library) is operated by a Library Board which is appointed by the City Council. The City levies and collects special library taxes. The Library's operating budget is subject to the approval of the City Council. The City must approve acquisition or disposition of real property by the Library. The City must also approve any bond issues. The Library is presented as a governmental fund type. Separately issued financial statements for the Library are not available.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 60-day availability period is used for revenue recognition for all governmental funds revenues except property taxes. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Property taxes, sales taxes, franchise taxes, interest associated with the current fiscal period, and certain state and federal grants and entitlements are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. While property taxes receivable are shown on the balance sheet as current assets of the City, they are not recognized as revenue at year end because statutory provisions prohibit their use until the year for which they were raised and budgeted. Instead, they are offset by deferred revenue accounts.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This fund accounts for the general operating transactions of the City including public safety, public works, parks and recreation, and economic development.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital projects fund accounts for the acquisition and construction of major facilities other than those financed by the enterprise funds.

The library sales tax fund is used to account for the construction of a new library.

The aquatic park fund accounts for the receipt of the City's special sales taxes for the construction of an aquatic park and the operations of the aquatic park.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major proprietary funds:

The sewer fund accounts for the operation and maintenance activities of the City's wastewater collection and treatment systems.

The water fund accounts for the operation and maintenance activities of the City's water distribution system.

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 this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

Cash and investments of the individual funds are combined to form a pool that is managed by the Finance Director. Each fund's equity in the pool is included in "deposits and investments" in the financial statements. These pooled investments consist of operating accounts, non-negotiable certificates of deposit which are recorded at cost because they are not affected by market rate changes, and investments in the Kansas Municipal Investment Pool (MIP) which is overseen by the State of Kansas. The fair value of the City's position in the MIP is the same as the pool value of the shares. Investment earnings, including interest income, are allocated based on management discretion and upon their average daily equity balances. If a fund is not required to account for its own earnings by law or regulation, the earnings are allocated to the General Fund.

Cash Flows Statement

For purposes of the cash flow statement, the City considers deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables and Payables

Outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade accounts receivable are shown net of an allowance for uncollectibles. Management records a trade accounts receivable allowance based on percentages of collection estimated from the aging of the accounts receivable. At December 31, 2009, an allowance for uncollectible receivables of approximately \$ 205,000 has been recorded.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds deferred revenue is reported as follows:

General fund property tax receivable	\$ 5,531,521
Debt service fund property tax receivable	1,459,750
Debt service fund special assessments receivable	41,899,980
Nonmajor governmental fund property tax receivable	<u>830,651</u>
	<u>\$ 49,721,902</u>

Restricted Assets

Restricted deposits and investments are set aside for required debt service and operating and maintenance reserves.

Property Taxes

The City's property tax is levied each year on the assessed value of all real estate listed as of the prior January 1, the lien date. Assessed values are established by Sedgwick County. The assessed value at January 1, 2008 upon which the 2009 levy was based was approximately \$ 162,834,325.

Property taxes are legally restricted for use in financing operations of the ensuing year. Accordingly, the City defers revenue recognition until the year for which they are to be used. Property taxes are levied on November 1 of each year. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the following year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. The Sedgwick County Treasurer is the tax collection agent for all taxing entities within the County. Property taxes levied in prior years that remain uncollected are recorded as receivables, net of estimated uncollectibles.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items

Inventories consist of expendable supplies and merchandise held for consumption. All inventories are valued at the lower of cost using the last-in/first-out (LIFO method), or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, sidewalks and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as equipment assets with an individual cost of greater than \$ 1,000 and building, infrastructure and improvement assets with an individual cost of greater than \$ 25,000 and an estimated useful life in excess of one year. All costs of land are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

Buildings	25 – 40 years
Improvements	20 – 40 years
Infrastructure	15 – 40 years
Machinery and equipment	8 – 20 years

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The City acquires right of way land assets which are reported in the governmental activities column in the government-wide financial statements as capital assets. The right of way assets are considered to have an indefinite life. As a result, no amortization is taken on the acquired assets.

Compensated Absences

Under the terms of the City's personnel policy, City employees are granted vacation and sick leave in varying amounts. Varying amounts of hours are allowed to be carried over to subsequent years. This carryover is payable upon separation from service.

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only when they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Concentrations of Credit Risk

Credit is extended to citizens for special assessments levied by the City for capital improvements. These special assessments are secured by liens on the related properties. Unsecured credit is extended to customers for water fees, sewer fees, and charges for certain other services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statements

At December 31, 2009, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the City. The statements that might impact the City are as follows:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007. This statement establishes standards for when and whether intangible assets should be considered capital assets for financial reporting purposes. It requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this statement are effective for periods beginning after June 15, 2009.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

Prior Period Adjustments

Beginning net assets for the business-type activities on the statement of net assets and for the water fund on the statement of net assets – proprietary funds were restated to reflect revised estimated historical costs of capital assets resulting from a capital asset valuation. The effect of this restatement on the beginning balance was a decrease of \$ 2,414,403 in the business-type activities on the statement of net assets and in the water fund on the statement of net assets – proprietary funds. There was no effect on current revenue or expenses as a result of this adjustment.

Beginning net assets for the business-type activities on the statement of net assets and for the sewer fund on the statement of net assets – proprietary funds were restated to reflect revised estimated historical costs of capital assets resulting from a capital asset valuation. The effect of this restatement on the beginning balance was an increase of \$ 1,260,620 in the business-type activities on the statement of net assets and in the sewer fund on the statement of net assets – proprietary funds. There was no effect on current revenue or expenses as a result of this adjustment.

Beginning net assets for the governmental activities on the statement of net assets were restated to reflect revised estimated historical costs of capital assets resulting from a capital asset valuation. The effect of this restatement on the beginning balance was an increase of \$ 69,624,022 in the governmental activities on the statement of net assets. There was no effect on current revenue or expenses as a result of this adjustment.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$ (68,019,359) difference are as follows:

General obligation bonds payable	\$ (54,135,000)
Less: Deferred charge for issuance costs	863,886
Plus: Issuance premiums	(410,533)
Certificates of participation	(1,565,000)
Capital leases payable	(877)
Temporary notes payable	(11,570,000)
Accrued interest payable	(411,847)
Compensated absences	(694,409)
Net OPEB obligation	<u>(95,579)</u>
Net adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (68,019,359)</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 6,590,761 difference are as follows:

Capital outlay	\$ 10,362,302
Depreciation expense	<u>(3,771,540)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 6,590,762</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$ (3,518,998) difference are as follows:

Debt issued or incurred:	
General obligation debt	\$ (8,860,000)
Issuance premiums	(61,499)
Issuance costs	193,267
Temporary notes	(6,880,000)
Net OPEB obligation	(49,757)
Principal repayments:	
General obligation debt	9,685,000
Certificates of participation	295,000
Capital leases	5,265
Net OPEB obligation	3,726
Temporary notes	<u>2,150,000</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ (3,518,998)</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$ (250,279) difference are as follows:

Compensated absences	\$ 52,728
Accrued interest	(178,208)
Amortization of issuance costs	(165,186)
Amortization of bond premiums	<u>40,387</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (250,279)</u>

3 - Stewardship, Compliance and Accountability

Budgetary Information

Applicable Kansas statutes require an annual operating budget be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), debt service funds and proprietary funds. A legal operating budget is not prepared for the capital projects fund, the library sales tax fund, the law enforcement trust fund, the equipment reserve fund, the risk management reserve fund, and the capital improvement reserve fund. All budgets are prepared utilizing the modified accrual basis further modified by the encumbrance method of accounting – that is, commitments evidenced by documents such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures.

The statutes provide for the following sequence and timetable in adoption of budgets:

- a. Preparation of budget for the succeeding calendar year on or before August 1<sup>st</sup>.
- b. Publication in a local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
- c. Public hearing on or before August 15 but at least ten days after publication of notice of hearing.
- d. Adoption of final budget on or before August 25<sup>th</sup>.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

3 - Stewardship, Compliance and Accountability (Continued)

Budgetary Information (Continued)

Kansas statutes permit transferring budgeted amounts from one object or purpose to another within the same fund; however, such statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures in an individual fund. The legal level of budgetary control is the fund level. 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. All unencumbered appropriations lapse at the end of the year. Encumbered appropriations are not reappropriated in the ensuing year's budget but are carried forward until liquidated or cancelled. Kansas statutes permit original budgets to be increased for previously unbudgeted increases in revenue other than ad valorem property taxes. The City must first publish, in the local newspaper, a notice of public hearing to amend the budget. At least ten days after publication, a public hearing is held and the governing body may amend the budget at that time. The City amended the budget for the aquatic park fund in 2009.

4 - Deposits and Investments

Deposits

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. Kansas statutes require that deposits of the City and the Library be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City. At year-end, the carrying amounts of the City's deposits were \$ 29,855,099 and the bank balances totaled \$ 30,098,070. Of the bank balances, \$ 1,250,000 was secured by federal deposit insurance and \$ 28,848,070 was collateralized by pledged securities held under joint custody receipts issued by third party banks in the City's name. The Library's deposits were not exposed to custodial credit risk.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

4 - Deposits and Investments (Continued)

Investments

At December 31, 2009, the City had the following investment:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
State of Kansas Municipal Investment Pool	< 1 year	\$ 774,477

*Credit Risk*

Kansas statutes authorize the City and the Library, with certain restrictions, to deposit or invest in temporary notes, no-fund warrants, open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, the State of Kansas Municipal Investment Pool, or to make direct investments. The City's investments in the Municipal Investment Pool were rated AA Af/S1+ by Standard & Poor's. The Library held no investments at December 31, 2009.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but to the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City is not exposed to significant interest rate risk.

