

City of Derby, KS Comprehensive Annual Financial Report

December 31, 2011



CITY OF DERBY, KANSAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Prepared by:

Finance Department
City of Derby, Kansas

CITY OF DERBY, KANSAS
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
Year Ended December 31, 2011

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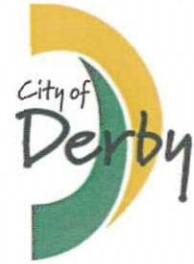
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June 5, 2012



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 (the City) for the fiscal year ended December 31, 2011 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. Its report for the December 31, 2011 financial statements is located at the front of the Financial Section and in the compliance 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 in 2010 of 22,158.

The City was incorporated in 1869 and operates under the Mayor-Council-Manager form of government. The eight council members are elected by 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); public utilities (water distribution and wastewater collection and treatment); public works (streets, parks, and vehicle maintenance) 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 of Trustees, 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 15th of each year and adoption of a final budget on or before August 25th of each year.

Supplemental appropriations and transfers 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. 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 recording.

Economic Condition and Outlook

Derby, the 18th 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. 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 Public Schools.

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. In fall of 2011, clothing retailer Christopher & Banks opened in the Derby Marketplace. In early 2012, Olive Garden and Panera Bread restaurants opened as well. With nearly 600,000 square feet of retail space available, the Derby Marketplace will continue building as leases are signed with restaurants and retailers. This growth will contribute to increased city-wide sales tax revenue in 2012, which is devoted to a new library opened in 2009, and stable property tax revenue in 2011 which helps fund most other City services, as well as programs of the Derby Recreation Commission. In 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.

The Great Recession continues to affect Derby as reflected in our projections of assessed valuation. Derby's 2011 assessed valuation grew only .9% and is expected to remain flat in 2012, which is better than many communities throughout the Midwest. Assessed valuation at the beginning of 2012 included the first phase of the Glen Carr House Memory Care facility, along with some single-family residential growth throughout the year. The value of new construction is offset by reductions in valuations of some existing homes and businesses, which when all transactions are taken into account the assessed valuation should remain stable.

Just as we are experiencing the effect of the prolonged recession on assessed valuation, we are seeing growth in our share of the countywide retail sales tax. Sales tax collections for 2011 grew by 2.3% and are projected to grow another 3% in 2012. The city-wide retail sales tax is projected to grow 3% in 2012 due to the addition of stores in the Derby Marketplace and then continue at this pace due to inflation. Concerns surfaced in 2010 as attempts were made by other states to entice Wichita aircraft manufacturers to relocate their plants. Fortunately, the State of Kansas, along with other local government entities, rose to the challenge and provided incentives for some aircraft manufacturers to remain and expand in the Wichita area. On the other hand, the Boeing Company has announced that it will leave the Wichita area in 2013, just as Bombardier Learjet expands its workforce & facility to manufacture a new jet in 2014. Employment in the Wichita MSA is expected to stabilize, and so retail sales tax projections are now positive in 2012 and beyond.

Major Initiatives

Major projects in the 2012 Capital Improvements Program (CIP) consist of a \$5.5 million sewer interceptor on the southeast edge of Derby and a \$2.8 million reconstruction of Meadowlark Boulevard, an arterial along the edge of the Derby Marketplace to the east city limits. This arterial is being widened to accommodate the traffic from areas to the east of the city to the Rock Road corridor. Construction of both projects will be completed in 2012. Financing for the sewer interceptor is in the form of \$10.255 million general obligation Build America Bonds issued in 2009, and a \$1.0 million federal grant. A portion, \$1.0 million of the cost of the Meadowlark reconstruction project, was bonded in 2011, and additional General Obligation bonds will be issued in 2013 to complete the project.

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 optimal 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. The City finances construction of infrastructure to coordinate it with new growth.

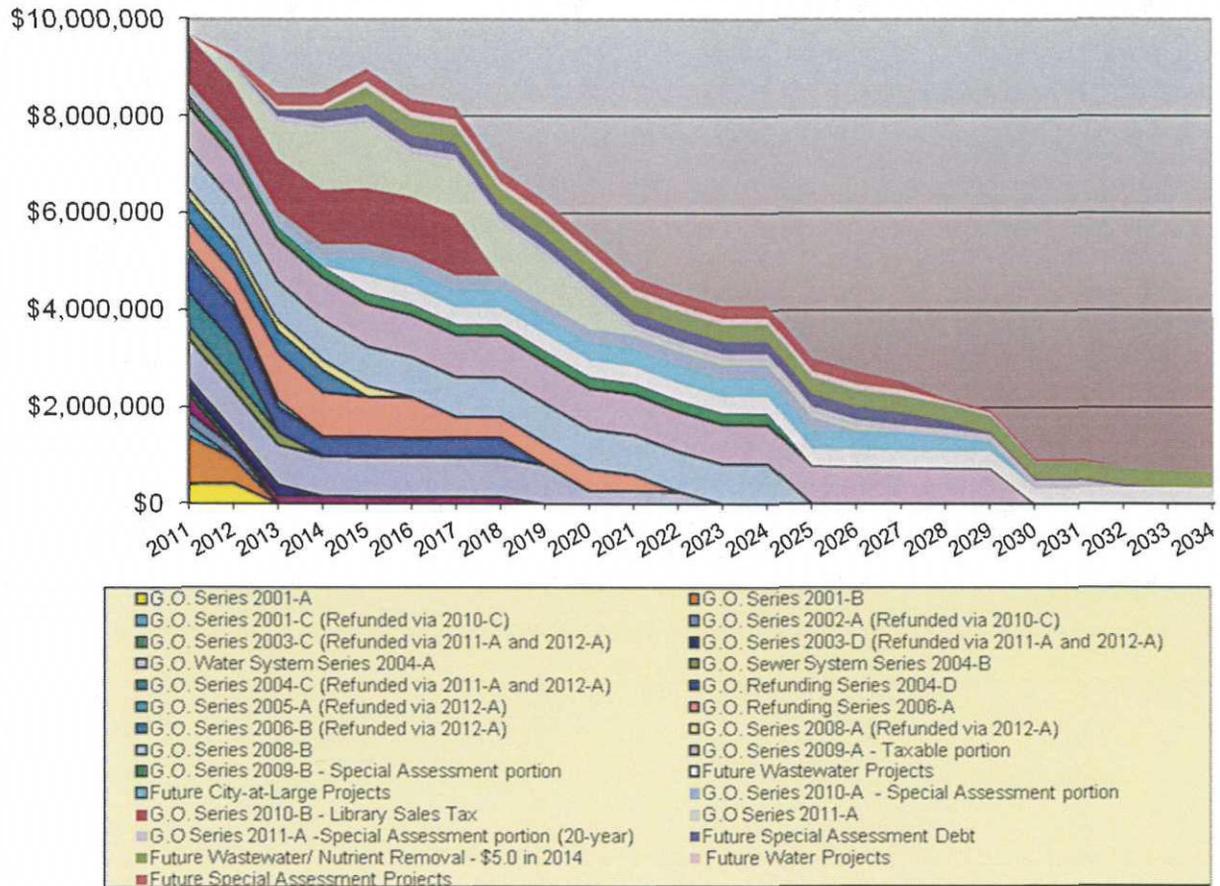
The primary method of financing infrastructure upgrades and new construction is issuance of long-term bonds. These bonds come in the form of General Obligation, Revenue, and Special Assessment bonds. The City has also used Certificates of Participation, a form of lease to purchase, to finance the cost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

According to state law, cities of the Second Class, such as Derby, 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, 2011, Derby has outstanding debt of \$69,085,000. When exempt projects are taken into consideration, Derby has additional debt capacity of approximately \$22 million.

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 Debt Management Policy. The City Council has chosen to temporarily exceed the 20% limit to issue financing for projects authorized by the voters, most recently a new public library. In 2007, the voters of Derby authorized renewal of a ½% citywide retail sales tax to pay for the debt service and operation of a new library, which upon issuance of the notes and bonds, kept the ratio of direct debt as a percentage of assessed valuation slightly above the 20% threshold at 21.82%. Derby's ratio of direct debt as a percentage of assessed valuation has now dropped below 20% in compliance with city policy.

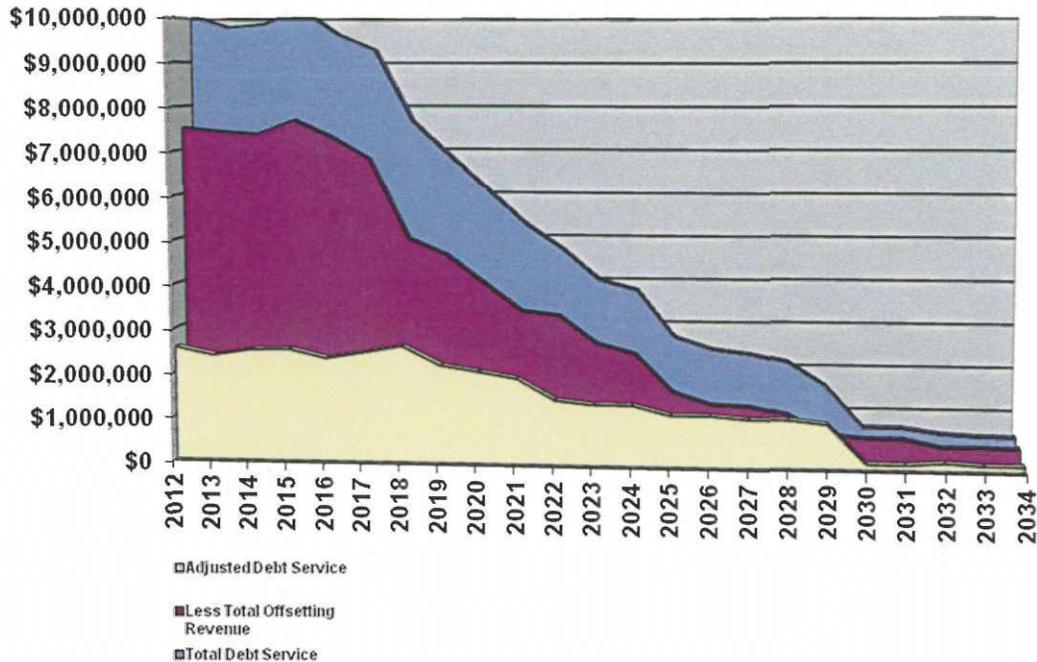
The chart on the next page incorporates the debt to be issued to finance CIP projects in 2012 and beyond, with the existing outstanding bond issues. This chart illustrates a slight increase in total debt followed by a gradual reduction after 2015. In 2013, the City likely will finance improvements to the Derby Recreation Center, plus renovate a recently acquired school gym into an event center at the new Madison Avenue Central Park. In 2011, the City acquired this 10 acres of park land in the central corridor and is developing a cooperative agreement with the Derby Recreation Commission to provide recreation and meeting space for the community. In 2014, an interchange is planned to be constructed at Nelson Drive and Patriot Avenue, which will enable more commercial development along Patriot and enhance traffic safety. Reconstruction of the intersection of Nelson Drive and Meadowlark is planned for 2016. These projects are still in the design phase, and cost estimates are not available at the time of this presentation. The projected increase in debt in 2014 will finance a \$5.0 million nutrient removal project at the City's wastewater treatment facility to comply with EPA requirements. In 2015, construction of a third fire station in the northwest quadrant of the city is planned. While there are several smaller infrastructure projects included in the chart below, the payment of debt is expected to outpace the issuance of new debt, which will allow the city's debt load to diminish.

General Obligation Debt Service Schedule
(2012-2034)



Much of Derby's outstanding debt has offsetting revenues that are paid 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 Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Derby for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2010. This is the 3rd year that the City has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we will submit it to GFOA to determine its eligibility for another certificate.