*Custodial Credit Risk-Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2009, the City's investments were not exposed to custodial credit risk.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

5 - Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

Primary Government

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,510,206	\$ 14,826	\$ (6,250)	\$ 1,518,782
Land - right of way	29,997,156	69,554	-	30,066,710
Construction in progress	3,663,403	10,413,121	(11,319,320)	2,757,204
Total capital assets not being depreciated	35,170,765	10,497,501	(11,325,570)	34,342,696
Capital assets being depreciated:				
Buildings	11,829,955	6,201,639	-	18,031,594
Improvements	3,981,720	-	-	3,981,720
Infrastructure	105,904,986	5,117,681	(1,405,477)	109,617,190
Machinery and equipment	7,942,201	355,713	(46,048)	8,251,866
Total capital assets being depreciated	129,658,862	11,675,033	(1,451,525)	139,882,370
Less accumulated depreciation for:				
Buildings	(3,121,567)	(347,219)	-	(3,468,786)
Improvements	(489,170)	(99,543)	-	(588,713)
Infrastructure	(37,084,634)	(2,828,008)	767,537	(39,145,105)
Machinery and equipment	(6,299,678)	(496,770)	45,681	(6,750,767)
Total accumulated depreciation	(46,995,049)	(3,771,540)	813,218	(49,953,371)
Total capital assets being depreciated, net	82,663,813	7,903,493	(638,307)	89,928,999
Governmental activities capital assets, net	\$ 117,834,578	\$ 18,400,994	\$ (11,963,877)	\$ 124,271,695

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

5 - Capital Assets (Continued)

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 725,966	\$ -	\$ -	\$ 725,966
Construction in progress	440,451	1,095,385	(972,215)	563,621
Total capital assets not being depreciated	1,166,417	1,095,385	(972,215)	1,289,587
Capital assets being depreciated:				
Buildings	10,700,645	-	-	10,700,645
Infrastructure	30,060,442	1,096,510	(9,519)	31,147,433
Machinery and equipment	1,413,151	55,494	-	1,468,645
Total capital assets being depreciated	42,174,238	1,152,004	(9,519)	43,316,723
Less accumulated depreciation for:				
Buildings	(3,870,486)	(349,730)	-	(4,220,216)
Infrastructure	(17,627,999)	(1,167,840)	9,519	(18,786,320)
Machinery and equipment	(1,231,997)	(56,487)	-	(1,288,484)
Total accumulated depreciation	(22,730,482)	(1,574,057)	9,519	(24,295,020)
Total capital assets being depreciated, net	19,443,756	(422,053)	-	19,021,703
Business-type activities capital assets, net	\$ 20,610,173	\$ 673,332	\$ (972,215)	\$ 20,311,290

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

5 - Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 193,158
Public safety	347,228
Public works	2,945,863
Culture and recreation	<u>285,291</u>

Total depreciation expense - governmental activities	<u><u>\$ 3,771,540</u></u>
--	----------------------------

Business-type activities:

Water	\$ 900,705
Sewer	<u>673,352</u>

Total depreciation expense - business-type activities	<u><u>\$ 1,574,057</u></u>
---	----------------------------

Discretely Presented Component Unit

Capital asset activity for the Library Board for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Equipment and books	\$ 676,856	\$ 292,900	\$ (230,896)	\$ 738,860
Less accumulated depreciation for:				
Equipment and books	<u>(447,319)</u>	<u>(226,251)</u>	<u>223,880</u>	<u>(449,690)</u>
Library Board capital assets, net	<u><u>\$ 229,537</u></u>	<u><u>\$ 66,649</u></u>	<u><u>\$ (7,016)</u></u>	<u><u>\$ 289,170</u></u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - Capital Projects

The City has the following projects in progress at December 31, 2009:

	<u>Costs to Date</u>	<u>Amount Authorized</u>
Governmental improvements	\$ 2,452,830	\$ 7,024,275
Benefit districts	15,960	160,000
Sewer improvements	354,149	702,420
Water improvements	16,800	24,000
	<u>\$ 2,839,739</u>	<u>\$ 7,910,695</u>

7 - Defined Benefit Pension Plan

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees hired prior to July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6% of covered salary for all employees hired after July 1, 2009. 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. KPERS and KP&F are funded on an actuarial reserve basis. State law sets limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute for January, February and December 2009 was 6.54%. The KPERS employer rate established by statute for March through November 2009 was 5.54%. The employer contributions to KPERS for the years ended December 31, 2009, 2008 and 2007 were \$ 290,916, \$ 248,947, and \$ 206,588, respectively, equal to the statutory required contributions for each year. The KP&F employer rate established for calendar year 2009 is 13.51%. 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 ended December 31, 2009, 2008 and 2007 were \$ 361,821, \$ 319,184, and \$ 303,311, respectively, equal to the required contributions for each year.

8 - Other Postemployment Healthcare Benefits

*Description.* The City offers postemployment health, dental and vision insurance to retired employees. The benefits are provided through a single employer defined benefit postemployment healthcare plan administered by the City. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The medical, dental and vision insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. A retiring employee who waives continuing participation in the City's health insurance program at the time of retirement is not eligible to participate at a later date. The plan does not issue a stand-alone financial report.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

Funding Policy. The City provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees. The City requires participating retirees to contribute 100 percent of the blended premium cost of active employees to maintain coverage.

The City appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditures on a pay-as-you-go basis through the General Fund. In 2009, the City made no contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 49,548
Interest on net OPEB obligation	2,230
Adjustment to annual required contribution	<u>(2,021)</u>
Annual OPEB cost (expense)	49,757
Contributions made	<u>(3,726)</u>
Increase in net OPEB obligation	46,031
Net OPEB obligation, January 1, 2009	<u>49,548</u>
Net OPEB obligation, December 31, 2009	<u><u>\$ 95,579</u></u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 49,548	0%	\$ 49,548
2009	\$ 49,757	0%	\$ 95,579

Funded Status and Funding Progress. As of January 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 426,946. The City's policy is to fund the benefits on a pay-as-you-go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 426,946. The covered payroll (annual payroll of active employees covered by the plan) was \$ 7,390,373 and the ratio of the UAAL to the covered payroll was 6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

In the January 1, 2008 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 4.5 percent discount rate, which reflects the expected returns of asset classes stipulated in the investment policy underlying idle funds and recent return experience with cash flows that match the expected benefit payments to the City's current and future retirees. The valuation assumed annual healthcare cost trend rates of 7.5, 7.0, 6.5, 6.0, and 5.5 percent in the first five years and an ultimate rate of 5.5 percent thereafter. The valuation assumed a dental cost trend rate of 4.0 percent per year. The UAAL is being amortized using a level percent of pay over a period of 30 years with the remaining amortization period of 28 years.

9 - Risk Management

The City is exposed to various risks of loss related to torts; damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

10 - Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

General obligation bonds payable at December 31, 2009 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2009	Outstanding December 31, 2009
General Obligation Bonds:					
Governmental activities:					
2001A Improvement	3.55-4.70%	\$ 4,510,000	2012	\$ 230,632	\$ 853,181
2001B Refunding and Improvement	3.80-5.50%	4,520,000	2015	395,000	895,000
2001C Improvement	3.85-4.90%	1,100,000	2021	61,100	1,012,500
2002B Refunding and Improvement	1.75-3.45%	1,370,000	2018	24,800	52,800
2003A Improvement	2.625-4.25%	7,000,000	2017	5,360,000	-
2003B Improvement	2.0-4.0%	1,150,000	2013	650,000	-
2003D Improvement	3.0-4.4%	1,500,000	2019	92,800	1,128,100
2004D Refunding and Improvement	2.0-4.75%	5,560,000	2018	495,000	3,615,000
2005A Improvement	3.55-5.0%	750,000	2021	43,350	655,350
2006A Refunding and Improvement	3.55-4.25%	3,262,983	2021	25,000	3,097,983
2006B Improvement	3.55-5.0%	1,229,724	2022	64,919	1,151,072
2008A Improvement	3.0-4.0%	78,096	2023	2,430	75,666
2008B Improvement	3.80-4.35%	2,410,304	2024	-	2,410,304
2009A Improvement	1.75-6.0%	6,180,000	2029	-	6,180,000
				<u>\$ 7,445,031</u>	<u>\$ 21,126,956</u>
Business-type activities:					
2004A Refunding and Improvement	1.10-5.0%	9,455,000	2022	\$ 500,000	\$ 6,840,000
2004B Refunding and Improvement	1.10-3.6%	3,255,000	2013	205,000	955,000
2009A Improvement	1.75-6.0%	4,075,000	2029	-	4,075,000
				<u>\$ 705,000</u>	<u>\$ 11,870,000</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

The future annual debt service requirements to maturity for general obligation bonds outstanding are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2010	\$ 1,721,837	\$ 1,267,031	\$ 870,000	\$ 601,690
2011	1,974,678	997,218	925,000	511,192
2012	1,557,167	923,706	955,000	483,130
2013	1,351,538	844,761	980,000	451,355
2014	1,343,445	846,949	760,000	417,230
2015-2019	6,894,156	3,205,945	4,280,000	1,509,710
2020-2024	4,329,135	1,150,899	1,810,000	638,905
2025-2029	1,955,000	357,320	1,290,000	235,920
	<u>\$ 21,126,956</u>	<u>\$ 9,593,829</u>	<u>\$ 11,870,000</u>	<u>\$ 4,849,132</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Special Assessment Bonds

The City's special assessment debt was issued to provide funds for the construction of infrastructure in new residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. Special assessment bonds at December 31, 2009 are comprised of the following issues:

Special Assessment Bonds	Interest Rates	Original Issue	Final Maturity Date	Principal Payment During 2009	Outstanding December 31, 2009
Governmental activities:					
2001A Improvement	3.70-5.25%	\$ 2,355,000	2021	\$ 94,368	\$ 311,819
2001B Refunding & Improvement	4.25-5.00%	5,270,000	2015	370,000	2,540,000
2001C Improvement	3.85-5.00%	1,250,000	2021	68,900	662,500
2002A Improvement	3.00-5.00%	2,925,000	2017	190,000	1,845,000
2002B Refunding & Improvement	1.75-5.00%	3,430,000	2018	250,200	1,452,200
2003C Improvement	3.00-3.75%	1,215,000	2018	80,000	825,000
2003D Improvement	3.125-4.40%	1,080,000	2019	67,200	816,900
2004C Improvement	2.20-4.75%	7,470,000	2020	435,000	6,110,000
2004D Refunding & Improvement	2.20-4.75%	1,005,000	2018	95,000	430,000
2005A Improvement	3.55-5.00%	720,300	2021	41,650	629,650
2006A Refunding & Improvement	3.55-4.25%	3,117,017	2021	280,000	2,727,017
2006B Improvement	3.55-5.00%	3,695,276	2022	195,081	3,458,928
2008A Improvement	3.0-4.0%	2,331,904	2023	72,570	2,259,334
2008B Improvement	3.80-4.35%	6,259,696	2024	-	6,259,696
2009B Improvement	2.0-3.90%	2,680,000	2024	-	2,680,000
				\$ 2,239,969	\$ 33,008,044

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Special Assessment Bonds (Continued)

The future annual debt service requirements to maturity for special assessment bonds are as follows:

	Governmental activities	
	Principal	Interest
2010	\$ 2,533,163	\$ 1,660,093
2011	2,930,322	1,261,887
2012	2,902,833	1,112,519
2013	3,028,462	992,790
2014	3,036,555	790,731
2015 - 2019	12,300,844	2,058,890
2020 - 2024	6,275,865	609,414
	<u>\$ 33,008,044</u>	<u>\$ 8,486,324</u>

Call Provisions

Call provisions at the option of the City included in the general obligation bonds, including special assessments, are as follows:

- Series 2001A: Callable December 1, 2011 at par plus accrued interest
- Series 2001B: Callable December 1, 2011 at par plus accrued interest
- Series 2001C: Callable December 1, 2011 at par plus accrued interest
- Series 2002A: Callable December 1, 2012 at par plus accrued interest
- Series 2002B: Callable December 1, 2010 at par plus accrued interest
- Series 2003C: Callable December 1, 2012 at par plus accrued interest
- Series 2003D: Callable December 1, 2013 at par plus accrued interest
- Series 2004C: Callable December 1, 2012 at par plus accrued interest
- Series 2004D: Callable December 1, 2012 at par plus accrued interest
- Series 2005A: Callable December 1, 2013 at par plus accrued interest
- Series 2006A: Callable December 1, 2014 at par plus accrued interest
- Series 2006B: Callable December 1, 2014 at par plus accrued interest
- Series 2008A: Callable December 1, 2015 at par plus accrued interest
- Series 2008B: Callable December 1, 2016 at par plus accrued interest
- Series 2009A: Callable December 1, 2019 at par plus accrued interest
- Series 2009B: Callable December 1, 2019 at par plus accrued interest

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Future Installments

The installment ranges for the general obligation bonds, including special assessments, are the following:

	Installment Range	
	Low	High
Governmental activities:		
Series 2001A	\$ 325,000	\$ 410,000
Series 2001B	415,000	845,000
Series 2001C	95,000	225,000
Series 2002A	190,000	270,000
Series 2002B	120,000	290,000
Series 2003C	80,000	300,000
Series 2003D	160,000	235,000
Series 2004C	435,000	685,000
Series 2004D	320,000	720,000
Series 2005A	85,000	135,000
Series 2006A	305,000	785,000
Series 2006B	260,000	450,000
Series 2008A	75,000	215,000
Series 2008B	90,000	795,000
Series 2009A	185,000	275,000
Series 2009B	105,000	235,000
Business-type activities:		
Series 2004A	245,000	730,000
Series 2004B	205,000	250,000
Series 2009A	120,000	280,000

Defeased Debt

In the current year, the City used available cash to defease Series 2003A general obligation bonds totaling \$ 4,825,000. The cash was placed in an irrevocable escrow account to provide for interest payments on the bonds through the time of redemption and principal amounts due on the applicable call/redemption dates. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities column of the Statement of Net Assets.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Defeased Debt (Continued)

The City has defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At December 31, 2009, \$ 8,265,000 of the bonds that are considered defeased remain outstanding.

Certificates of Participation

The City issued certificates of participation series 2005-1 in the original amount of \$ 985,000 with interest rates ranging from 2.5% to 3.75% and with a final maturity in 2012. Principal payments are scheduled annually ranging from \$ 90,000 to \$ 105,000. The balance at December 31, 2009 is \$ 300,000.

The City also issued certificates of participation series 2005-2 in the original amount of \$ 1,990,000 with interest rates ranging from 2.7% to 4.2% and with a final maturity in 2015. Principal payments are scheduled annually ranging from \$ 190,000 to \$ 230,000. The balance at December 31, 2009 is \$ 1,265,000.

The future annual debt service requirements to maturity for the certificates of participation are as follows:

	Governmental Activities	
	Principal	Interest
2010	\$ 300,000	\$ 55,568
2011	305,000	45,083
2012	295,000	33,859
2013	210,000	22,650
2014	225,000	14,160
2015 - 2019	230,000	4,830
	<u>\$ 1,565,000</u>	<u>\$ 176,150</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Capital Leases

The City has entered into the following capital lease:

	<u>Copiers</u>
Cost	\$ 15,795
Accumulated depreciation	7,898
Interest rate	not stated
Dated	1/17/2007
Term	3 years

The remaining debt service requirements for the capital leases to be paid with governmental funds are two monthly payments of \$ 439.

Amortization in 2009 of \$ 2,633 on the assets acquired through the capital leases has been included in depreciation expense in the governmental activities.

Temporary Notes Payable

The City issues temporary notes to provide temporary financing for capital improvement projects. Temporary notes payable at December 31, 2009 were as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding December 31, 2009</u>
2008-1	\$ 3,650,000	2.70%	6/1/2010	\$ 1,845,000
2008-2	3,025,000	2.76%	6/1/2011	3,025,000
2009-1	2,755,000	1.45%	6/1/2011	2,575,000
2009-2	4,125,000	1-1.45%	6/1/2011	4,125,000
				<u>\$ 11,570,000</u>

All temporary notes issued by the City have initial maturities of at least one year beyond the balance sheet date of the period in which they were issued. Therefore, they are considered long-term debt and have been included in long-term liabilities on the statement of net assets.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 22,391,987	\$ 6,180,000	\$ 7,445,031	\$ 21,126,956	\$ 1,721,837
Plus deferred amounts:					
Issuance premiums	389,421	61,499	40,387	410,533	-
Special assessment debt with government commitment	32,568,013	2,680,000	2,239,969	33,008,044	2,533,163
Certificates of participation	1,860,000	-	295,000	1,565,000	300,000
Capital lease obligations	6,142	-	5,265	877	877
Temporary notes	6,840,000	6,880,000	2,150,000	11,570,000	2,734,073
Compensated absences	747,137	338,598	391,326	694,409	391,326
Net OPEB obligation	49,548	49,757	3,726	95,579	-
Governmental activities long- term liabilities	<u>\$ 64,852,248</u>	<u>\$ 16,189,854</u>	<u>\$ 12,570,704</u>	<u>\$ 68,471,398</u>	<u>\$ 7,681,276</u>
<b>Business-type activities:</b>					
General obligation bonds	\$ 8,500,000	\$ 4,075,000	\$ 705,000	\$ 11,870,000	\$ 870,000
Plus (less) deferred amounts:					
Issuance premiums	249,790	25,105	18,464	256,431	-
Issuance discounts	(3,022)	-	(615)	(2,407)	-
Compensated absences	33,221	12,817	12,817	33,221	12,817
Business-type activities long- term liabilities	<u>\$ 8,779,989</u>	<u>\$ 4,112,922</u>	<u>\$ 735,666</u>	<u>\$ 12,157,245</u>	<u>\$ 882,817</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Special Assessments

Kansas statutes require special benefit district projects financed in part by special assessments to be financed through the issuance of general obligation bonds that are secured by the full faith and credit of the City. Further, state statutes permit levying additional general ad valorem taxes in the City's debt service fund to finance delinquent special assessments receivable. Accordingly, special assessments receivable are accounted for within the City's debt service fund. Special assessments are levied over the repayment period of the bonds and the annual installments are due and payable with annual ad valorem taxes. At December 31, 2009, the special assessment taxes levied are a lien on the property and are recorded as a special assessments receivable in the debt service fund with a corresponding amount recorded as deferred revenue. Special assessments receivable at December 31, 2009 was \$ 41,899,980.

12 - Interfund Transactions

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

Transfers to general fund from:

Capital projects fund	\$ 350,000
-----------------------	------------

Transfers to debt service fund from:

Sewer fund	\$ 413,179
Nonmajor governmental funds	71,965

	<u>\$ 485,144</u>
--	-------------------

Transfers to nonmajor governmental funds from:

General fund	\$ 275,000
Nonmajor governmental funds	10,000

	<u>\$ 285,000</u>
--	-------------------

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

12 - Interfund Transactions (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Due to and due from other funds are reported in the financial statements as follows:

Amounts owed to sewer fund from:

Water fund	\$ 218,758
General fund	204
	<hr/>
	\$ 218,962
	<hr/> <hr/>

The outstanding balance between proprietary funds reflects the balance owed for customer amounts billed by the water fund for sewer charges. The outstanding balance between the sewer fund and the general fund reflects the balance owed for payroll related expenses overpaid by the sewer fund.

Capital asset transfers of \$ 827,591 occurred from the governmental activities to the business-type activities and are reported within transfers on the statement of activities.

13 - Commitments and Contingencies

Litigation

There are a number of claims and/or lawsuits to which the City is a party as a result of the ordinary course of City activities. The City management and legal counsel anticipate that the potential claims against the City not covered by insurance, if any, resulting from such matters would not materially affect the financial position of the City.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

13 - Commitments and Contingencies (Continued)

Industrial Revenue Bonds

The City has issued industrial revenue bonds to finance the purchase of land and construction of facilities leased to local businesses. The lease agreements provide for rentals sufficient to service the related bonds. The debt service on these issues is paid solely from lease agreements; these issues do not constitute a debt of the City. The lessees have the option of purchasing the leased properties at any time during the lease periods for amounts sufficient to retire the related outstanding bonds. At the end of the lease periods, which conform to bond maturity schedules, the lessees may either purchase the property for a nominal amount or renew the leases annually at nominal amounts. As of December 31, 2009, industrial revenue bonds of \$ 5,590,047 are outstanding.