The City has also received the Government Finance Officers Association Distinguished Budget Presentation award for its annual budgets for the years 2005 through 2012. 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, 2011

Elected Officials

		<u>Term of Office</u>
Mayor	Dion P. Avello	2011-2015
Council President	Vaughn G. Nun	2009-2013
Councilmember	Randy White	2011-2015
Councilmember	Cheryl Bannon	2011-2015
Councilmember	Thomas Haynes	2009-2013
Councilmember	Jim Craig	2009-2013
Councilmember	Heath Horyna	2011-2015
Councilmember	Chuck Warren	2009-2013
Councilmember	Mark Staats	2011-2015

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
Chief of Police	Robert Lee
Director of Public Works	Robert Mendoza
Director of Community Development	Charles Brown
Fire Chief	Brad Smith
Director of Economic Development	Allison Moeding
Director of Human Resources	Jenny Thrush
Director of Community Marketing	Cynthia Wentworth

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Derby
Kansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director



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

INDEPENDENT AUDITOR'S 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, 2011, 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general 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, on January 1, 2011, the City changed its method of accounting to adopt Government Accounting Standards Board Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions.

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 btandco.cpa.com

In accordance with *Government Auditing Standards*, we have also issued a report dated June 5, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The schedules and statements listed under supplementary information in the accompanying table of contents and the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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 and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Berberich Trahan & Co., P.A.

June 5, 2012

CITY OF DERBY, KANSAS

Management's Discussion and Analysis

This section of the City of Derby's annual financial report is designed to provide an overview and analysis of the financial activities during the fiscal year that ended on December 31, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- Assets of the City exceeded its liabilities at the close of 2011 by \$144,071,084. Of this amount, \$16,709,559 of unrestricted net assets may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$2,016,924, or 1.4 percent, from \$142,054,160 at year-end 2010.
- At year end 2011, the City of Derby's governmental funds reported combined ending fund balances of \$18,333,576, a decrease of \$1,722,194 or 9.4%.
- At the end of 2011, the budgetary fund balance for the general fund was \$5,733,806 or 37.6% of the general fund non-GAAP budgetary expenditures.
- The City's total bonded debt decreased by \$6,010,000 during 2011 to \$70,045,000. The City's payment of debt outpaced the addition of new debt for infrastructure in 2011.

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.

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 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.

Governmental Activities reflect the City's basic services, including general government, police, fire, public works, economic development 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 division 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 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 effects 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 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 and debt service fund which are considered to be major funds. In addition, 5 funds are presented in a combining statement of the General Fund on pages 63 – 65 of this report. Data from the other 9 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major 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 is provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 – 21 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 22 – 25 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 26 – 61 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 non-major governmental funds and the fund financial statements of the discretely presented component unit, the Derby Public Library.

Government-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 \$144,071,084 as of December 31, 2011.

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, \$92,507,177 or 64.2%, is the investment in capital assets net of related debt. The next largest portion, \$34,854,348 or 24.2% of the City’s net assets, is restricted due to project financing or bond covenants. The remaining 11.6% or \$16,709,559 is unrestricted net assets, which may be used to meet the city’s ongoing obligation to citizens and creditors.

Capital assets declined slightly due to the slowing of new construction versus depreciation of assets. The decrease in total liabilities is due to a reduction of long-term debt of \$6.2 million because debt payments exceeded debt issuances.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 68,162,899	\$ 71,702,205	\$ 11,083,304	\$ 12,566,356	\$ 79,246,203	\$ 84,268,561
Capital assets	126,535,420	126,934,725	22,169,085	22,457,680	148,704,505	149,392,405
Total assets	<u>194,698,319</u>	<u>198,636,930</u>	<u>33,252,389</u>	<u>35,024,036</u>	<u>227,950,708</u>	<u>233,660,966</u>
Other liabilities	9,452,831	9,521,719	594,245	1,984,499	10,047,076	11,506,218
Long-term liabilities	60,650,947	65,974,699	13,181,601	14,125,889	73,832,548	80,100,588
Total liabilities	<u>70,103,778</u>	<u>75,496,418</u>	<u>13,775,846</u>	<u>16,110,388</u>	<u>83,879,624</u>	<u>91,606,806</u>
Net assets:						
Invested in capital assets, net of related debt	79,858,992	77,267,850	12,648,185	11,221,505	92,507,177	88,489,355
Restricted	34,854,348	35,103,190	-	-	34,854,348	35,103,190
Unrestricted	9,881,201	10,769,472	6,828,358	7,692,143	16,709,559	18,461,615
Total net assets	<u>\$ 124,594,541</u>	<u>\$ 123,140,512</u>	<u>\$ 19,476,543</u>	<u>\$ 18,913,648</u>	<u>\$ 144,071,084</u>	<u>\$ 142,054,160</u>

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, 2011. Derby's net assets at year-end 2011 of \$144,071,084 reflect an increase of \$2,016,924, or 1.4% in the total amount. The majority of the change in net assets is due to a reduction in expenditures compared to flat revenues in total.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2,899,957	\$ 2,584,834	\$ 6,751,228	\$ 6,342,416	\$ 9,651,185	\$ 8,927,250
Operating grants & contributions	1,397,938	1,436,287	-	91,679	1,397,938	1,527,966
Capital grants & contributions	2,638,496	3,920,673	68,457	-	2,706,953	3,920,673
General revenues:						
Property taxes	9,464,138	9,181,649	-	-	9,464,138	9,181,649
Sales tax	5,351,941	5,409,560	-	-	5,351,941	5,409,560
Franchise taxes	1,821,500	1,731,570	-	-	1,821,500	1,731,570
Excise tax	14,744	11,778	-	-	14,744	11,778
Investment earnings	50,874	51,201	15,595	34,929	66,469	86,130
Total revenues	23,639,588	24,327,552	6,835,280	6,469,024	30,474,868	30,796,576
Expenses:						
General government	7,692,456	6,504,927	-	-	7,692,456	6,504,927
Public safety	4,435,262	4,184,465	-	-	4,435,262	4,184,465
Public works	6,109,047	5,735,114	-	-	6,109,047	5,735,114
Culture & recreation	1,392,517	1,575,639	-	-	1,392,517	1,575,639
Economic development	486,128	354,583	-	-	486,128	354,583
Interest on long-term debt	2,243,335	2,768,250	-	-	2,243,335	2,768,250
Water system	-	-	3,872,934	3,441,903	3,872,934	3,441,903
Sewer system	-	-	2,226,265	2,277,017	2,226,265	2,277,017
Total expenses	22,358,745	21,122,978	6,099,199	5,718,920	28,457,944	26,841,898
Increases in net assets						
before transfers	1,280,843	3,204,574	736,081	750,104	2,016,924	3,954,678
Transfers	173,186	(395,329)	(173,186)	395,329	-	-
Increase in net assets	1,454,029	2,809,245	562,895	1,145,433	2,016,924	3,954,678
Net assets 12/31/2010	123,140,512	120,331,267	18,913,648	17,768,215	142,054,160	138,099,482
Net assets 12/31/2011	\$ 124,594,541	\$ 123,140,512	\$ 19,476,543	\$ 18,913,648	\$ 144,071,084	\$ 142,054,160

Key elements of the change in net assets are as follows:

- Charges for services increased by \$408,812 or 6.4% due to an increase in the business-type activity of the water utility. Water revenues increased due to higher consumption due to weather conditions (lower rainfall compared to 2010) and increased rates precipitated by the increased wholesale cost of water from Wichita.
- Operating grant revenues decreased by \$130,028 or 8.5% due to reduced gasoline tax receipts from the State of Kansas and American Recovery and Reinvestment Act (ARRA) reimbursement for debt associated with the 2009-A Build America Bonds.
- Capital grant revenues in 2011 consist primarily of special assessments for infrastructure to serve properties throughout the City. In 2010, capital grant revenues, in addition to special assessments, included funds contributed by the State of Kansas for the Home Grant program and Community Development Block Grant funds, that did not recur in 2011. Therefore capital grant revenue declined by \$1,213,720 or 31.0% in 2011.
- Property tax revenue increased by \$282,489 or 3.0% due to increased assessed valuation while the mill levy remained level.

- Sales tax revenues consist of a county-wide and city-wide levy and decreased in total by 1.0% or \$57,619. The city's share of the county-wide sales tax increased by 2.3% or \$75,611 whereas city-wide retail sales tax receipts dropped by 6.4% or \$133,230. The decline in the city-wide sales tax receipts was due to fluctuations in the timing of the remittance of the taxes and is not a concern for management.
- Franchise fees increased by \$89,930 or 5.0% due to growth in electric rates and an increase in the telephone franchise fee mid-year.
- Investment earnings declined 22.8% or \$19,660 due to the negative effect of the national recession on interest rates.
- General Government expenditures increased by \$1,187,529 or 18.9% due to increased operational expenses plus accrued payroll expenses due to the timing of the final payroll. Employee benefit expenses for all governmental employees are included in this category and reflect costs associated with the addition of new positions plus increases in retirement and health insurance.
- Public safety expenditures increased by \$250,797 or 6% due to the addition of four police officers to staff an additional "beat" or assigned area of responsibility due to the growth of the geographical area of the city. A fire fighter position was also added to handle the increased demand for services.
- Interest on long-term debt decreased by \$524,915 or 18.9% reflecting the decline in long term interest rates as well as a reduction in government-type debt. The City has actively monitored its outstanding debt and refunded debt in both 2010 and 2011 to take advantage of the interest rate environment.

Financial Analysis of the Government's Funds

Governmental funds - The combined fund balance for the governmental funds as of December 31, 2011 decreased by \$1,722,194 to \$18,333,576. This was largely due to the capital outlay expenditures in the General Fund and Capital Projects Fund.

Property taxes of \$9,464,138 represent the largest single source 40.0% of governmental activity revenue for the City of Derby. Taxes on retail sales in the amount of \$5,351,941 are the next largest source of revenue at 21.0% of the city's revenues. Special assessments of \$4,274,204 pay the debt service for infrastructure to serve various properties and represent 16.9% of the city's revenue in 2011. Intergovernmental payments of \$1,936,287 consisting of gasoline taxes, grant and ARRA reimbursements represent 7.6% of the revenue stream, followed by franchise fees of 7.2%.

The General Fund is the chief operating fund of the City of Derby. At the end of 2011, the unassigned fund balance of the General Fund was \$5,470,372. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to the total fund expenditures. The unassigned fund balance represents 33.74% of total General Fund expenditures, while the total fund balance represents 58.48% of that same amount. This percentage is unusually high due to capital projects that are planned in the near future.

The Debt Service Fund has a total restricted fund balance of \$941,109. 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.

Nine funds make up the non-major funds, the largest of which are the Capital Projects Fund, the Library Sales Tax Fund and Aquatic Park Fund. The primary source of revenue for the Capital Projects Fund is temporary financing to construct infrastructure which will be permanently financed with the issuance of long-term debt. The primary source of revenue for the Library Sales Tax Fund is a city-wide retail sales tax designated for repayment of debt and operation of the new library that opened in 2009. The Aquatic Park Fund houses the reserve for operations of the City's aquatic park.

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 2011 total \$6,828,358. 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 \$562,895 from \$18,913,648 at year end 2010 to \$19,476,543. The increase in net assets in 2011 is primarily due to increases in charges for services due to increases in water rates. Water revenue increased in 2011 due to increases in the cost of water purchased from the City of Wichita and water consumption due to lower rainfall.

General Fund Budgetary Highlights

Careful monitoring of expenditures and growth in ad valorem tax revenues allowed Derby to carry over \$5,733,806 into 2012 (37.6%), a planned decrease of \$1,936,472 over the prior year carryover. The decrease in carryover occurred to provide funding for capital projects that were not completed in 2010 and is reflected in the \$704,598 variance in capital outlay expenditures.

The largest budget variance in revenues is primarily due to higher than anticipated growth in sales tax, building permits, court fines and fees, and the timing of capital grant reimbursements. The city's share of the county-wide retail sales increased \$75,610 from \$3,331,590 in 2010 to \$3,407,200 in 2011. The variance of sales tax to budget was considerably higher at \$267,013 due to the timing of the 2011 budget preparation and conservative estimates. Licenses and building permits experienced favorable variances of \$147,170, and court fines and fees were favorable by \$170,731 also. Both estimates were due to conservative budget practices. Intergovernmental revenue was favorable by \$436,002 primarily due to reimbursement from the State of Kansas for a bike path project.

The largest budget variance in expenditures is reflected in contingencies which consist of cash reserves for the following year carryover balance of \$2,474,771. The next largest variance of capital outlay of \$704,598 represents projects that were planned for construction prior to 2011 but were built in 2011 and incorporated into the budget revision process mid-year and approved by the governing body.