14 - Subsequent Events

On June 1, 2010, the City issued \$ 3,020,000 of general obligation bonds to finance the construction of certain internal improvements and to retire certain outstanding temporary notes. The interest rate on the bonds ranges from 2.0% - 3.75% and the maturity date is December 1, 2019.

On June 1, 2010, the City issued \$ 7,300,000 of general obligation sales tax bonds to finance the construction of a new public library and to retire certain outstanding temporary notes. The interest rate on the bonds ranges from 1.0% - 2.55 % and the maturity date is December 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DERBY, KANSAS

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$ -	\$ 426,946	\$ 426,946	0.0%	\$ 7,390,373	6.00%

OTHER SUPPLEMENTARY INFORMATION

## Nonmajor Governmental Funds

### Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Special Street and Highway – This fund is used to account for county/city revenue sharing of a portion of the State's motor fuel tax. These revenues are restricted to the construction and maintenance of streets, the repair and replacement of curbs, and the repair and construction of sidewalks within the City's boundaries.

Special Parks and Recreation – This fund is used to account for special alcohol liquor tax revenues that are restricted to expenditures for the purchase, establishment, maintenance, or expansion of park and recreational services, programs, and facilities.

Law Enforcement – This fund is used to account for ad valorem tax revenue levied for the purchase of police and fire related equipment.

Special Drug and Alcohol – This fund is used to account for special alcohol liquor tax revenues that are restricted for the purpose of funding programs for the education, treatment, and intervention of alcohol and drug abuse.

Law Enforcement Trust – to account for seized monies to be used for the purchase of police department equipment and crime prevention expenses.

Library – Ad valorem taxes of approximately 4 mills are levied each year and passed on to the Library Board for the operation of the Derby Public Library. This fund is used to account for the payroll and transfer of appropriation funds to the Library.

Library Employee Benefits – This fund is used to account for the ad valorem taxes levied for the purpose of Derby Public Library staff employee benefits.

Economic Development Reserve – This fund is used to accumulate funds over multiple years and to account for various economic development activities.

Equipment Reserve – This fund is used to accumulate funds over multiple years and account for capital outlay purchases in the form of equipment.

Risk Management Reserve – This fund is used to account for monies that the City may transfer from other funds to cover any risk that would otherwise be uninsurable, such as deductibles, etc.

Capital Improvement Reserve – This fund is used to account for monies that the City may transfer from time to time from other funds to finance multi-year capital projects.

CITY OF DERBY, KANSAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS

December 31, 2009

	Special Street and Highway	Special Parks and Recreation	Law Enforcement	Special Drug and Alcohol
<b>Assets:</b>				
Cash and cash equivalents	\$ 628,497	\$ 94,070	\$ 1,790	\$ 152,936
Receivables (net of allowance for uncollectibles):				
Taxes	-	-	71,281	-
Total assets	<u>\$ 628,497</u>	<u>\$ 94,070</u>	<u>\$ 73,071</u>	<u>\$ 152,936</u>
<b>Liabilities and fund balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 707	\$ -	\$ 284	\$ 93
Deferred revenue	-	-	71,281	-
Total liabilities	<u>707</u>	<u>-</u>	<u>71,565</u>	<u>93</u>
<b>Fund balances:</b>				
Reserved for encumbrances	-	-	-	-
Unreserved, undesignated	627,790	94,070	1,506	152,843
Total fund balances	<u>627,790</u>	<u>94,070</u>	<u>1,506</u>	<u>152,843</u>
Total liabilities and fund balances	<u>\$ 628,497</u>	<u>\$ 94,070</u>	<u>\$ 73,071</u>	<u>\$ 152,936</u>

Special Revenue Funds

Law Enforcement Trust	Library	Library Employee Benefits	Economic Development Reserve	Equipment Reserve	Risk Management Reserve	Capital Improvement Reserve	Total Nonmajor Governmental Funds
\$ 11,578	\$ 27,071	\$ 11,509	\$ 259,253	\$ 511,204	\$ 15,000	\$ 2,826,594	\$ 4,539,502
-	686,052	73,318	-	-	-	-	830,651
<u>\$ 11,578</u>	<u>\$ 713,123</u>	<u>\$ 84,827</u>	<u>\$ 259,253</u>	<u>\$ 511,204</u>	<u>\$ 15,000</u>	<u>\$ 2,826,594</u>	<u>\$ 5,370,153</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,478	\$ 5,562
-	686,052	73,318	-	-	-	-	830,651
-	686,052	73,318	-	-	-	4,478	836,213
-	-	-	-	39,525	-	-	39,525
11,578	27,071	11,509	259,253	471,679	15,000	2,822,116	4,494,415
11,578	27,071	11,509	259,253	511,204	15,000	2,822,116	4,533,940
<u>\$ 11,578</u>	<u>\$ 713,123</u>	<u>\$ 84,827</u>	<u>\$ 259,253</u>	<u>\$ 511,204</u>	<u>\$ 15,000</u>	<u>\$ 2,826,594</u>	<u>\$ 5,370,153</u>

CITY OF DERBY, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year Ended December 31, 2009

	Special Street and Highway	Special Parks and Recreation	Law Enforcement	Special Drug and Alcohol
Revenues:				
Taxes:				
Property	\$ -	\$ -	\$ 191,820	\$ -
Excise	-	-	272	-
Intergovernmental	829,840	54,359	669	44,778
Investment earnings	-	-	-	-
Other	-	-	-	-
Total revenues	<u>829,840</u>	<u>54,359</u>	<u>192,761</u>	<u>44,778</u>
Expenditures:				
Current:				
General government	-	-	-	44,410
Public works	718,820	-	-	-
Economic development	-	-	-	-
Capital outlay	-	53,722	257,172	-
Total expenditures	<u>718,820</u>	<u>53,722</u>	<u>257,172</u>	<u>44,410</u>
Excess (deficiency) of revenues over (under) expenditures	111,020	637	(64,411)	368
Other financing sources (uses):				
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	111,020	637	(64,411)	368
Fund balances, beginning of year	<u>516,770</u>	<u>93,433</u>	<u>65,917</u>	<u>152,475</u>
Fund balances, end of year	<u>\$ 627,790</u>	<u>\$ 94,070</u>	<u>\$ 1,506</u>	<u>\$ 152,843</u>

Special Revenue Funds

Law Enforcement Trust	Library	Library Employee Benefits	Economic Development Reserve	Equipment Reserve	Risk Management Reserve	Capital Improvement Reserve	Total Nonmajor Governmental Funds
\$ -	\$ 769,381	\$ 83,475	\$ -	\$ -	\$ -	\$ -	\$ 1,044,676
-	1,090	124	-	-	-	-	1,486
-	2,684	289	-	-	-	-	932,619
25	-	-	-	-	-	-	25
-	8	900	-	-	-	-	908
25	773,163	84,788	-	-	-	-	1,979,714
-	764,501	92,549	-	-	-	-	901,460
-	-	-	-	-	-	-	718,820
-	-	-	23,053	-	-	-	23,053
-	-	-	-	139,849	-	689,643	1,140,386
-	764,501	92,549	23,053	139,849	-	689,643	2,783,719
25	8,662	(7,761)	(23,053)	(139,849)	-	(689,643)	(804,005)
-	-	-	23,632	-	-	-	23,632
-	-	10,000	75,000	50,000	-	150,000	285,000
-	(10,000)	-	(71,965)	-	-	-	(81,965)
-	(10,000)	10,000	26,667	50,000	-	150,000	226,667
25	(1,338)	2,239	3,614	(89,849)	-	(539,643)	(577,338)
11,553	28,409	9,270	255,639	601,053	15,000	3,361,759	5,111,278
<u>\$ 11,578</u>	<u>\$ 27,071</u>	<u>\$ 11,509</u>	<u>\$ 259,253</u>	<u>\$ 511,204</u>	<u>\$ 15,000</u>	<u>\$ 2,822,116</u>	<u>\$ 4,533,940</u>



CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

SPECIAL STREET AND HIGHWAY FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Gasoline tax	\$ 850,000	\$ 829,840	\$ (20,160)
Fuel transfer revenue	33,000	-	(33,000)
Total revenues	<u>883,000</u>	<u>829,840</u>	<u>(53,160)</u>
Expenditures:			
Personnel services	497,394	465,904	31,490
Contractual services	85,400	82,770	2,630
Commodities	243,000	170,146	72,854
Capital outlay	323,386	-	323,386
Total expenditures	<u>1,149,180</u>	<u>718,820</u>	<u>430,360</u>
Net change in fund balances	(266,180)	111,020	377,200
Fund balances, beginning of year	<u>266,180</u>	<u>516,770</u>	<u>250,590</u>
Fund balances, end of year	<u><u>\$ -</u></u>	<u><u>\$ 627,790</u></u>	<u><u>\$ 627,790</u></u>

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

SPECIAL PARKS AND RECREATION FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Special alcohol tax	\$ 39,070	\$ 44,778	\$ 5,708
KDHE grant	-	9,581	9,581
Total revenues	<u>39,070</u>	<u>54,359</u>	<u>15,289</u>
Expenditures:			
Capital outlay	<u>111,360</u>	<u>53,722</u>	<u>57,638</u>
Net change in fund balances	(72,290)	637	72,927
Fund balances, beginning of year	<u>72,290</u>	<u>93,433</u>	<u>21,143</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 94,070</u>	<u>\$ 94,070</u>

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

LAW ENFORCEMENT FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes	\$ 190,079	\$ 192,092	\$ 2,013
Intergovernmental	1,038	669	(369)
Total revenues	191,117	192,761	1,644
Expenditures:			
Capital outlay	260,000	257,172	2,828
Net change in fund balances	(68,883)	(64,411)	4,472
Fund balances, beginning of year	68,883	65,917	(2,966)
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,506</u>	<u>\$ 1,506</u>

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

SPECIAL DRUG AND ALCOHOL FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Special alcohol tax	\$ 39,072	\$ 44,778	\$ 5,706
Expenditures:			
DARE program	16,450	44,410	(27,960)
Special fund expenditures	161,690	-	161,690
Total expenditures	178,140	44,410	133,730
Net change in fund balances	(139,068)	368	139,436
Fund balances, beginning of year	139,068	152,475	13,407
Fund balances, end of year	\$ -	\$ 152,843	\$ 152,843

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

LIBRARY FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes	\$ 762,300	\$ 770,471	\$ 8,171
Intergovernmental	4,168	2,684	(1,484)
Other revenue	50	8	(42)
Total revenues	<u>766,518</u>	<u>773,163</u>	<u>6,645</u>
Expenditures:			
Personnel services	494,000	484,648	9,352
Library board appropriation	271,585	279,853	(8,268)
Total expenditures	<u>765,585</u>	<u>764,501</u>	<u>1,084</u>
Excess of revenues over expenditures	933	8,662	7,729
Other financing uses:			
Transfers out	(10,000)	(10,000)	-
Net change in fund balances	(9,067)	(1,338)	7,729
Fund balances, beginning of year	<u>9,067</u>	<u>28,409</u>	<u>19,342</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 27,071</u>	<u>\$ 27,071</u>

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

LIBRARY EMPLOYEE BENEFITS FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes	\$ 82,501	\$ 83,599	\$ 1,098
Intergovernmental	475	289	(186)
Other	700	900	200
Total revenues	83,676	84,788	1,112
Expenditures:			
Personnel services	98,400	92,549	5,851
Excess (deficit) of revenues over (under) expenditures	(14,724)	(7,761)	6,963
Other financing sources:			
Transfers in	10,000	10,000	-
Net change in fund balances	(4,724)	2,239	6,963
Fund balances, beginning of year	4,724	9,270	4,546
Fund balances, end of year	\$ -	\$ 11,509	\$ 11,509

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

ECONOMIC DEVELOPMENT RESERVE FUND

Year Ended December 31, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Expenditures:			
Community marketing	\$ 143,562	\$ 23,053	\$ 120,509
Other financing sources (uses):			
Sale of capital assets	-	23,632	23,632
Transfers in	75,000	75,000	-
Transfers out	(71,965)	(71,965)	-
Total other financing sources and (uses)	3,035	26,667	23,632
Net change in fund balances	(140,527)	3,614	144,141
Fund balances, beginning of year	145,527	255,639	110,112
Fund balances, end of year	\$ 5,000	\$ 259,253	\$ 254,253

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL

DEBT SERVICE FUND

Year Ended December 31, 2009

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:			
Taxes:			
Ad valorem property tax	\$ 973,279	\$ 974,490	\$ 1,211
Delinquent tax	50,000	85,689	35,689
Motor vehicle tax	139,972	142,837	2,865
Excise tax	1,636	1,691	55
Special assessments	3,163,710	3,269,222	105,512
Intergovernmental	6,466	3,929	(2,537)
Investment earnings	40,000	25,076	(14,924)
Other	931,266	931,266	-
Total revenues	<u>5,306,329</u>	<u>5,434,200</u>	<u>127,871</u>
Expenditures:			
Principal	3,795,000	4,325,000	(530,000)
Interest	1,739,676	1,739,757	(81)
Commissions	150	-	150
Reserve	300,000	-	300,000
Budget adjustment for qualifying budget credit	530,000	-	530,000
Total expenditures	<u>6,364,826</u>	<u>6,064,757</u>	<u>300,069</u>
Other financing sources:			
Transfers in	471,965	485,144	13,179
Net change in fund balances	(586,532)	(145,413)	441,119
Fund balances, beginning of year	586,532	669,747	83,215
Fund balances, end of year	<u>\$ -</u>	<u>\$ 524,334</u>	<u>\$ 524,334</u>

CITY OF DERBY, KANSAS

BALANCE SHEET  
DISCRETELY PRESENTED COMPONENT UNIT

DERBY PUBLIC LIBRARY

December 31, 2009

Assets:	
Deposits and investments	\$ 123,116
Prepaid items	17,346
	<hr/>
Total assets	\$ 140,462
	<hr/> <hr/>
Liabilities:	
Accounts payable	\$ 9,790
	<hr/>
Fund balances:	
Unreserved	113,326
Reserved for prepaid items	17,346
	<hr/>
Total fund balances	130,672
	<hr/>
Total liabilities and fund balances	\$ 140,462
	<hr/> <hr/>

CITY OF DERBY, KANSAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
DISCRETELY PRESENTED COMPONENT UNIT

DERBY PUBLIC LIBRARY

Year Ended December 31, 2009

Revenues:		
Taxes	\$	279,853
Fines and fees		31,932
Gifts and grants		62,786
Investment earnings		<u>1,700</u>
Total revenues		376,271
Expenditures:		
Current:		
Education		<u>502,202</u>
Deficit of revenues under expenditures		(125,931)
Fund balance, beginning of year		<u>256,603</u>
Fund balance, end of year	\$	<u><u>130,672</u></u>

## STATISTICAL SECTION

This part of the City of Derby comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the City's overall financial health.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	76 - 80
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.	81 - 84
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	85 - 88
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	89 - 90
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.	91 - 93

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



CITY OF DERBY, KANSAS

NET ASSETS BY COMPONENT

LAST SEVEN FISCAL YEARS  
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$ 17,014,949	\$ 21,901,502	\$ 16,700,736	\$ 20,317,425	\$ 2,460,474	\$ 3,219,616	\$ 73,974,575
Restricted	10,743,833	3,327,203	2,658,303	4,695,359	25,365,485	36,182,429	36,396,389
Unrestricted	4,471,452	5,877,348	7,932,868	9,374,863	9,236,969	9,991,845	9,960,303
Total governmental activities net assets	\$ 32,230,234	\$ 31,106,053	\$ 27,291,907	\$ 34,387,647	\$ 37,062,928	\$ 49,393,890	\$ 120,331,267
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$ 3,920,445	\$ 9,587,315	\$ 11,666,137	\$ 12,493,073	\$ 11,095,864	\$ 13,017,185	\$ 8,187,266
Restricted	3,731,368	1,408,390	1,977,816	1,602,173	-	-	-
Unrestricted	4,544,419	5,545,666	5,535,662	7,419,251	5,868,702	5,510,784	9,580,949
Total business-type activities net assets	\$ 12,196,232	\$ 16,541,371	\$ 19,179,615	\$ 21,514,497	\$ 16,964,566	\$ 18,527,969	\$ 17,768,215
<b>Primary Government</b>							
Invested in capital assets, net of related debt	\$ 20,935,394	\$ 31,488,817	\$ 28,366,873	\$ 32,810,498	\$ 13,556,338	\$ 16,236,801	\$ 82,161,841
Restricted	14,475,201	4,735,593	4,636,119	6,297,532	25,365,485	36,182,429	36,396,389
Unrestricted	9,015,871	11,423,014	13,468,530	16,794,114	15,105,671	15,502,629	19,541,252
Total primary government net assets	\$ 44,426,466	\$ 47,647,424	\$ 46,471,522	\$ 55,902,144	\$ 54,027,494	\$ 67,921,859	\$ 138,099,482

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF DERBY, KANSAS  
CHANGES IN NET ASSETS

LAST SEVEN FISCAL YEARS  
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>							
Governmental Activities:							
General government	\$ 2,933,312	\$ 3,097,161	\$ 1,624,054	\$ 3,158,621	\$ 6,528,065	\$ 6,914,324	\$ 6,907,535
Public safety	3,476,639	3,473,289	2,956,415	3,118,695	3,627,751	3,648,554	4,118,615
Public works	2,212,081	-	-	-	3,074,251	3,488,242	6,747,181
Engineering, operations and parks	-	1,762,390	4,644,701	3,757,690	-	-	-
Culture and recreation	1,273,060	1,133,832	-	-	1,391,811	1,520,850	1,471,358
Personnel benefits and services	-	-	2,531,680	2,355,619	-	-	-
Economic development	-	-	-	-	98,832	114,391	385,894
Interest on long-term debt	2,079,979	2,659,214	2,153,275	1,789,762	2,292,887	2,603,418	2,959,029
Other	-	-	422,743	397,316	-	-	-
Total governmental activities expenses	11,975,071	12,125,886	14,332,868	14,577,703	17,013,597	18,289,779	22,589,612
Business-type activities:							
Water	1,709,005	2,522,211	2,725,404	3,032,050	3,272,956	3,335,684	3,224,407
Sewer	1,407,506	1,488,600	1,342,472	1,530,518	1,587,971	1,618,462	1,913,485
Aquatic park	-	268,755	790,025	617,745	-	-	-
Total business-type activities expenses	3,116,511	4,279,566	4,857,901	5,180,313	4,860,927	4,954,146	5,137,892
Total primary government expenses	\$ 15,091,582	\$ 16,405,452	\$ 19,190,769	\$ 19,758,016	\$ 21,874,524	\$ 23,243,925	\$ 27,727,504
<b>Program Revenues</b>							
Governmental Activities:							
Charges for services:							
General government	\$ 719,579	\$ 677,884	\$ 667,399	\$ 599,648	\$ 1,151,702	\$ 1,189,500	\$ 1,709,449
Public safety	410,528	462,507	412,595	493,627	223,984	214,660	703,230
Public works/services/engineering/parks	-	-	319,339	307,645	357,911	359,714	310,795
Culture and recreation	-	-	-	-	669,808	645,396	277,947
Other	-	-	274,914	-	-	-	-
Operating grants and contributions	86,204	253,051	-	55,713	1,108,702	1,199,082	1,172,334
Capital grants and contributions	100,000	100,000	533,782	-	77,014	12,523,125	4,261,052
Total governmental activities program revenues	1,316,311	1,493,442	2,208,029	1,456,633	3,589,121	16,131,477	8,434,807
Business-type activities							
Charges for services:							
Water	3,789,824	3,020,041	3,225,794	3,476,909	2,764,724	2,723,882	2,786,977
Sewer	2,112,574	2,055,306	2,060,332	2,203,799	2,300,870	2,240,450	2,286,388
Aquatic park	-	-	241,803	239,223	-	-	-
Sales Tax for aquatic park	-	1,489,378	1,658,805	1,584,841	-	-	-
Total business-type activities program revenues	5,902,398	6,564,725	7,186,734	7,504,772	5,065,594	4,964,332	5,073,365
Total primary government program revenues	\$ 7,218,709	\$ 8,058,167	\$ 9,394,763	\$ 8,961,405	\$ 8,654,715	\$ 21,095,809	\$ 13,508,172
<b>Net (Expense)/Revenue</b>							
Governmental activities	\$ (10,658,760)	\$ (10,632,444)	\$ (12,124,839)	\$ (13,121,070)	\$ (13,424,476)	\$ (2,158,302)	\$ (14,154,805)
Business-type activities	2,785,887	2,285,159	2,328,833	2,324,459	204,667	10,186	(64,527)
Total primary government net expense	\$ (7,872,873)	\$ (8,347,285)	\$ (9,796,006)	\$ (10,796,611)	\$ (13,219,809)	\$ (2,148,116)	\$ (14,219,332)