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, 2011 was \$148,704,505, net of depreciation. This investment in capital assets includes land, buildings, machinery and equipment, an aquatic park, water distribution and sewer collection systems, infrastructure and construction in progress.

Major projects undertaken during 2011 were construction of infrastructure to serve Stone Creek subdivision, Phase 6 of the bike path, reconstruction of Buckner Street, and installation of new bio-solids handling equipment in the wastewater treatment facility.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 32,323,826	\$ 31,572,554	\$ 725,966	\$ 725,966	\$ 33,049,792	\$ 32,298,520
Construction in progress	1,031,774	2,344,446	3,515,641	2,978,090	4,547,415	5,322,536
Buildings	18,020,950	18,448,694	5,794,870	6,133,498	23,815,820	24,582,192
Equipment and machinery	2,027,653	2,067,747	184,040	208,843	2,211,693	2,276,590
Improvements	3,191,436	3,128,464	-	-	3,191,436	3,128,464
Infrastructure	69,939,781	69,372,820	11,948,568	12,411,283	81,888,349	81,784,103
Total capital assets (net)	<u>\$ 126,535,420</u>	<u>\$ 126,934,725</u>	<u>\$ 22,169,085</u>	<u>\$ 22,457,680</u>	<u>\$ 148,704,505</u>	<u>\$ 149,392,405</u>

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 \$70,045,000 in bonds, notes, certificates of participation and capital leases outstanding. This is a decrease of \$6,010,000 from \$76,055,000 at the end of 2010. This decrease can be attributed in part to the reduction of \$1,895,000 in temporary notes during 2011 through the issuance of general obligation bonds but more so the payment of \$6,810,000 in bond principal. Bonds in the amount of \$1,940,000 were issued in 2011 to provide permanent financing for infrastructure in The Stone Creek Addition and several smaller subdivisions, along with \$1,000,000 for the reconstruction of Meadowlark, a major arterial street. 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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 57,445,000	\$ 60,330,000	\$ 10,075,000	\$ 11,000,000	\$ 67,520,000	\$ 71,330,000
Certificates of participation	960,000	1,265,000	-	-	960,000	1,265,000
Capital leases	-	-	-	-	-	-
Temporary notes	1,565,000	3,460,000	-	-	1,565,000	3,460,000
Total	<u>\$ 59,970,000</u>	<u>\$ 65,055,000</u>	<u>\$ 10,075,000</u>	<u>\$ 11,000,000</u>	<u>\$ 70,045,000</u>	<u>\$ 76,055,000</u>

The City's general obligation bond rating of AA- by Standard & Poor's was reaffirmed in 2011.

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 County, Butler, Sumner and even 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 600,000 square foot shopping center that opened in late 2008 and is anchored by Target and Dillons Marketplace. Along with the Stone Creek Commercial development at K-15 and Patriot Avenue, 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 (2010 Census)	34.7 years
➤ Median Family Income	\$64,438
➤ Average Home Value (2009)	\$136,000
➤ Average New Home Value (2007)	\$177,227
➤ Housing Units (2010 Census)	8,774
➤ Unemployment (Sedgwick County April 2012)	8.0%

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.

**Basic Financial
Statements**

CITY OF DERBY, KANSAS
STATEMENT OF NET ASSETS

December 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Library Board
Assets:				
Deposits and investments	\$ 17,607,307	\$ 10,025,462	\$ 27,632,769	\$ 220,781
Receivables, net of allowance for uncollectibles:				
Taxes	9,324,605	-	9,324,605	-
Intergovernmental	489,867	34,228	524,095	-
Special assessments	39,597,429	-	39,597,429	-
Accounts	45,452	730,285	775,737	-
Interest	18,709	-	18,709	-
Deferred charges	870,071	204,425	1,074,496	-
Prepaid items	-	3,362	3,362	38,389
Inventories	209,459	85,542	295,001	-
Capital assets, net of accumulated depreciation, where applicable:				
Land	2,257,116	725,966	2,983,082	-
Land - right of way	30,066,710	-	30,066,710	-
Construction in progress	1,031,774	3,515,641	4,547,415	-
Buildings and systems	18,020,950	5,794,870	23,815,820	-
Improvements	3,191,436	-	3,191,436	-
Machinery and equipment	2,027,653	184,040	2,211,693	251,904
Infrastructure	69,939,781	11,948,568	81,888,349	-
Total assets	<u>194,698,319</u>	<u>33,252,389</u>	<u>227,950,708</u>	<u>511,074</u>
Liabilities:				
Accounts payable	568,709	506,973	1,075,682	5,503
Accrued liabilities	677,008	45,903	722,911	-
Accrued interest payable	200,871	41,369	242,240	-
Unearned revenue	8,006,243	-	8,006,243	-
Noncurrent liabilities:				
Due within one year	8,006,279	968,059	8,974,338	-
Due in more than one year	52,644,668	12,213,542	64,858,210	-
Total liabilities	<u>70,103,778</u>	<u>13,775,846</u>	<u>83,879,624</u>	<u>5,503</u>
Net assets:				
Invested in capital assets, net of related debt	79,858,992	12,648,185	92,507,177	251,904
Restricted for:				
General government	31,380,526	-	31,380,526	-
Public works	1,409,689	-	1,409,689	-
Public safety	163,045	-	163,045	-
Culture and recreation	1,901,088	-	1,901,088	-
Unrestricted	9,881,201	6,828,358	16,709,559	253,667
Total net assets	<u>\$ 124,594,541</u>	<u>\$ 19,476,543</u>	<u>\$ 144,071,084</u>	<u>\$ 505,571</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Library Board
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 7,692,456	\$ 1,414,398	\$ 402,796	\$ 56,399	\$ (5,818,863)	\$ -	\$ (5,818,863)	\$ -
Public safety	4,435,262	743,245	88,256	-	(3,603,761)	-	(3,603,761)	-
Public works	6,109,047	419,464	856,062	2,582,097	(2,251,424)	-	(2,251,424)	-
Culture and recreation	1,392,517	322,850	50,824	-	(1,018,843)	-	(1,018,843)	-
Economic development	486,128	-	-	-	(486,128)	-	(486,128)	-
Interest on long-term debt	2,243,335	-	-	-	(2,243,335)	-	(2,243,335)	-
Total governmental activities	<u>22,358,745</u>	<u>2,899,957</u>	<u>1,397,938</u>	<u>2,638,496</u>	<u>(15,422,354)</u>	<u>-</u>	<u>(15,422,354)</u>	<u>-</u>
Business-type activities:								
Sewer	2,226,265	2,812,454	-	68,457	-	654,646	654,646	-
Water	3,872,934	3,938,774	-	-	-	65,840	65,840	-
Total business-type activities	<u>6,099,199</u>	<u>6,751,228</u>	<u>-</u>	<u>68,457</u>	<u>-</u>	<u>720,486</u>	<u>720,486</u>	<u>-</u>
Total primary government	<u>\$ 28,457,944</u>	<u>\$ 9,651,185</u>	<u>\$ 1,397,938</u>	<u>\$ 2,706,953</u>	<u>(15,422,354)</u>	<u>720,486</u>	<u>(14,701,868)</u>	<u>-</u>
Component unit:								
Library Board	<u>\$ 377,034</u>	<u>\$ 33,808</u>	<u>\$ 67,039</u>	<u>\$ -</u>				<u>(276,187)</u>
General revenues:								
Property taxes					9,464,138	-	9,464,138	340,000
Sales taxes					5,351,941	-	5,351,941	-
Franchise taxes					1,821,500	-	1,821,500	-
Excise taxes					14,744	-	14,744	-
Unrestricted investment earnings					50,874	15,595	66,469	718
Transfers					173,186	(173,186)	-	-
Total general revenues and transfers					<u>16,876,383</u>	<u>(157,591)</u>	<u>16,718,792</u>	<u>340,718</u>
Change in net assets					<u>1,454,029</u>	<u>562,895</u>	<u>2,016,924</u>	<u>64,531</u>
Net assets, beginning of year					<u>123,140,512</u>	<u>18,913,648</u>	<u>142,054,160</u>	<u>441,040</u>
Net assets, end of year					<u>\$ 124,594,541</u>	<u>\$ 19,476,543</u>	<u>\$ 144,071,084</u>	<u>\$ 505,571</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2011

	<u>Major</u>
	<u>General*</u>
Assets:	
Deposits and investments	\$ 9,154,253
Receivables (net of allowance for uncollectibles):	
Taxes	6,574,426
Special assessments	-
Grants	438,001
Accounts	45,452
Interest	15,602
Inventories	209,459
	<u> </u>
Total assets	<u>\$ 16,437,193</u>
Liabilities and fund balances:	
Liabilities:	
Accounts payable	\$ 547,233
Accrued payroll	677,008
Deferred revenue	5,732,424
	<u> </u>
Total liabilities	<u>6,956,665</u>
Fund balances:	
Nonspendable:	
Inventories	209,459
Restricted:	
General government	1,716
Public works	-
Public safety	-
Culture and recreation	-
Assigned	3,798,981
Unassigned	5,470,372
	<u> </u>
Total fund balances	<u>9,480,528</u>
	<u> </u>
Total liabilities and fund balances	<u>\$ 16,437,193</u>

* See the General Fund Combining Balance Sheet on page 63.

See accompanying notes to basic financial statements.

<u>Funds</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total Governmental</u>
	\$ 889,243	\$ 7,563,811	\$ 17,607,307
	1,586,658	1,163,521	9,324,605
	39,597,429	-	39,597,429
	51,866	-	489,867
	-	-	45,452
	-	3,107	18,709
	-	-	209,459
	<u>\$ 42,125,196</u>	<u>\$ 8,730,439</u>	<u>\$ 67,292,828</u>
	\$ -	\$ 21,476	\$ 568,709
	-	-	677,008
	<u>41,184,087</u>	<u>797,024</u>	<u>47,713,535</u>
	<u>41,184,087</u>	<u>818,500</u>	<u>48,959,252</u>
	-	-	209,459
	941,109	2,566,171	3,508,996
	-	2,979,651	2,979,651
	-	163,045	163,045
	-	1,901,088	1,901,088
	-	301,984	4,100,965
	-	-	5,470,372
	<u>941,109</u>	<u>7,911,939</u>	<u>18,333,576</u>
	<u>\$ 42,125,196</u>	<u>\$ 8,730,439</u>	<u>\$ 67,292,828</u>

CITY OF DERBY, KANSAS

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

December 31, 2011

Total fund balances in Governmental Funds Balance Sheet	\$ 18,333,576
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.	126,535,420
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	39,707,292
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(59,981,747)</u>
Net assets of governmental activities	<u><u>\$ 124,594,541</u></u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2011

	Major
	General*
Revenues:	
Taxes:	
Property	\$ 6,236,696
Excise	10,557
Sales	3,407,200
Franchise	1,821,500
Special assessments	-
Intergovernmental	874,846
Licenses and permits	462,070
Charges for services	211,456
Fines and fees	795,731
Investment earnings	32,706
Other	416,193
Total revenues	<u>14,268,955</u>
Expenditures:	
Current:	
General government	5,445,426
Public works	2,000,008
Public safety	4,000,388
Culture and recreation	794,870
Economic development	486,128
Debt service:	
Principal	305,000
Interest and fiscal charges	48,216
Debt issuance costs	-
Capital outlay	3,131,166
Total expenditures	<u>16,211,202</u>
Excess (deficiency) of revenues over (under) expenditures	(1,942,247)
Other financing sources (uses):	
General obligation bonds issued	-
General obligation refunding bonds issued	-
Premium on general obligation bonds issued	-
Payment to refunding bond escrow agent	-
Payment to refund temporary notes	-
Transfers in	629,218
Transfers out	-
Total other financing sources	<u>629,218</u>
Net change in fund balances	<u>(1,313,029)</u>
Fund balances, beginning of year as previously stated	7,728,375
Change in accounting principle	3,065,182
Fund balances, beginning of year as restated	<u>10,793,557</u>
Fund balances, end of year	<u>\$ 9,480,528</u>

* See the General Fund Combining Statement of Revenues, Expenditures and Changes in Fund Balances on page 64 - 65.

See accompanying notes to basic financial statements.