(Continued)

CITY OF DERBY, KANSAS

CHANGES IN NET ASSETS

LAST SIX FISCAL YEARS  
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental-Type Activities							
Taxes							
Property taxes - general	\$ 4,734,042	\$ 5,198,008	\$ 5,796,069	\$ 6,184,970	\$ 7,658,300	\$ 8,196,080	\$ 8,870,181
Sales tax, vehicle, gasoline and other	3,927,899	4,541,053	4,538,190	4,961,890	-	-	-
Sales taxes	-	-	-	-	4,808,717	5,224,113	5,234,141
Franchise taxes	1,190,564	1,173,718	1,312,394	1,338,786	1,365,716	1,495,724	1,528,728
Excise taxes	-	-	-	-	21,282	15,649	13,148
Special assessments	2,493,717	2,500,764	2,459,857	2,812,053	-	-	-
Investment earnings/interest	125,531	191,328	333,020	714,666	1,260,508	487,796	219,359
Reimbursements, etc	647,432	576,847	301,816	2,086,711	-	-	-
Transfers	1,031,965	1,217,734	261,529	400,000	(1,631,254)	(1,392,397)	(414,412)
Other	-	-	-	1,717,734	-	-	-
Gain on Sale of capital assets	-	-	-	-	-	462,299	17,015
Reclassifications/adjustments	-	(5,891,189)	(6,692,182)	-	-	-	-
Total Governmental Activities	14,151,150	9,508,263	8,310,693	20,216,810	13,483,269	14,489,264	15,468,160
Business type activities:							
Investment earnings/interest	95,171	79,279	166,898	410,423	264,971	160,820	44,144
Reclassifications/adjustments	-	3,137,297	391,042	-	-	-	-
Transfers	(335,000)	(1,156,596)	(248,529)	(400,000)	1,631,254	1,392,397	414,412
Total business-type activities	(239,829)	2,059,980	309,411	10,423	1,896,225	1,553,217	458,556
Total primary government	\$ 13,911,321	\$ 11,568,243	\$ 8,620,104	\$ 20,227,233	\$ 15,379,494	\$ 16,042,481	\$ 15,926,716
<b>Change in Net Assets</b>							
Governmental activities	\$ 3,492,390	\$ (1,124,181)	\$ (3,814,046)	\$ 7,095,740	\$ 58,793	\$ 12,330,962	\$ 1,313,355
Business-type activities	2,546,058	4,345,139	2,638,244	2,334,882	2,100,892	1,563,403	394,029
Total primary government	\$ 6,038,448	\$ 3,220,958	\$ (1,175,802)	\$ 9,430,622	\$ 2,159,685	\$ 13,894,365	\$ 1,707,384

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF DERBY, KANSAS  
FUND BALANCES, GOVERNMENTAL FUNDS

LAST SEVEN FISCAL YEARS  
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund							
Reserved	\$ -	\$ 101,331	\$ -	\$ -	\$ 416,859	\$ 360,963	\$ 448,479
Unreserved	<u>1,629,546</u>	<u>1,959,011</u>	<u>2,194,825</u>	<u>2,708,400</u>	<u>5,656,648</u>	<u>6,464,755</u> <sup>1</sup>	<u>6,104,606</u>
Total general fund	<u>\$ 1,629,546</u>	<u>\$ 2,060,342</u>	<u>\$ 2,194,825</u>	<u>\$ 2,708,400</u>	<u>\$ 6,073,507</u>	<u>\$ 6,825,718</u>	<u>\$ 6,553,085</u>
All Other Governmental Funds							
Reserved	\$ 4,218,493	\$ 1,059,306	\$ 2,658,303	\$ 4,690,652	\$ 4,558,219	\$ 6,517,761	\$ 4,013,825
Unreserved reported in:							
Debt service fund	-	-	-	-	851,782	669,747	524,334
Special revenue funds	4,987,559	3,817,006	4,979,931	5,863,141	9,492,008	8,387,004	6,837,153
Capital projects fund	<u>6,525,340</u>	<u>2,267,897</u>	<u>-</u>	<u>-</u>	<u>1,681,863</u>	<u>1,384,811</u>	<u>4,250,554</u>
Total all other governmental funds	<u>\$ 15,731,392</u>	<u>\$ 7,144,209</u>	<u>\$ 7,638,234</u>	<u>\$ 10,553,793</u>	<u>\$ 16,583,872</u>	<u>\$ 16,959,323</u>	<u>\$ 15,625,866</u>

<sup>1</sup>The Aquatic Park Fund was reclassified as a Governmental - Special Revenue fund in 2007. In prior years it was classified as Business-Type.

CITY OF DERBY, KANSAS

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

LAST SEVEN FISCAL YEARS  
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>							
Taxes:							
Property - general	\$ 3,692,184	\$ 4,042,374	\$ 4,638,040	\$ 4,944,060	\$ 7,658,300	\$ 8,196,080	\$ 8,870,181
Property - debt service	1,041,858	1,155,634	1,158,029	1,240,910	-	-	-
Excise	-	-	-	-	21,282	15,649	13,148
Sales	-	-	-	-	4,808,717	5,224,113	5,234,141
Sales, vehicle, gasoline & other	3,903,684	4,541,053	4,538,190	4,896,081	-	-	-
Franchise	1,190,564	1,173,718	1,312,394	1,370,703	1,365,716	1,495,724	1,528,728
Special assessments	2,493,717	2,500,764	2,459,857	2,812,053	2,822,282	3,456,086	3,271,171
Intergovernmental	-	-	-	-	1,122,390	1,215,731	1,535,086
Rents,licenses,fees,fines,reimbursements	1,174,788	2,104,437	2,969,279	2,065,595	-	-	-
License & permits	-	-	-	-	419,733	594,227	510,876
Charges for services	726,966	-	-	-	40,250	100,754	259,019
Fines & fees	-	-	-	-	756,687	740,564	737,583
State, county and other aid	-	-	808,696	179,353	-	-	-
Miscellaneous	-	-	333,020	1,535,139	1,121,723	1,174,915	1,378,551
Interest on investments	125,531	191,328	-	705,042	1,260,508	487,796	219,359
<b>Total Revenues</b>	<u>14,349,292</u>	<u>15,709,308</u>	<u>18,217,505</u>	<u>19,748,936</u>	<u>21,397,588</u>	<u>22,701,639</u>	<u>23,557,843</u>
<b>Expenditures</b>							
General Government	2,852,738	3,074,661	1,561,384	2,499,837	5,943,541	6,484,852	5,603,496
Public works	1,286,355	-	-	-	1,643,286	1,796,575	3,481,832
Public safety	3,032,043	3,206,664	2,554,141	2,801,331	3,128,064	3,369,950	3,687,352
Culture and recreation	1,210,919	1,125,142	-	-	-	-	-
Engineering,operations and parks	-	1,397,765	2,237,341	1,856,622	-	-	-
Parks and recreation	-	-	-	-	981,889	1,089,508	1,089,746
Economic development	-	-	-	-	98,832	114,391	385,894
Personnel benefits and services	-	-	2,531,680	2,355,619	-	-	-
Utilities	-	-	458,333	506,212	-	-	-
Other	-	-	400,531	397,316	-	-	-
Capital outlay	7,791,149	10,463,021	6,133,841	2,793,203	7,794,710	10,004,364	12,044,570
Debt service							
Principal	5,235,000	10,860,000	5,305,000	7,560,000	5,646,943	14,165,265	12,648,085
Interest	2,158,485	2,805,792	2,153,275	2,949,985	2,153,061	2,714,022	2,212,110
Bond Issuance costs	-	-	-	-	-	121,927	249,158
<b>Total Expenditures</b>	<u>23,566,689</u>	<u>32,933,045</u>	<u>23,335,526</u>	<u>23,720,125</u>	<u>27,390,326</u>	<u>39,860,854</u>	<u>41,402,243</u>
Excess of revenues over/(under) expenditures	<u>(9,217,397)</u>	<u>(17,223,737)</u>	<u>(5,118,021)</u>	<u>(3,971,189)</u>	<u>(5,992,738)</u>	<u>(17,159,215)</u>	<u>(17,844,400)</u>
<b>Other Financing Sources (Uses)</b>							
Sale of capital assets	-	-	-	-	-	88,699	23,632
Capital Leases	(328,197)	-	-	-	15,795	-	-
Proceeds of general obligation bonds	11,945,000	7,489,247	1,470,000	4,926,194	-	11,080,000	8,860,000
Premium on general obligation bonds issued	-	-	-	-	-	43,178	61,499
Transfers in (out), net	412,972	1,007,649	261,529	112,029	400,000	400,000	413,179
Proceeds from temporary notes	6,850,000	2,200,000	4,045,000	2,354,078	9,595,000	6,675,000	6,880,000
<b>Total other financing sources (uses)</b>	<u>18,879,775</u>	<u>10,696,896</u>	<u>5,776,529</u>	<u>7,392,301</u>	<u>10,010,795</u>	<u>18,286,877</u>	<u>16,238,310</u>
<b>Net change in fund balance</b>	<u>\$ 9,662,378</u>	<u>\$ (6,526,841)</u>	<u>\$ 658,508</u>	<u>\$ 3,421,112</u>	<u>\$ 4,018,057</u>	<u>\$ 1,127,662</u>	<u>\$ (1,606,090)</u>
Debt service as a percentage of noncapital expenditures	46.87%	60.82%	43.36%	50.22%	39.80%	55.93%	48.68%