Funds	Debt Service	Nonmajor Funds	Total Governmental		
\$	2,314,239	\$	913,203	\$	9,464,138
	2,751		1,436		14,744
	-		1,944,741		5,351,941
	-		-		1,821,500
	4,250,155		24,049		4,274,204
	103,731		957,710		1,936,287
	-		-		462,070
	-		17,118		228,574
	-		-		795,731
	8,103		10,065		50,874
	258,737		282,118		957,048
	<u>6,937,716</u>		<u>4,150,440</u>		<u>25,357,111</u>
	-		1,189,435		6,634,861
	-		876,570		2,876,578
	-		8,191		4,008,579
	-		259,304		1,054,174
	-		-		486,128
	5,060,000		825,000		6,190,000
	2,013,937		226,409		2,288,562
	-		147,271		147,271
	-		1,888,511		5,019,677
	<u>7,073,937</u>		<u>5,420,691</u>		<u>28,705,830</u>
	(136,221)		(1,270,251)		(3,348,719)
	-		5,665,000		5,665,000
	-		3,985,000		3,985,000
	-		265,106		265,106
	-		(7,058,518)		(7,058,518)
	-		(1,895,000)		(1,895,000)
	664,937		21,674		1,315,829
	-		(650,892)		(650,892)
	<u>664,937</u>		<u>332,370</u>		<u>1,626,525</u>
	<u>528,716</u>		<u>(937,881)</u>		<u>(1,722,194)</u>
	412,393		11,915,002		20,055,770
	-		(3,065,182)		-
	<u>412,393</u>		<u>8,849,820</u>		<u>20,055,770</u>
\$	<u>941,109</u>	\$	<u>7,911,939</u>	\$	<u>18,333,576</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, 2011

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

Net change in fund balances - total governmental funds	\$ (1,722,194)
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.	(387,671)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, disposals, donations) is to decrease net assets	(11,634)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,717,522)
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.	5,340,982
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>(47,932)</u>
Change in net assets of governmental activities	<u>\$ 1,454,029</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, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes:			
Ad valorem property tax	\$ 5,363,935	\$ 5,392,682	\$ 28,747
Delinquent tax	50,000	59,177	9,177
Motor vehicle tax	801,132	784,837	(16,295)
Excise tax	9,630	10,557	927
Sales tax	3,140,187	3,407,200	267,013
Franchise tax	1,773,882	1,821,500	47,618
Intergovernmental	430,173	866,175	436,002
Licenses and permits	314,900	462,070	147,170
Fines and fees	625,000	795,731	170,731
Investment earnings	75,000	32,706	(42,294)
Charges for services	32,600	211,456	178,856
Other	513,609	409,565	(104,044)
Total revenues	13,130,048	14,253,656	1,123,608
Expenditures:			
Administration	1,217,787	478,706	739,081
Employee benefits	2,952,750	2,841,454	111,296
Law enforcement	3,499,418	3,038,229	461,189
Finance	453,982	795,480	(341,498)
Fire	932,996	962,159	(29,163)
Engineering	956,089	645,889	310,200
Public works and parks	1,064,673	1,005,432	59,241
Law department	180,256	356,617	(176,361)
Operations	681,428	858,031	(176,603)
Utilities	766,363	645,544	120,819
Economic development	95,143	415,369	(320,226)
Insurance recovery	30,000	34,690	(4,690)
Liability insurance	195,668	119,669	75,999
Equipment	652,481	466,309	186,172
Capital outlay	1,166,949	1,871,547	(704,598)
Reimbursables	354,133	265,585	88,548
Contingencies	2,498,371	23,600	2,474,771
Transportation	-	68,088	(68,088)
Debt service:			
Principal	305,000	305,000	-
Interest and fiscal charges	49,083	48,216	867
Total expenditures	\$ 18,052,570	\$ 15,245,614	\$ 2,806,956

(Continued)

CITY OF DERBY, KANSAS

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

GENERAL FUND

Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Other financing sources (uses):			
Transfers in	\$ 350,000	\$ 585,486	\$ 235,486
Transfers out	(1,005,000)	(1,530,000)	(525,000)
Total other financing sources (uses)	<u>(655,000)</u>	<u>(944,514)</u>	<u>(289,514)</u>
Net change in fund balances	(5,577,522)	(1,936,472)	3,641,050
Fund balances, beginning of year	<u>5,577,522</u>	<u>7,670,278</u>	<u>2,092,756</u>
Fund balances, end of year	<u><u>\$ -</u></u>	<u>5,733,806</u>	<u><u>\$ 5,733,806</u></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

548,137

Fund balance on the basis of GAAP - General Fund only

6,281,943

Fund balances for separately budgeted funds included with the General Fund on GAAP basis financials:

 Derby Senior Activity Board 5,679

Fund balances for non-budgeted funds included with the General Fund on GAAP basis financials:

 Payroll Fund (52,259)

 Equipment Reserve 1,059,579

 Capital Improvement Reserve 2,185,586

\$ 9,480,528

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS

December 31, 2011

	Sewer	Water	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 7,399,637	\$ 2,625,825	\$ 10,025,462
Accounts receivable (net of allowance for uncollectibles)	325,184	405,101	730,285
Intergovernmental receivable	34,228	-	34,228
Inventories	-	85,542	85,542
Prepaid items	-	3,362	3,362
Total current assets	7,759,049	3,119,830	10,878,879
Noncurrent assets:			
Deferred charges	81,674	122,751	204,425
Capital assets:			
Land	48,777	677,189	725,966
Construction in progress	3,511,510	4,131	3,515,641
Buildings	6,224,542	4,476,066	10,700,608
Infrastructure	14,084,581	18,816,201	32,900,782
Machinery and equipment	1,235,852	318,463	1,554,315
Accumulated depreciation	(13,044,395)	(14,183,832)	(27,228,227)
Total capital assets	12,060,867	10,108,218	22,169,085
Total noncurrent assets	12,142,541	10,230,969	22,373,510
Total assets	19,901,590	13,350,799	33,252,389
Liabilities:			
Current liabilities:			
Accounts payable	291,778	215,195	506,973
Accrued expenses	29,134	16,769	45,903
Compensated absences	13,059	-	13,059
Accrued interest payable	18,372	22,997	41,369
Current portion of bonds payable	550,000	405,000	955,000
Total current liabilities	902,343	659,961	1,562,304
Noncurrent liabilities:			
Compensated absences	20,162	-	20,162
Loans payable	2,856,493	-	2,856,493
Bonds payable, net	3,755,944	5,580,943	9,336,887
Total noncurrent liabilities	6,632,599	5,580,943	12,213,542
Total liabilities	7,534,942	6,240,904	13,775,846
Net assets:			
Invested in capital assets, net of related debt	8,525,910	4,122,275	12,648,185
Unrestricted	3,840,738	2,987,620	6,828,358
Total net assets	\$ 12,366,648	\$ 7,109,895	\$ 19,476,543

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, 2011

	Sewer	Water	Total
Operating revenues:			
Charges for sales and services	\$ 2,807,136	\$ 3,938,326	\$ 6,745,462
Miscellaneous	5,318	448	5,766
Total operating revenues	<u>2,812,454</u>	<u>3,938,774</u>	<u>6,751,228</u>
Operating expenses:			
Personnel services	698,967	395,962	1,094,929
Contractual services	258,955	2,226,728	2,485,683
Supplies	109,861	100,653	210,514
Utilities	238,066	24,722	262,788
Depreciation and amortization	658,587	834,141	1,492,728
Total operating expenses	<u>1,964,436</u>	<u>3,582,206</u>	<u>5,546,642</u>
Operating income	<u>848,018</u>	<u>356,568</u>	<u>1,204,586</u>
Nonoperating revenues (expenses):			
Interest revenue	10,002	5,593	15,595
Capital grants	68,457	-	68,457
Interest expense	(261,829)	(290,728)	(552,557)
Total nonoperating expenses	<u>(183,370)</u>	<u>(285,135)</u>	<u>(468,505)</u>
Income before transfers and contributions	664,648	71,433	736,081
Capital contributions	446,389	45,362	491,751
Transfers out	(664,937)	-	(664,937)
Changes in net assets	446,100	116,795	562,895
Total net assets, beginning of year	<u>11,920,548</u>	<u>6,993,100</u>	<u>18,913,648</u>
Total net assets, end of year	<u>\$ 12,366,648</u>	<u>\$ 7,109,895</u>	<u>\$ 19,476,543</u>

See accompanying notes to basic financial statements.

CITY OF DERBY, KANSAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended December 31, 2011

	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,915,930	\$ 3,834,922	\$ 6,750,852
Other receipts	5,318	448	5,766
Payments to suppliers	(387,701)	(2,302,814)	(2,690,515)
Payments to employees	(695,597)	(395,634)	(1,091,231)
Net cash provided by operating activities	1,837,950	1,136,922	2,974,872
Cash flows from noncapital financing activities:			
Transfers to other funds	(664,937)	-	(664,937)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,323,195)	(94,341)	(2,417,536)
Proceeds from capital debt	2,129,096	-	2,129,096
Principal paid on general obligation debt	(390,000)	(535,000)	(925,000)
Interest paid on general obligation debt	(261,829)	(290,728)	(552,557)
Grant proceeds	68,457	-	68,457
Net cash used in capital and related financing activities	(777,471)	(920,069)	(1,697,540)
Cash flows from investing activities:			
Interest received	10,002	5,593	15,595
Net increase in cash and cash equivalents	405,544	222,446	627,990
Cash and cash equivalents, beginning of year	6,994,093	2,403,379	9,397,472
Cash and cash equivalents, end of year	\$ 7,399,637	\$ 2,625,825	\$ 10,025,462

(Continued)

CITY OF DERBY, KANSAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)

Year Ended December 31, 2011

	Sewer	Water	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 848,018	\$ 356,568	\$ 1,204,586
Adjustments to reconcile operating income to net cash provided by operating activities:			
Items not requiring cash:			
Depreciation and amortization expense	658,587	834,141	1,492,728
Changes in:			
Accounts receivable	41,634	(29,950)	11,684
Due to/from other funds	67,160	(73,454)	(6,294)
Prepaid items	-	15,123	15,123
Inventories	-	(62,002)	(62,002)
Accounts payable - non-capital	219,181	96,168	315,349
Accrued expenses	3,370	328	3,698
Net cash provided by operating activities	<u>\$ 1,837,950</u>	<u>\$ 1,136,922</u>	<u>\$ 2,974,872</u>

Noncash capital financing activities:

Contributions of capital assets of \$ 446,389 and \$ 45,362 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, 2011

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.

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 deposits and 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, 2011, an allowance for uncollectible receivables of approximately \$ 277,000 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	\$ 5,732,424
Debt service fund property tax receivable	1,586,658
Debt service fund special assessments receivable	39,597,429
Nonmajor governmental fund property tax receivable	<u>797,024</u>
	<u>\$ 47,713,535</u>

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, 2010 upon which the 2011 levy was based was approximately \$ 176,645,078.

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 is accrued when incurred in the government-wide and proprietary fund financial statements. Sick pay is accrued when incurred only for employees hired prior to July 1, 1990. 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, refunding differences and 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 and deferred refunding differences. 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 Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of December 31, 2011, fund balances for governmental funds are made up of the following:

Nonspendable fund balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed fund balance – includes amounts that can only be spent for specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.

Assigned fund balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the City Council or (2) a body or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned fund balance – is the residual classification for the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

In previous years, the Derby Senior Activity Board, Economic Development Reserve, Payroll, Equipment Reserve, and Capital Improvement Reserve Funds were classified as special revenue funds. With the implementation of GASB Statement No. 54 in 2011, it was determined that these funds no longer qualify as special revenue funds, and these funds were combined with the General Fund. The beginning balances of Nonmajor Governmental Funds and the General Fund have been adjusted on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds.

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, 2011, 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:

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, was issued in November 2010. The objective of this statement is to improve financial reporting by modifying certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria and guidance for reporting component units as if they were part of the primary government (that is, blending). Additionally, this statement requires a primary government to report its equity interest in a component unit as an asset. The provisions of this statement are effective for periods beginning after June 15, 2012.

GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position was issued in June of 2011. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. In addition, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

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 \$ (59,981,747) difference are as follows:

General obligation bonds payable	\$ (57,445,000)
Plus: Issuance premiums	(607,621)
Less: Issuance discounts	26,195
Less: Deferred refunding differences	664,466
Deferred charges for issuance costs	870,071
Certificates of participation	(960,000)
Temporary notes payable	(1,565,000)
Accrued interest payable	(200,871)
Compensated absences	(586,458)
Net OPEB obligation	<u>(177,529)</u>
 Net adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	 <u><u>\$ (59,981,747)</u></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

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 \$ (387,671) difference are as follows:

Capital outlay	\$ 3,736,786
Depreciation expense	<u>(4,124,457)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ (387,671)</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 \$ 5,340,982 difference are as follows:

Debt issued or incurred:	
General obligation debt	\$ (9,650,000)
Issuance premiums	(265,106)
Deferred refunding difference	424,141
Issuance costs	144,389
Net OPEB obligation	(67,442)
Principal repayments:	
General obligation debt	12,535,000
Certificates of participation	305,000
Net OPEB obligation	20,000
Temporary notes	<u>1,895,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 5,340,982</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 \$ (47,932) difference are as follows:

Compensated absences	\$ 18,327
Accrued interest	48,109
Amortization of issuance costs	(223,200)
Amortization of deferred refunding difference	(48,482)
Amortization of bond discounts	(3,742)
Amortization of bond premiums	<u>161,056</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (47,932)</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 law enforcement trust fund, the equipment reserve fund, the payroll 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.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3 - Stewardship, Compliance and Accountability (Continued)

Budgetary Information (Continued)

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 1st.
- b. Publication in a local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
- 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 25th.

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.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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 \$ 26,857,463 and the bank balances totaled \$ 27,483,942. Of the bank balances, \$ 1,000,000 was secured by federal deposit insurance and \$ 26,483,942 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.

Investments

At December 31, 2011, 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	\$ 775,306

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 AAAf/S1+ by Standard & Poor's. The Library held no investments at December 31, 2011.

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.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4 - Deposits and Investments (Continued)

Investments (Continued)

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, 2011, the City's investments were not exposed to custodial credit risk.

5 - Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,505,844	\$ 751,272	\$ -	\$ 2,257,116
Land - right of way	30,066,710	-	-	30,066,710
Construction in progress	2,344,446	2,411,503	(3,724,175)	1,031,774
Total capital assets not being depreciated	33,917,000	3,162,775	(3,724,175)	33,355,600
Capital assets being depreciated:				
Buildings	22,404,792	170,926	-	22,575,718
Improvements	3,816,720	157,515	-	3,974,235
Infrastructure	111,349,176	3,384,671	-	114,733,847
Machinery and equipment	8,956,873	574,011	(23,999)	9,506,885
Total capital assets being depreciated	146,527,561	4,287,123	(23,999)	150,790,685
Less accumulated depreciation for:				
Buildings	(3,956,098)	(598,670)	-	(4,554,768)
Improvements	(688,256)	(94,543)	-	(782,799)
Infrastructure	(41,976,356)	(2,817,710)	-	(44,794,066)
Machinery and equipment	(6,889,126)	(613,534)	23,428	(7,479,232)
Total accumulated depreciation	(53,509,836)	(4,124,457)	23,428	(57,610,865)
Total capital assets being depreciated, net	93,017,725	162,666	(571)	93,179,820
Governmental activities capital assets, net	\$ 126,934,725	\$ 3,325,441	\$ (3,724,746)	\$ 126,535,420

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5 - Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 725,966	\$ -	\$ -	\$ 725,966
Construction in progress	2,978,090	1,082,107	(544,556)	3,515,641
Total capital assets not being depreciated	3,704,056	1,082,107	(544,556)	4,241,607
Capital assets being depreciated:				
Buildings	10,700,608	-	-	10,700,608
Infrastructure	32,279,892	620,890	-	32,900,782
Machinery and equipment	1,530,450	41,545	(17,680)	1,554,315
Total capital assets being depreciated	44,510,950	662,435	(17,680)	45,155,705
Less accumulated depreciation for:				
Buildings	(4,567,110)	(338,628)	-	(4,905,738)
Infrastructure	(19,868,609)	(1,083,605)	-	(20,952,214)
Machinery and equipment	(1,321,607)	(66,348)	17,680	(1,370,275)
Total accumulated depreciation	(25,757,326)	(1,488,581)	17,680	(27,228,227)
Total capital assets being depreciated, net	18,753,624	(826,146)	-	17,927,478
Business-type activities capital assets, net	\$ 22,457,680	\$ 255,961	\$ (544,556)	\$ 22,169,085

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	\$ 376,163
Public safety	403,495
Public works	3,078,483
Culture and recreation	266,316
	<hr/>
Total depreciation expense - governmental activities	<u>\$ 4,124,457</u>
Business-type activities:	
Sewer	\$ 647,735
Water	840,846
	<hr/>
Total depreciation expense - business-type activities	<u>\$ 1,488,581</u>

Discretely Presented Component Unit

Capital asset activity for the Library Board for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Equipment and books	\$ 739,747	\$ 202,982	\$ (165,752)	\$ 776,977
Less accumulated depreciation for:				
Equipment and books	(466,812)	(224,013)	165,752	(525,073)
Library Board capital assets, net	<u>\$ 272,935</u>	<u>\$ (21,031)</u>	<u>\$ -</u>	<u>\$ 251,904</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, 2011:

	<u>Costs to Date</u>	<u>Amount Authorized</u>
Governmental improvements	\$ 1,010,868	\$ 1,487,018
Sewer improvements	3,539,810	6,688,603
Water improvements	23,930	65,800
	<u>\$ 4,574,608</u>	<u>\$ 8,241,421</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 limitations on annual increases in the employer contribution rates. The KPERS employer rate established by statute for January through March and July through December 2011 was 7.74%. The KPERS employer rate established by statute for April through June 2011 was 6.74%. The employer contributions to KPERS for the years ended December 31, 2011, 2010 and 2009 were \$ 382,152, \$ 346,711, and \$ 290,916, respectively, equal to the statutory required contributions for each year. The KP&F employer rate established for calendar year 2011 was 14.57%. 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, 2011, 2010 and 2009 were \$ 432,513, \$ 357,470, and \$ 361,821, 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 2011, the City contributed \$ 20,000 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	\$ 67,615
Interest on net OPEB obligation	5,854
Adjustment to annual required contribution	<u>(6,027)</u>
Annual OPEB cost (expense)	67,442
Contributions made	<u>(20,000)</u>
Increase in net OPEB obligation	47,442
Net OPEB obligation, January 1, 2011	<u>130,087</u>
Net OPEB obligation, December 31, 2011	<u><u>\$ 177,529</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 2009, 2010 and 2011 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 49,757	7.49%	\$ 95,579
2010	50,320	31.42%	130,087
2011	67,442	29.66%	177,529

Funded Status and Funding Progress. As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 546,530. 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 \$ 546,530. The covered payroll (annual payroll of active employees covered by the plan) was \$ 7,203,559 and the ratio of the UAAL to the covered payroll was 7.6%.

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, 2011 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 8.5, 8.0, 7.5, 7.0, 6.5, 6.0, 5.5, and 5.0 percent in the first eight years and an ultimate rate of 5.0 percent thereafter. The valuation assumed no employer dental benefits for retirees. The valuation assumed a 3.0 percent inflation rate. The UAAL is being amortized using a level percent of pay over a period of 30 years with the remaining amortization period of 30 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, 2011 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2011	Outstanding December 31, 2011
General Obligation Bonds:					
Governmental activities:					
2001A Improvement	3.55-4.70%	\$ 4,510,000	2012	\$ 281,141	\$ 301,039
2001B Refunding and Improvement	3.80-5.50%	4,520,000	2012	480,000	10,000
2001C Improvement	3.85-4.90%	1,100,000	2011	65,800	-
2003D Improvement	3.0-4.4%	1,500,000	2019	484,300	548,100
2004D Refunding and Improvement	2.0-4.75%	5,560,000	2018	515,000	2,595,000
2005A Improvement	3.55-5.0%	750,000	2021	45,900	566,100
2006A Refunding and Improvement	3.55-4.25%	3,262,983	2021	30,000	3,037,983
2006B Improvement	3.55-5.0%	1,229,724	2022	71,162	1,011,245
2008A Improvement	3.0-4.0%	78,096	2023	4,213	67,402
2008B Improvement	3.80-4.35%	2,410,304	2024	130,662	2,254,622
2009A Improvement	1.75-6.0%	6,180,000	2029	245,000	5,750,000
2010A Improvement	2.0-3.75%	60,205	2025	2,293	57,912
2010B Improvement	1.0-2.55%	7,300,000	2017	825,000	6,475,000
2010C Refunding	2.0-2.8%	1,040,450	2021	67,200	973,250
2011A Refunding and Improvement	2.0-4.0%	1,465,700	2031	-	1,465,700
				\$ 3,247,671	\$ 25,113,353
Business-type activities:					
2004A Refunding and Improvement	1.10-5.0%	9,455,000	2022	\$ 535,000	\$ 5,790,000
2004B Refunding and Improvement	1.10-3.6%	3,255,000	2013	230,000	490,000
2009A Improvement	1.75-6.0%	4,075,000	2029	160,000	3,795,000
				\$ 925,000	\$ 10,075,000

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
2012	\$ 2,615,556	\$ 1,171,074	\$ 955,000	\$ 483,130
2013	2,485,027	1,066,979	980,000	451,355
2014	2,511,934	1,066,588	760,000	417,230
2015	2,494,615	1,032,106	785,000	381,780
2016	2,680,093	776,076	825,000	344,280
2017-2021	8,201,571	2,719,086	3,560,000	1,105,190
2022-2026	2,909,557	769,012	1,410,000	455,785
2027-2031	1,215,000	147,599	800,000	97,500
	<u>\$ 25,113,353</u>	<u>\$ 8,748,520</u>	<u>\$ 10,075,000</u>	<u>\$ 3,736,250</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, 2011 are comprised of the following issues:

Special Assessment Bonds	Interest Rates	Original Issue	Final Maturity Date	Principal Payment During 2011	Outstanding December 31, 2011
Governmental activities:					
2001A Improvement	3.70-5.25%	\$ 2,355,000	2012	\$ 103,859	\$ 108,961
2001B Refunding & Improvement	4.25-5.00%	5,270,000	2012	1,750,000	405,000
2001C Improvement	3.85-5.00%	1,250,000	2011	74,200	-
2002A Improvement	3.00-5.00%	2,925,000	2012	205,000	215,000
2003C Improvement	3.00-3.75%	1,215,000	2014	480,000	265,000
2003D Improvement	3.125-4.40%	1,080,000	2016	350,700	396,900
2004C Improvement	2.20-4.75%	7,470,000	2013	4,670,000	990,000
2004D Refunding & Improvement	2.20-4.75%	1,005,000	2013	105,000	225,000
2005A Improvement	3.55-5.00%	720,300	2021	44,100	543,900
2006A Refunding & Improvement	3.55-4.25%	3,117,017	2016	305,000	2,132,017
2006B Improvement	3.55-5.00%	3,695,276	2022	213,838	3,038,755
2008A Improvement	3.0-4.0%	2,331,904	2023	125,787	2,012,598
2008B Improvement	3.80-4.35%	6,259,696	2024	339,338	5,855,378
2009B Improvement	2.0-3.90%	2,680,000	2024	145,000	2,430,000
2010A Improvement	2.0-3.75%	2,959,795	2025	112,707	2,847,088
2010C Refunding	2.0-2.8%	2,944,550	2018	262,800	2,681,750
2011A Refunding & Improvement	2.0-4.0%	8,134,300	2031	-	8,184,300
				<u>\$ 9,287,329</u>	<u>\$ 32,331,647</u>