CITY OF DERBY, KANSAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Real Estate	Personal Property	Utilities	Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Value	Assessed to Total Estimated Actual Value
2000	\$ 147,448,470	\$ 4,393,912	\$ 3,481,958	\$ 66,588,280	\$ 88,736,060	\$ 45.635	\$ 632,238,197	14.04%
2001	154,675,644	6,366,099	3,846,155	70,710,160	94,177,738	52.275	672,292,111	14.01%
2002	167,926,498	6,231,491	3,703,175	75,195,140	102,666,024	45.940	712,809,392	14.40%
2003	185,287,256	6,379,490	3,924,824	85,414,650	110,176,920	45.790	773,809,392	14.24%
2004	195,189,983	5,919,174	4,403,424	89,765,620	115,746,961	48.331	870,949,863	13.29%
2005	210,729,712	7,033,631	4,549,508	93,380,010	128,932,841	48.352	955,817,018	13.49%
2006	224,979,865	7,068,330	4,651,299	99,961,630	136,737,864	48.176	1,017,592,407	13.44%
2007	242,117,250	6,423,097	4,642,803	105,529,310	147,653,840	48.155	1,107,256,740	13.34%
2008	259,980,197	5,850,981	4,439,197	107,436,050	162,834,325	47.756	1,203,426,406	13.53%
2009	269,830,706	4,292,806	4,186,682	107,390,270	170,919,924	47.773	1,249,943,795	13.67%

Source: Sedgwick County Clerk's Office

CITY OF DERBY, KANSAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES  
(PER \$1,000 OF ASSESSED VALUE)

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates				Overlapping Rates				Total
	General Rate	Debt Service	Misc	Total Direct Rate	El Paso Cemetery	USD 260	Sedgwick County	State of Kansas	
2000	\$ 12.520	\$ 11.910	\$ 21.205	\$ 45.635	\$ 0.777	\$ 55.683	\$ 28.600	\$ 1.500	\$ 132.195
2001	18.004	8.131	26.140	52.275	0.727	57.751	28.654	1.500	140.907
2002	14.175	9.606	22.159	45.940	0.682	57.997	28.776	1.500	134.895
2003	13.837	9.561	22.392	45.790	0.640	49.555	28.817	1.500	126.302
2004	15.125	8.265	24.941	48.331	0.639	54.868	28.763	1.500	134.101
2005	15.216	9.369	23.767	48.352	1.627	52.082	28.758	1.500	132.319
2006	36.550	6.187	5.439	48.176	1.622	53.967	31.315	1.500	136.580
2007	36.502	6.203	5.450	48.155	1.272	51.405	31.333	1.500	133.665
2008	35.890	6.157	5.709	47.756	1.249	53.965	30.377	1.500	134.847
2009	33.772	8.912	5.089	47.773	1.031	54.122	29.868	1.500	134.294

Source: Sedgwick County Clerk's Office

CITY OF DERBY, KANSAS  
 PRINCIPAL PROPERTY TAX PAYERS  
 CURRENT YEAR AND TEN YEARS AGO

Taxpayer	2009			2000		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Derby Marketplace LC	\$ 4,738,345	1	2.77%			0.00%
Greens at Derby, The	4,654,204	2	2.72%			0.00%
Wal-Mart Real Estate Business Trust	2,842,012	3	1.66%	2,132,815	1	2.40%
Kohl's Illinois Inc	2,402,075	4	1.41%			0.00%
Target Corporation	2,367,900	5	1.39%			0.00%
Lowes Home Centers Inc	2,295,904	6	1.34%			0.00%
Dillon Companies	1,360,225	7	0.80%			0.00%
Kansas Gas Electric - A Westar Energy Co.	1,346,625	8	0.79%			0.00%
SouthwesternBell Telephone Co	1,274,426	9	0.75%	1,364,367	2	1.54%
Kansas Gas Service-A Division of Oneok	1,169,599	10	0.68%	505,348	5	0.57%
KG&E/Western Resources				1,271,930	3	1.43%
Derby Group LLC				684,750	4	0.77%
Derby Partners				427,255	6	0.48%
Southmark Equity Partners Ltd				381,125	7	0.43%
Wal-Mart Stores Inc. 592				322,250	8	0.36%
City of Derby				307,835	9	0.35%
<b>Total</b>	<b>\$ 24,451,315</b>		<b>14.31%</b>	<b>\$ 7,397,675</b>		<b>8.34%</b>



CITY OF DERBY, KANSAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Legal debt limit	\$ 46,597,302	\$ 49,466,369	\$ 53,358,349	\$ 58,677,471	\$ 61,653,774	\$ 66,693,855	\$ 71,009,848	\$ 75,954,945	\$ 81,081,113	\$ 83,493,058
Total net debt applicable to debt limit	26,930,981	34,408,416	37,095,008	46,395,758	43,058,035	42,106,374	44,313,245	46,918,218	62,790,253	65,480,666
Legal debt margin	\$ 19,666,321	\$ 15,057,953	\$ 16,263,341	\$ 12,281,713	\$ 18,595,739	\$ 24,587,481	\$ 26,696,603	\$ 29,036,727	\$ 18,290,860	\$ 18,012,392
Legal debt margin as a percentage of debt limit	42.20%	30.44%	30.48%	20.93%	30.16%	36.87%	37.60%	38.23%	22.56%	21.57%

Legal Debt Margin Calculation for Fiscal Year 2009

Assessed value	\$ 170,919,924
Add back: exempt real property	107,390,270
Total assessed value	\$ 278,310,194
Debt limit (30% of total assessed value)	83,493,058
Debt applicable to limit:	66,005,000
General obligation bonds	(524,334)
Less: amount set aside for repayment of general obligation debt	
Total net debt applicable to limit	\$ 65,480,666

CITY OF DERBY, KANSAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities					Business-type Activities					Total Primary Government	Percentage of Personal Income	Per Capita	Current Population
	General Obligation Bonds	Temp Notes	Certificates of Participation	Capital Leases	Revenue Bonds	General Obligation Bonds	Revenue Bonds	Capital Leases	General Obligation Bonds					
2000	26,975,000	5,050,000	1,177,000	333,821	11,870,000	-	-	-	-	45,405,821	N/A	2,549.89	17,807	
2001	34,805,000	6,060,000	4,182,000	623,075	11,360,000	-	-	-	-	57,030,075	N/A	3,087.88	18,469	
2002	37,410,000	2,340,000	3,845,000	408,452	14,095,000	-	-	-	-	58,098,452	N/A	3,085.75	18,828	
2003	46,765,000	6,850,000	3,540,000	186,749	13,395,000	-	-	-	-	70,736,749	N/A	3,695.75	19,140	
2004	43,620,000	1,450,000	3,230,000	137,515	-	19,710,000	-	-	-	68,147,515	N/A	3,355.53	20,309	
2005	42,790,000	4,045,000	2,780,000	56,281	-	17,730,000	-	-	-	67,401,281	N/A	3,280.99	20,543	
2006	45,035,000	2,360,000	2,415,000	17,555	-	16,450,000	-	-	-	66,277,555	N/A	3,192.71	20,759	
2007	47,770,000	10,155,000	2,140,000	11,407	-	9,425,000	-	-	-	69,501,407	N/A	3,293.75	21,101	
2008	54,960,000	6,840,000	1,860,000	6,142	-	8,500,000	-	-	-	72,166,142	N/A	3,271.65	22,058	
2009	54,135,000	11,570,000	1,565,000	877	-	11,870,000	-	-	-	79,140,877	N/A	3,514.72	22,517	

Note: Percentage of personal income information not available.

CITY OF DERBY, KANSAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2000	\$ 26,975,000	\$ 44,019	\$ 26,930,981	30.35%	\$ 1,512.38
2001	34,805,000	396,584	34,408,416	36.54%	1,863.04
2002	37,410,000	314,992	37,095,008	36.13%	1,970.20
2003	46,765,000	369,242	46,395,758	42.11%	2,424.02
2004	43,620,000	561,965	43,058,035	37.20%	2,120.15
2005	42,790,000	683,626	42,106,374	32.66%	2,049.67
2006	45,035,000	721,755	44,313,245	32.41%	2,134.65
2007	47,770,000	851,782	46,918,218	31.78%	2,223.51
2008	63,460,000	669,747	62,790,253	38.56%	2,846.60
2009	66,005,000	524,334	65,480,666	38.31%	2,908.05

CITY OF DERBY, KANSAS

GOVERNMENTAL ACTIVITIES DIRECT AND OVERLAPPING DEBT

December 31, 2009

Taxing Body	Debt		City's Share		Per Capita
	Amount	As of	Percent	Amount	
Estimated Overlapping debt:					
Sedgwick County	\$ 73,790,000	12/31/2009	4.03%	\$ 3,193,378	\$ 141.82
USD No. 260	10,745,000	12/31/2009	45.00%	4,835,250	214.74
Total Overlapping Debt				8,028,628	356.56
City of Derby Direct Debt	67,270,877			67,270,877	2,987.56
Direct and estimated overlapping debt	151,805,877			75,299,505	3,344.12

Source: Assessed value data used to estimate applicable percentages provided by the Sedgwick County Clerk.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Derby. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

CITY OF DERBY, KANSAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN YEARS

Fiscal Year	City Population <sup>1</sup>	County Total Personal Income <sup>2</sup> (000's omitted)	County Population <sup>1</sup>	County Per Capita Income <sup>2</sup>	City School Enrollment <sup>3</sup>	Unemployment Rate <sup>2</sup> (Sedgwick County)
2000	17,807	\$ 12,900,403	452,869	\$ 28,444	6,824	4.2%
2001	18,469	14,062,119	456,372	30,813	6,800	4.1%
2002	18,828	14,083,819	460,318	30,596	6,743	6.0%
2003	19,140	14,267,019	461,526	30,913	6,729	6.9%
2004	20,309	15,313,398	462,646	33,100	6,694	6.2%
2005	20,543	16,540,366	465,305	35,547	6,680	5.5%
2006	20,759	17,014,763	469,321	36,254	6,597	4.5%
2007	21,101	18,664,979	476,026	39,210	6,598	4.0%
2008	22,058	19,396,855	478,982	40,496	6,554	4.9%
2009	22,517	19,218,845	490,864	39,847	6,671	7.6%

Data Sources:

<sup>1</sup>Bureau of the Census

<sup>2</sup>US Bureau of Labor Statistics

<sup>3</sup>Kansas State Department of Education

<sup>4</sup>Bureau of Economic Analysis

CITY OF DERBY, KANSAS  
 PRINCIPAL EMPLOYERS  
 AS OF DECEMBER 31, 2009

Employer	Employees	Rank	Percentage of Total City Employment
USD 260	1,335	1	31.90%
Walmart	314	2	7.50%
City of Derby	169	3	4.04%
Lowes	140	4	3.35%
Dillons	130	5	3.11%
Shared Services, a division of Wal Mart	130	6	3.11%
Westview Manor	127	7	3.03%
Derby Recreation Commission	87	8	2.08%
Kohl's	64	9	1.53%
Target	60	10	1.43%
 Total City Employment	 4,185		

Note: Derby City Clerk's Office  
 Information from 1999 not available.

CITY OF DERBY, KANSAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

LAST FOUR FISCAL YEARS

<b>Function/Program</b>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Government				
City Manager	5	7.5	15.5	16.5
Community Services				
Finance	10	8	6.5	8.5
Law	5	4	1	1
Human Resources				
Economic Development	2	2	1	1
Operations	9	9	8	10
Community Development/Engineering	10	12	13	12
Public Safety				
Police	51.5	51.5	51.5	54
Animal Control	1	1	1	1
Fire	10.5	11.5	14	14.5
Community Resources				
Public Works*	34	34	35	32
Water	8	8	8	7.5
Wastewater*	13.3	11.3	11.3	11
<b>Total</b>	<u>159.3</u>	<u>159.8</u>	<u>165.8</u>	<u>169</u>

Data Source: City of Derby Operating Budgets

Note: Information from 2000 through 2005 not available.

\*Part-time seasonal positions converted to contract labor in 2009.

CITY OF DERBY, KANSAS  
 OPERATING INDICATORS BY PROGRAMMING YEAR  
 LAST FOUR FISCAL YEARS

Program/Function	Fiscal Year			
	2006	2007	2008	2009
Police				
Dispatched Calls	21,808	24,651	26,999	24,878
Offenses	2,653	2,845	2,982	2,878
Offenses Cleared	1,998	2,074	2,564	1,949
Arrests	1,864	1,924	1,996	2,525
Serious Offenses	787	831	820	775
Fire				
Emergency Responses	1,402	1,558	1,520	1,768
First Responder/Medical	1,030	1,113	1,254	1,414
Life Safety Inspections	450	464	477	576
Water				
New Connections	349	136	153	132
Water Main Breaks	17	12	9	7
Average Daily Consumption	2,175,595	2,003,162	1,902,481	1,968,976
Peak Daily Consumption	4,351,100	4,252,700	3,584,100	4,334,700
Wastewater				
Average Daily Sewage Treatment	1,800,000	1,840,000	1,834,000	1,788,000

Note: Information from 2000 through 2005 not available.

CITY OF DERBY, KANSAS

CAPITAL ASSET STATISTICS BY PROGRAM/FUNCTION

LAST FOUR FISCAL YEARS

Program/Function	Fiscal Year		
	2006	2007	2008
Police			
Stations	1	1	1
Patrol units	12	14	16
Fire Stations	2	2	3
Public Works			
Streets(lane miles)	274.8	286.1	293.5
Traffic Signals	15	15	16
Culture and Recreation			
Acreage	297	297	297
Playgrounds	18	18	18
Baseball/Softball diamonds	24	24	19
Aquatic Park	1	1	1
Water			
Water Meter Station	1	1	1
Water mains(miles)	120.6	124.4	127.9
Fire hydrants	880	919	936
Storage capacity(000's gallons)	2,500,000	2,500,000	2,500,000
Wastewater			
Sanitary Sewers(miles)	111.2	115.7	118.6
Storm Sewer(combined,miles)	32.1	33.3	35.9
Treatment capacity (gallons per day)	2,500,000	2,500,000	2,500,000

Source: City of Derby GIS Department

Note: Information from 2000 through 2005 not available.





BERBERICH TRAHAN & CO., P.A.  
Certified Public Accountants

**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 Honorable Mayor and City Council  
City of Derby, Kansas:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Derby, Kansas (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2010. 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. The financial statements of the Derby Public Library and El Paso Water Company, Inc. component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to those component units.

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.

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 or a timely basis.

BERBERICH TRAHAN & CO., P.A.

3630 SW Burlingame Rd., Topeka, KS 66611-2050

T 785-234-3427 toll free 800-530-5526 F 785-233-1768

btrahandco.com

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Finding 2009-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### 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*.

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

This report is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than those specified parties.

*Berberich Trahan & Co., P.A.*

August 5, 2010

CITY OF DERBY, KANSAS  
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2009

**Finding 2009-1 – Significant Deficiency**

*Condition* – The financial statements are the responsibility of management. During the course of our audit, we made several adjusting journal entries to the trial balance presented to us at the beginning of the audit.

*Criteria* – The financial statements are the responsibility of management. As such, the City's internal control over the financial statements should identify and correct misstatements on a consistent basis.

*Cause* – The City's internal controls did not detect certain transactions that were required to more accurately present the City's financial statements.

*Effect* – Several significant journal entries were required which were not initially identified by the City's internal controls.

*Recommendation* – We recommend that the City review its trial balance at year-end to ensure that all adjustments have been made.

*Management's Response/Corrective Action Plan (Unaudited)* – The trial balance is reviewed periodically each month, at month end and at year end. The number and size of the adjusting entries were related to the significant adjustment of the value of the City's infrastructure assets and restatement of the prior period. Due to the timing of the receipt of the report of the independent valuation of the City's infrastructure and the conversion of the data to a new fixed asset software, the adjusting entries were prepared after the beginning of the audit. The prior period adjustment of \$ 69,624,022 essentially doubled the value of the infrastructure and recognized right-of-way assets. Due to the size of this adjustment, staff sought the assistance of audit staff in evaluating and preparing the entries.

Adjustments of this size should not occur in the future.

CITY OF DERBY, KANSAS

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Year Ended December 31, 2009

**Finding 2008-1 – Material Weakness (Repeated from Prior Year)**

*Condition* – The City does not maintain a general ledger system in accordance with GAAP. The system does not record significant asset and liability accounts which are required to be in conformity with GAAP.

*Criteria* – The City's general ledger system and internal controls should be designed to ensure the financial statements are reported in accordance with generally accepted accounting principles (GAAP).

*Cause* – The City's general ledger system is not capable of recording significant accrual entries.

*Effect* – Information in such areas as receivables, payables, deferred revenues, long-term debt, and capital assets is not available to elected officials and users within the City's management. As a result of the general ledger not being maintained in conformity with GAAP, there were many significant journal entries that were not identified by the City's internal controls.

*Recommendation* – We recommend the City record all transactions necessary to report the financial statements in accordance with GAAP.

*Management's Response/Corrective Action Plan (Unaudited)* – The governing body has authorized the purchase of new financial accounting software that will integrate the fixed asset inventory with the general ledger and accounts payable functions. In addition, the software includes an application to aid in the preparation of the adjusting entries and reports in compliance with GAAP. More importantly, the software will provide an audit trail for every financial number in the final reports.

*Follow-up* – The City implemented its new financial accounting system in the current year and maintained a general ledger system in accordance with GAAP. This finding is considered resolved in the current year.

CITY OF DERBY, KANSAS

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
(Continued)

**Finding 2008-2 – Significant Deficiency**

*Condition* – Although the City performs monthly bank reconciliation, variances between the bank balance and the general ledger are not being properly identified and investigated.

*Criteria* – The City's reconciliation process should be designed to identify all reconciling items between the bank balance and cash balance per the general ledger.

*Cause* – The City has investigated the cause of the variances but has not arrived at a conclusion as to the cause.

*Effect* – There is the potential that fraud could be committed and not be detected in a timely manner.

*Recommendation* – We recommend that the City identify the cause of the variances on the reconciliations and reconcile the bank balance to the general ledger on a monthly basis.

*Management's Response/Corrective Action Plan (Unaudited)* – The variance was the result of a duplicate posting of an interest earnings receipt and was difficult to recognize due to the volume of transactions. The variance was identified upon reconciliation of the 1099-INT forms received at year end. Software installed in mid-year 2009 will aid in the reconciliation and variances must be investigated before moving forward with the following month reconciliation.

*Follow-up* – With the implementation of its new financial accounting software during the current year, all bank accounts are being reconciled to the general ledger in a timely and accurate manner. This finding is considered resolved in the current year.