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:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,134,444	\$ 1,266,165
2013	3,279,973	1,130,137
2014	3,288,066	923,048
2015	3,415,385	721,543
2016	2,979,907	736,276
2017 - 2021	11,093,429	1,714,970
2022 - 2026	4,545,443	476,596
2027 - 2031	595,000	65,052
	<u>\$ 32,331,647</u>	<u>\$ 7,033,787</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 2002A: Callable December 1, 2012 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 2004A: 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
 Series 2010A: Callable December 1, 2018 at par plus accrued interest
 Series 2010B: Callable December 1, 2014 at par plus accrued interest
 Series 2010C: Callable December 1, 2017 at par plus accrued interest
 Series 2011A: Callable December 1, 2018 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	\$ 410,000	\$ 410,000
Series 2001B	415,000	415,000
Series 2002A	215,000	215,000
Series 2003C	85,000	90,000
Series 2003D	175,000	205,000
Series 2004C	485,000	505,000
Series 2004D	320,000	645,000
Series 2005A	95,000	135,000
Series 2006A	320,000	785,000
Series 2006B	295,000	450,000
Series 2008A	140,000	215,000
Series 2008B	485,000	795,000
Series 2009A	250,000	420,000
Series 2009B	150,000	235,000
Series 2010A	170,000	265,000
Series 2010B	945,000	1,235,000
Series 2010C	100,000	590,000
Series 2011A	110,000	1,270,000
Business-type activities:		
Series 2004A	235,000	730,000
Series 2004B	240,000	250,000
Series 2009A	160,000	280,000

Refundings

In the current year, the City issued Series 2011A General Obligation Refunding Bonds in the amount of \$ 9,650,000 to advance refund \$ 1,385,000, \$395,000, \$665,000, and \$ 4,205,000 of the outstanding balances of the Series 2001B, 2003C, 2003D, and 2004C General Obligation bonds, respectively. The reacquisition price exceeded the net carrying amount of the old debt by \$ 424,141. This amount is being netted against the new debt and amortized over the life of the old debt, which is shorter than the life of the new debt. The refunding transactions resulted in an economic gain of \$ 271,298 and a decrease in the future debt service payments of \$ 415,320.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10 - Long-Term Debt (Continued)

Defeased Debt

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, 2011, \$ 6,495,000 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 3.6% to 3.75% and with a final maturity in 2012. Principal payments are scheduled annually, with the remaining payment at \$ 90,000. The balance at December 31, 2011 is \$ 90,000.

The City also issued certificates of participation series 2005-2 in the original amount of \$ 1,990,000 with interest rates ranging from 3.6% to 4.2% and with a final maturity in 2015. Principal payments are scheduled annually ranging from \$ 205,000 to \$ 230,000. The balance at December 31, 2011 is \$ 870,000.

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

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 295,000	\$ 33,859
2013	210,000	22,650
2014	225,000	14,160
2015	230,000	4,830
	<u>\$ 960,000</u>	<u>\$ 75,499</u>

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10 - Long-Term Debt (Continued)

Temporary Notes Payable

The City issues temporary notes to provide temporary financing for capital improvement projects. Temporary notes payable at December 31, 2011 were as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding December 31, 2011</u>
2010-1	\$ 3,460,000	1.00%	9/15/2012	<u>\$ 1,565,000</u>

The temporary note issued by the City has an initial maturity of at least one year beyond the balance sheet date of the period in which it was issued. Therefore, it is considered long-term debt and has been included in long-term liabilities on the statement of net assets.

Revolving Loan Payable

The City entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) on November 12, 2009. According to the agreement, KDHE will loan an amount not to exceed \$ 3,371,000 to the City for the purpose of designing and constructing a new sludge dewatering system and a new biosolids storage system and upgrading the mixing and aeration systems in the existing aerobic digester. The interest rate on the loan is 2.60%. The first payment of principal and interest on the loan is to be made the earlier of two years after receipt by the City of the first disbursement under the loan or one year after project completion. Principal forgiveness of up to \$ 1,700,000 will be granted to the City using American Recovery and Reinvestment Act (ARRA) funds. Once the project is complete and the loan amount is finalized, the repayment schedule will be revised to reflect the amount of principal forgiven. As of December 31, 2011, \$ 2,856,493 of the loan was drawn down and project costs of \$ 2,856,493 were incurred.

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, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 26,895,324	\$ 1,465,700	\$ 3,247,671	\$ 25,113,353	\$ 2,615,556
Plus deferred amounts:					
Issuance premiums	503,571	265,106	161,056	607,621	-
Issuance discounts	(29,937)	-	(3,742)	(26,195)	-
Deferred refunding difference	(288,807)	(424,141)	(48,482)	(664,466)	-
Special assessment debt with government commitment	33,434,676	8,184,300	9,287,329	32,331,647	3,134,444
Certificates of participation	1,265,000	-	305,000	960,000	295,000
Temporary notes	3,460,000	-	1,895,000	1,565,000	1,565,000
Compensated absences	604,785	377,952	396,279	586,458	396,279
Net OPEB obligation	130,087	67,442	20,000	177,529	-
Governmental activities long- term liabilities	<u>\$ 65,974,699</u>	<u>\$ 9,936,359</u>	<u>\$ 15,260,111</u>	<u>\$ 60,650,947</u>	<u>\$ 8,006,279</u>
Business-type activities:					
General obligation bonds	\$ 11,000,000	\$ -	\$ 925,000	\$ 10,075,000	\$ 955,000
Plus (less) deferred amounts:					
Issuance premiums	237,967	-	19,903	218,064	-
Issuance discounts	(1,792)	-	(615)	(1,177)	-
Revolving loans	2,856,493	-	-	2,856,493	-
Compensated absences	33,221	13,059	13,059	33,221	13,059
Business-type activities long- term liabilities	<u>\$ 14,125,889</u>	<u>\$ 13,059</u>	<u>\$ 957,347</u>	<u>\$ 13,181,601</u>	<u>\$ 968,059</u>

For the governmental activities, compensated absences and the net OPEB obligation 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, 2011, 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, 2011 was \$ 39,597,429.

12 - Interfund Transactions

Interfund transfers for the year ended December 31, 2011 consisted of the following:

Transfers out	Transfers in		
	General fund	Debt service fund	Nonmajor governmental funds
Nonmajor governmental funds	\$ 629,218	\$ -	\$ 21,674
Sewer fund	-	664,937	-
Total	\$ 629,218	\$ 664,937	\$ 21,674

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.

Capital asset transfers of \$ 491,751 occurred from the governmental activities to the business-type activities and are reported within transfers on the statement of activities.

CITY OF DERBY, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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.

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, 2011, industrial revenue bonds of \$ 7,743,096 are outstanding.

14 - Commitments and Contingencies – Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities, but, rather, as restricted, committed, or assigned fund balance. At December 31, 2011, the City's recorded encumbrances in governmental funds were as follows:

General	\$ 548,137
Other funds included in the combined general fund	<u>10,447</u>
	<u>\$ 558,584</u>

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%
1/1/2011	\$ -	\$ 546,530	\$ 546,530	0.0%	\$ 7,203,559	7.60%

OTHER SUPPLEMENTARY INFORMATION

CITY OF DERBY, KANSAS
COMBINING BALANCE SHEET

GENERAL FUND

December 31, 2011

	General	Derby Senior Activity Board	Economic Development Reserve	Payroll	Equipment Reserve	Capital Improvement Reserve	Total General Fund
Assets:							
Deposits and investments	\$ 5,144,632	\$ 5,679	\$ -	\$ 699,194	\$ 1,099,922	\$ 2,204,826	\$ 9,154,253
Receivables (net of allowance for uncollectibles):							
Taxes	6,574,426	-	-	-	-	-	6,574,426
Grants	438,001	-	-	-	-	-	438,001
Accounts	45,452	-	-	-	-	-	45,452
Interest	15,602	-	-	-	-	-	15,602
Due from other funds	102,598	-	-	(102,598)	-	-	-
Inventories	209,459	-	-	-	-	-	209,459
Total assets	\$ 12,530,170	\$ 5,679	\$ -	\$ 596,596	\$ 1,099,922	\$ 2,204,826	\$ 16,437,193
Liabilities and fund balances:							
Liabilities:							
Accounts payable	\$ 487,650	\$ -	\$ -	\$ -	\$ 40,343	\$ 19,240	\$ 547,233
Accrued payroll	28,153	-	-	648,855	-	-	677,008
Deferred revenue	5,732,424	-	-	-	-	-	5,732,424
Total liabilities	6,248,227	-	-	648,855	40,343	19,240	6,956,665
Fund balances:							
Nonspendable:							
Inventories	209,459	-	-	-	-	-	209,459
Restricted:							
General government	1,716	-	-	-	-	-	1,716
Assigned	548,137	5,679	-	-	1,059,579	2,185,586	3,798,981
Unassigned	5,522,631	-	-	(52,259)	-	-	5,470,372
Total fund balances	6,281,943	5,679	-	(52,259)	1,059,579	2,185,586	9,480,528
Total liabilities and fund balances	\$ 12,530,170	\$ 5,679	\$ -	\$ 596,596	\$ 1,099,922	\$ 2,204,826	\$ 16,437,193

CITY OF DERBY, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES

GENERAL FUND

Year Ended December 31, 2011

	General	Derby Senior Activity Board
Revenues:		
Taxes:		
Property	\$ 6,236,696	\$ -
Excise	10,557	-
Sales	3,407,200	-
Franchise	1,821,500	-
Intergovernmental	866,175	-
Licenses and permits	462,070	-
Charges for services	211,456	-
Fines and fees	795,731	-
Investment earnings	32,706	-
Other	409,565	6,628
Total revenues	<u>14,253,656</u>	<u>6,628</u>
Expenditures:		
Current:		
General government	5,249,549	13,235
Public works	2,000,008	-
Public safety	4,000,388	-
Culture and recreation	794,870	-
Economic development	486,128	-
Debt service:		
Principal	305,000	-
Interest and fiscal charges	48,216	-
Capital outlay	1,871,415	-
Total expenditures	<u>14,755,574</u>	<u>13,235</u>
Deficiency of revenues under expenditures	(501,918)	(6,607)
Other financing sources (uses):		
Transfers in	585,486	-
Transfers out	(1,530,000)	-
Total other financing sources (uses)	<u>(944,514)</u>	<u>-</u>
Net change in fund balances	<u>(1,446,432)</u>	<u>(6,607)</u>
Fund balances, beginning of year as previously stated	7,728,375	-
Change in accounting principle	-	12,286
Fund balances, beginning of year as restated	<u>7,728,375</u>	<u>12,286</u>
Fund balances, end of year	<u>\$ 6,281,943</u>	<u>\$ 5,679</u>

Economic Development Reserve	Payroll	Equipment Reserve	Capital Improvement Reserve	Eliminations	Total General Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,236,696
-	-	-	-	-	10,557
-	-	-	-	-	3,407,200
-	-	-	-	-	1,821,500
-	-	-	8,671	-	874,846
-	-	-	-	-	462,070
-	-	-	-	-	211,456
-	-	-	-	-	795,731
-	-	-	-	-	32,706
-	-	-	-	-	416,193
-	-	-	8,671	-	14,268,955
-	182,642	-	-	-	5,445,426
-	-	-	-	-	2,000,008
-	-	-	-	-	4,000,388
-	-	-	-	-	794,870
-	-	-	-	-	486,128
-	-	-	-	-	305,000
-	-	-	-	-	48,216
-	-	432,548	827,203	-	3,131,166
-	182,642	432,548	827,203	-	16,211,202
-	(182,642)	(432,548)	(818,532)	-	(1,942,247)
-	-	960,000	849,218	(1,765,486)	629,218
(235,486)	-	-	-	1,765,486	-
(235,486)	-	960,000	849,218	-	629,218
(235,486)	(182,642)	527,452	30,686	-	(1,313,029)
-	-	-	-	-	7,728,375
235,486	130,383	532,127	2,154,900	-	3,065,182
235,486	130,383	532,127	2,154,900	-	10,793,557
\$ -	\$ (52,259)	\$ 1,059,579	\$ 2,185,586	\$ -	\$ 9,480,528

CITY OF DERBY, KANSAS

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

DERBY SENIOR ACTIVITY BOARD

Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Contributions	\$ 7,000	\$ 6,628	\$ (372)
Other	2,000	-	(2,000)
	<u>9,000</u>	<u>6,628</u>	<u>(2,372)</u>
Expenditures:			
Board expenditures	14,700	13,235	1,465
Net change in fund balances	(5,700)	(6,607)	(907)
Fund balances, beginning of year	5,700	12,286	6,586
Fund balances, end of year	<u>\$ -</u>	<u>\$ 5,679</u>	<u>\$ 5,679</u>

CITY OF DERBY, KANSAS

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

ECONOMIC DEVELOPMENT RESERVE FUND

Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Other revenues	\$ 1,200	\$ -	\$ (1,200)
Expenditures:			
Contractual expenses	128,025	-	128,025
Capital outlay	78,765	-	78,765
Total expenditures	206,790	-	206,790
Other financing sources (uses):			
Transfers in	75,000	-	(75,000)
Transfers out	(71,965)	(235,486)	(163,521)
Total other financing sources and (uses)	3,035	(235,486)	(238,521)
Net change in fund balances	(202,555)	(235,486)	(32,931)
Fund balances, beginning of year	202,555	195,486	(7,069)
Fund balances, end of year	\$ -	(40,000)	\$ (40,000)

Explanation of difference between budgetary and GAAP fund balances:

Adjustment for prior year canceled encumbrances	40,000
GAAP fund balance, end of year	\$ -

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.

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 – This fund accounts 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.

Library Sales Tax – This fund is used to account for the receipt of the City’s special sales taxes for the construction and maintenance of the library.

Aquatic Park - This 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.

Capital Projects Fund

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

CITY OF DERBY, KANSAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2011

	Special Revenue			
	Special Street and Highway	Special Parks and Recreation	Special Drug and Alcohol	Law Enforcement Trust
Assets:				
Cash and cash equivalents	\$ 655,579	\$ 90,045	\$ 159,718	\$ 3,411
Receivables (net of allowance for uncollectibles):				
Taxes	-	-	-	-
Interest	-	-	-	-
Total assets	\$ 655,579	\$ 90,045	\$ 159,718	\$ 3,411
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 11,240	\$ -	\$ 84	\$ -
Deferred revenue	-	-	-	-
Total liabilities	11,240	-	84	-
Fund balances:				
Restricted:				
General government	-	-	-	-
Public works	644,339	-	-	-
Public safety	-	-	159,634	3,411
Culture and recreation	-	90,045	-	-
Assigned	-	-	-	-
Total fund balances	644,339	90,045	159,634	3,411
Total liabilities and fund balances	\$ 655,579	\$ 90,045	\$ 159,718	\$ 3,411

Funds

Library	Library Employee Benefits	Library Sales Tax	Aquatic Park	Total Special Revenue Funds	Capital Projects	Total Nonmajor Governmental Funds
\$ 43,906	\$ 14,839	\$ 2,144,162	\$ 2,116,839	\$ 5,228,499	\$ 2,335,312	\$ 7,563,811
719,294	77,730	366,497	-	1,163,521	-	1,163,521
-	-	3,107	-	3,107	-	3,107
<u>\$ 763,200</u>	<u>\$ 92,569</u>	<u>\$ 2,513,766</u>	<u>\$ 2,116,839</u>	<u>\$ 6,395,127</u>	<u>\$ 2,335,312</u>	<u>\$ 8,730,439</u>
\$ 933	\$ -	\$ 5,407	\$ 3,812	\$ 21,476	\$ -	\$ 21,476
719,294	77,730	-	-	797,024	-	797,024
<u>720,227</u>	<u>77,730</u>	<u>5,407</u>	<u>3,812</u>	<u>818,500</u>	<u>-</u>	<u>818,500</u>
42,973	14,839	2,508,359	-	2,566,171	-	2,566,171
-	-	-	-	644,339	2,335,312	2,979,651
-	-	-	-	163,045	-	163,045
-	-	-	1,811,043	1,901,088	-	1,901,088
-	-	-	301,984	301,984	-	301,984
<u>42,973</u>	<u>14,839</u>	<u>2,508,359</u>	<u>2,113,027</u>	<u>5,576,627</u>	<u>2,335,312</u>	<u>7,911,939</u>
<u>\$ 763,200</u>	<u>\$ 92,569</u>	<u>\$ 2,513,766</u>	<u>\$ 2,116,839</u>	<u>\$ 6,395,127</u>	<u>\$ 2,335,312</u>	<u>\$ 8,730,439</u>

CITY OF DERBY, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year Ended December 31, 2011

	Special Street and Highway
Revenues:	
Taxes:	
Property	\$ -
Excise	-
Sales	-
Special assessments	-
Intergovernmental	856,063
Charges for services	-
Investment earnings	-
Other	-
Total revenues	856,063
Expenditures:	
Current:	
General government	-
Public works	876,570
Public safety	-
Culture and recreation	-
Debt service:	
Principal	-
Interest and fiscal charges	-
Debt issuance costs	-
Capital outlay	8,517
Total expenditures	885,087
Excess (deficiency) of revenues over (under) expenditures	(29,024)
Other financing sources (uses):	
General obligation bonds issued	-
General obligation refunding bonds issued	-
Premium on general obligation bonds issued	-
Payment to refunded bond escrow agent	-
Payment to refund temporary notes	-
Transfers in	-
Transfers out	-
Total other financing sources (uses)	(29,024)
Fund balances, beginning of year as previously stated	673,363
Change in accounting principle	-
Fund balances beginning of year as restated	673,363
Fund balances, end of year	\$ 644,339

(Continued)

Special Revenue Funds

Special Parks and Recreation	Special Drug and Alcohol	Law Enforcement Trust	Library	Library Employee Benefits	Library Sales Tax	Aquatic Park
\$ -	\$ -	\$ -	\$ 824,371	\$ 88,832	\$ -	\$ -
-	-	-	1,298	138	-	-
-	-	-	-	-	1,944,741	-
-	-	-	-	-	-	-
50,823	50,824	-	-	-	-	-
-	-	-	-	-	-	17,118
-	-	12	-	-	6,145	3,908
-	-	-	22	1,138	-	280,958
<u>50,823</u>	<u>50,824</u>	<u>12</u>	<u>825,691</u>	<u>90,108</u>	<u>1,950,886</u>	<u>301,984</u>
-	44,962	-	790,764	99,068	254,641	-
-	-	-	-	-	-	-
-	-	8,191	-	-	-	-
-	-	-	-	-	-	259,304
-	-	-	-	-	825,000	-
-	-	-	-	-	191,809	-
-	-	-	-	-	-	-
61,968	-	-	-	-	11,037	12,938
<u>61,968</u>	<u>44,962</u>	<u>8,191</u>	<u>790,764</u>	<u>99,068</u>	<u>1,282,487</u>	<u>272,242</u>
<u>(11,145)</u>	<u>5,862</u>	<u>(8,179)</u>	<u>34,927</u>	<u>(8,960)</u>	<u>668,399</u>	<u>29,742</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	21,674	-	-
-	-	-	(21,674)	-	-	-
-	-	-	(21,674)	21,674	-	-
<u>(11,145)</u>	<u>5,862</u>	<u>(8,179)</u>	<u>13,253</u>	<u>12,714</u>	<u>668,399</u>	<u>29,742</u>
101,190	153,772	11,590	29,720	2,125	1,839,960	2,083,285
-	-	-	-	-	-	-
<u>101,190</u>	<u>153,772</u>	<u>11,590</u>	<u>29,720</u>	<u>2,125</u>	<u>1,839,960</u>	<u>2,083,285</u>
<u>\$ 90,045</u>	<u>\$ 159,634</u>	<u>\$ 3,411</u>	<u>\$ 42,973</u>	<u>\$ 14,839</u>	<u>\$ 2,508,359</u>	<u>\$ 2,113,027</u>

CITY OF DERBY, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS
(Continued)

Year Ended December 31, 2011

	Derby Senior Activity Board
Revenues:	
Taxes:	
Property	\$ -
Excise	-
Sales	-
Special assessments	-
Intergovernmental	-
Charges for services	-
Investment earnings	-
Other	-
Total revenues	-
Expenditures:	
Current:	
General government	-
Public works	-
Public safety	-
Parks and recreation	-
Debt service:	
Principal	-
Interest and fiscal charges	-
Debt issuance costs	-
Capital outlay	-
Total expenditures	-
Excess (deficiency) of revenues over (under) expenditures	-
Other financing sources (uses):	
General obligation bonds issued	-
General obligation refunding bonds issued	-
Premium on general obligation bonds issued	-
Payment to refunded bond escrow agent	-
Payment to refund temporary notes	-
Transfers in	-
Transfers out	-
Total other financing sources (uses)	-
Fund balances, beginning of year	12,286
Change in accounting principle	(12,286)
Fund balances beginning of year as restated	-
Fund balances, end of year	\$ -

Special Revenue Funds

Economic Development Reserve	Equipment Reserve	Capital Improvement Reserve	Payroll	Total Special Revenue Funds	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 913,203	\$ -	\$ 913,203
-	-	-	-	1,436	-	1,436
-	-	-	-	1,944,741	-	1,944,741
-	-	-	-	-	24,049	24,049
-	-	-	-	957,710	-	957,710
-	-	-	-	17,118	-	17,118
-	-	-	-	10,065	-	10,065
-	-	-	-	282,118	-	282,118
-	-	-	-	4,126,391	24,049	4,150,440
-	-	-	-	1,189,435	-	1,189,435
-	-	-	-	876,570	-	876,570
-	-	-	-	8,191	-	8,191
-	-	-	-	259,304	-	259,304
-	-	-	-	825,000	-	825,000
-	-	-	-	191,809	34,600	226,409
-	-	-	-	-	147,271	147,271
-	-	-	-	94,460	1,794,051	1,888,511
-	-	-	-	3,444,769	1,975,922	5,420,691
-	-	-	-	681,622	(1,951,873)	(1,270,251)
-	-	-	-	-	5,665,000	5,665,000
-	-	-	-	-	3,985,000	3,985,000
-	-	-	-	-	265,106	265,106
-	-	-	-	-	(7,058,518)	(7,058,518)
-	-	-	-	-	(1,895,000)	(1,895,000)
-	-	-	-	21,674	-	21,674
-	-	-	-	(21,674)	(629,218)	(650,892)
-	-	-	-	-	332,370	332,370
-	-	-	-	681,622	(1,619,503)	(937,881)
235,486	532,127	2,154,900	130,383	7,960,187	3,954,815	11,915,002
(235,486)	(532,127)	(2,154,900)	(130,383)	(3,065,182)	-	(3,065,182)
-	-	-	-	4,895,005	3,954,815	8,849,820
\$ -	\$ -	\$ -	\$ -	\$ 5,576,627	\$ 2,335,312	\$ 7,911,939

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, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Gasoline tax	\$ 899,230	\$ 856,063	\$ (43,167)
Expenditures:			
Personnel services	513,655	440,885	72,770
Contractual services	100,650	108,484	(7,834)
Commodities	200,000	166,548	33,452
Capital outlay	595,610	169,170	426,440
Total expenditures	<u>1,409,915</u>	<u>885,087</u>	<u>524,828</u>
Net change in fund balances	(510,685)	(29,024)	481,661
Fund balances, beginning of year	<u>510,685</u>	<u>673,363</u>	<u>162,678</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 644,339</u>	<u>\$ 644,339</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, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Special alcohol tax	\$ 45,485	\$ 50,823	\$ 5,338
Expenditures:			
Capital outlay	<u>65,615</u>	<u>61,968</u>	<u>3,647</u>
Net change in fund balances	(20,130)	(11,145)	8,985
Fund balances, beginning of year	<u>20,130</u>	<u>101,190</u>	<u>81,060</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 90,045</u>	<u>\$ 90,045</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, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Special alcohol tax	\$ 45,485	\$ 50,824	\$ 5,339
Expenditures:			
DARE program	17,900	44,962	(27,062)
DHS student services	35,000	-	35,000
Special fund expenditures	136,775	-	136,775
Total expenditures	189,675	44,962	144,713
Net change in fund balances	(144,190)	5,862	150,052
Fund balances, beginning of year	144,190	153,772	9,582
Fund balances, end of year	\$ -	\$ 159,634	\$ 159,634

CITY OF DERBY, KANSAS

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

LIBRARY FUND

Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes	\$ 822,614	\$ 825,669	\$ 3,055
Other revenue	18,050	22	(18,028)
Total revenues	<u>840,664</u>	<u>825,691</u>	<u>(14,973)</u>
Expenditures:			
Personnel services	515,033	450,764	64,269
Library board appropriation	309,622	340,000	(30,378)
Reimbursed expenditures	18,000	-	18,000
Total expenditures	<u>842,655</u>	<u>790,764</u>	<u>51,891</u>
Excess (deficit) of revenues over (under) expenditures	(1,991)	34,927	36,918
Other financing uses:			
Transfers out	(29,780)	(21,674)	8,106
Net change in fund balances	(31,771)	13,253	45,024
Fund balances, beginning of year	<u>31,771</u>	<u>29,720</u>	<u>(2,051)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 42,973</u>	<u>\$ 42,973</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, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 88,468	\$ 88,970	\$ 502
Other revenue	600	1,138	538
	<u> </u>	<u> </u>	<u> </u>
Total revenues	89,068	90,108	1,040
	<u> </u>	<u> </u>	<u> </u>
Expenditures:			
Personnel services	121,490	99,068	22,422
	<u> </u>	<u> </u>	<u> </u>
Excess (deficit) of revenues over (under) expenditures	(32,422)	(8,960)	23,462
Other financing sources:			
Transfers in	29,780	21,674	(8,106)
	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	(2,642)	12,714	15,356
Fund balances, beginning of year	2,642	2,125	(517)
	<u> </u>	<u> </u>	<u> </u>
Fund balances, end of year	<u> \$ - </u>	<u> \$ 14,839 </u>	<u> \$ 14,839 </u>

CITY OF DERBY, KANSAS

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

LIBRARY SALES TAX FUND

Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Sales tax	\$ 1,963,000	\$ 1,944,741	\$ (18,259)
Investment earnings	5,000	6,145	1,145
Total revenues	<u>1,968,000</u>	<u>1,950,886</u>	<u>(17,114)</u>
Expenditures:			
Personnel services	172,982	114,957	58,025
Contractual services	136,235	134,350	1,885
Commodities	13,080	5,334	7,746
Capital outlay	50,000	11,037	38,963
Debt service:			
Principal	825,000	825,000	-
Interest and fiscal charges	191,810	191,809	1
Total expenditures	<u>1,389,107</u>	<u>1,282,487</u>	<u>106,620</u>
Net change in fund balances	578,893	668,399	89,506
Fund balances, beginning of year	<u>1,587,610</u>	<u>1,839,960</u>	<u>252,350</u>
Fund balances, end of year	<u><u>\$ 2,166,503</u></u>	<u><u>\$ 2,508,359</u></u>	<u><u>\$ 341,856</u></u>

CITY OF DERBY, KANSAS

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

AQUATIC PARK FUND

Year Ended December 31, 2011

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:			
Charges for services	\$ 20,000	\$ 17,118	\$ (2,882)
Investment earnings	10,500	3,908	(6,592)
Other	214,000	280,958	66,958
Total revenues	<u>244,500</u>	<u>301,984</u>	<u>57,484</u>
Expenditures:			
Contractual services	258,889	259,304	(415)
Capital outlay	120,400	12,938	107,462
Total expenditures	<u>379,289</u>	<u>272,242</u>	<u>107,047</u>
Net change in fund balances	(134,789)	29,742	164,531
Fund balances, beginning of year	<u>1,985,131</u>	<u>2,083,285</u>	<u>98,154</u>
Fund balances, end of year	<u><u>\$ 1,850,342</u></u>	<u><u>\$ 2,113,027</u></u>	<u><u>\$ 262,685</u></u>

CITY OF DERBY, KANSAS

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

DEBT SERVICE FUND

Year Ended December 31, 2011

	<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	\$ 1,966,373	\$ 1,993,607	\$ 27,234
Delinquent tax	50,000	118,603	68,603
Motor vehicle tax	208,726	202,029	(6,697)
Excise tax	1,600	2,751	1,151
Special assessments	4,265,160	4,250,155	(15,005)
Intergovernmental	103,732	103,731	(1)
Investment earnings	15,000	8,103	(6,897)
Other	254,425	258,737	4,312
	<u>6,865,016</u>	<u>6,937,716</u>	<u>72,700</u>
Total revenues			
Expenditures:			
Principal	5,020,000	5,060,000	(40,000)
Interest	2,240,943	2,013,896	227,047
Commissions	200	41	159
Reserve	600,000	-	600,000
	<u>7,861,143</u>	<u>7,073,937</u>	<u>787,206</u>
Total expenditures			
Other financing sources:			
Transfers in	736,902	664,937	(71,965)
	<u>(259,225)</u>	<u>528,716</u>	<u>787,941</u>
Net change in fund balances			
Fund balances, beginning of year	259,225	412,393	153,168
Fund balances, end of year	<u>\$ -</u>	<u>\$ 941,109</u>	<u>\$ 941,109</u>

CITY OF DERBY, KANSAS
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT

DERBY PUBLIC LIBRARY

December 31, 2011

Assets:	
Deposits and investments	\$ 220,781
Prepaid items	<u>38,389</u>
Total assets	<u>\$ 259,170</u>
Liabilities:	
Accounts payable	<u>\$ 5,503</u>
Fund balances:	
Nonspendable - prepaid items	38,389
Assigned	<u>215,278</u>
Total fund balances	<u>253,667</u>
Total liabilities and fund balances	<u>\$ 259,170</u>

CITY OF DERBY, KANSAS

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

DERBY PUBLIC LIBRARY

Year Ended December 31, 2011

Revenues:	
Taxes	\$ 340,000
Fines and fees	33,808
Gifts and grants	67,039
Investment earnings	718
	<hr/>
Total revenues	441,565
Expenditures:	
Current:	
Education	356,003
	<hr/>
Excess of revenues over expenditures	85,562
Fund balance, beginning of year	<hr/> 168,105
Fund balance, end of year	<hr/> <hr/> \$ 253,667

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.

Contents	Page
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	84
Revenue Capacity	
These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.	89
Debt Capacity	
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.	93
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	97
Operating Information	
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.	100

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 NINE FISCAL YEARS
(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>	<u>2010</u>	<u>2011</u>
Governmental activities									
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	\$ 77,267,850	\$ 79,858,992
Restricted	10,743,833	3,327,203	2,658,303	4,695,359	25,365,485	36,182,429	36,396,388	35,103,190	34,854,348
Unrestricted	4,471,452	5,877,348	7,932,868	9,374,863	9,236,969	9,991,845	9,960,303	10,769,472	9,881,201
Total governmental activities net assets	<u>\$ 32,230,234</u>	<u>\$ 31,106,053</u>	<u>\$ 27,291,907</u>	<u>\$ 34,387,647</u>	<u>\$ 37,062,928</u>	<u>\$ 49,393,890</u>	<u>\$120,331,266</u>	<u>\$123,140,512</u>	<u>\$124,594,541</u>
Business-type activities									
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	\$ 11,221,505	\$ 12,648,185
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	7,692,143	6,828,358
Total business-type activities net assets	<u>\$ 12,196,232</u>	<u>\$ 16,541,371</u>	<u>\$ 19,179,615</u>	<u>\$ 21,514,497</u>	<u>\$ 16,964,566</u>	<u>\$ 18,527,969</u>	<u>\$ 17,768,215</u>	<u>\$ 18,913,648</u>	<u>\$ 19,476,543</u>
Primary Government									
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	\$ 88,489,355	\$ 92,507,177
Restricted	14,475,201	4,735,593	4,636,119	6,297,532	25,365,485	36,182,429	36,396,388	35,103,190	34,854,348
Unrestricted	9,015,871	11,423,014	13,468,530	16,794,114	15,105,671	15,502,629	19,541,252	18,461,615	16,709,559
Total primary government net assets	<u>\$ 44,426,466</u>	<u>\$ 47,647,424</u>	<u>\$ 46,471,522</u>	<u>\$ 55,902,144</u>	<u>\$ 54,027,494</u>	<u>\$ 67,921,859</u>	<u>\$138,099,481</u>	<u>\$142,054,160</u>	<u>\$144,071,084</u>

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 NINE FISCAL YEARS
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
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	\$ 6,504,927	\$ 7,692,456
Public safety	3,476,639	3,473,289	2,956,415	3,118,695	3,627,751	3,648,554	4,118,615	4,184,465	4,435,262
Public works	2,212,081	-	-	-	3,074,251	3,488,242	6,747,181	5,735,114	6,109,047
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	1,575,639	1,392,517
Personnel benefits and services	-	-	2,531,680	2,355,619	-	-	-	-	-
Economic development	-	-	-	-	98,832	114,391	385,894	354,583	486,128
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	2,768,250	2,243,335
Other	-	-	422,743	397,316	-	-	-	-	-
Total governmental activities expenses	<u>11,975,071</u>	<u>12,125,886</u>	<u>14,332,868</u>	<u>14,577,703</u>	<u>17,013,597</u>	<u>18,289,779</u>	<u>22,589,612</u>	<u>21,122,978</u>	<u>22,358,745</u>
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	3,441,903	3,872,934
Sewer	1,407,506	1,488,600	1,342,472	1,530,518	1,587,971	1,618,462	1,913,485	2,277,017	2,226,265
Aquatic park	-	268,755	790,025	617,745	-	-	-	-	-
Total business-type activities expenses	<u>3,116,511</u>	<u>4,279,566</u>	<u>4,857,901</u>	<u>5,180,313</u>	<u>4,860,927</u>	<u>4,954,146</u>	<u>5,137,892</u>	<u>5,718,920</u>	<u>6,099,199</u>
Total primary government expenses	<u>\$ 15,091,582</u>	<u>\$ 16,405,452</u>	<u>\$ 19,190,769</u>	<u>\$ 19,758,016</u>	<u>\$ 21,874,524</u>	<u>\$ 23,243,925</u>	<u>\$ 27,727,504</u>	<u>\$ 26,841,898</u>	<u>\$ 28,457,944</u>
Program Revenues									
Governmental Activities:									
Charges for services:									
General government	\$ 719,579	\$ 677,884	\$ 667,399	\$ 599,648	\$ 1,151,702	\$ 1,189,500	\$ 1,709,449	\$ 1,184,565	\$ 1,414,398
Public safety	410,528	462,507	412,595	493,627	223,984	214,660	703,230	817,255	743,245
Public works/services/engineering/parks	-	-	319,339	307,645	357,911	359,714	310,795	284,224	419,464
Culture and recreation	-	-	-	-	669,808	645,396	277,947	298,790	322,850
Other	-	-	274,914	-	-	-	-	-	-
Operating grants and contributions	86,204	253,051	-	55,713	1,108,702	1,199,082	1,172,734	1,436,287	1,397,938
Capital grants and contributions	100,000	100,000	533,782	-	77,014	12,523,125	4,261,052	3,920,673	2,638,496
Total governmental activities program revenues	<u>1,316,311</u>	<u>1,493,442</u>	<u>2,208,029</u>	<u>1,456,633</u>	<u>3,589,121</u>	<u>16,131,477</u>	<u>8,435,207</u>	<u>7,941,794</u>	<u>6,936,391</u>
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	3,442,740	3,938,774
Sewer	2,112,574	2,055,306	2,060,332	2,203,799	2,300,870	2,240,450	2,286,388	2,899,676	2,812,454
Aquatic park	-	-	241,803	239,223	-	-	-	-	-
Sales Tax for aquatic park	-	1,489,378	1,658,805	1,584,841	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	-	91,679	-
Capital grants and contributions	-	-	-	-	-	-	-	-	68,457
Total business-type activities program revenues	<u>5,902,398</u>	<u>6,564,725</u>	<u>7,186,734</u>	<u>7,504,772</u>	<u>5,065,594</u>	<u>4,964,332</u>	<u>5,073,365</u>	<u>6,434,095</u>	<u>6,819,685</u>
Total primary government program revenues	<u>\$ 7,218,709</u>	<u>\$ 8,058,167</u>	<u>\$ 9,394,763</u>	<u>\$ 8,961,405</u>	<u>\$ 8,654,715</u>	<u>\$ 21,095,809</u>	<u>\$ 13,508,572</u>	<u>\$ 14,375,889</u>	<u>\$ 13,756,076</u>
Net (Expense)/Revenue									
Governmental activities	\$ (10,658,760)	\$ (10,632,444)	\$ (12,124,839)	\$ (13,121,070)	\$ (13,424,476)	\$ (2,158,302)	\$ (14,154,405)	\$ (13,181,184)	\$ (15,422,354)
Business-type activities	2,785,887	2,285,159	2,328,833	2,324,459	204,667	10,186	(64,527)	715,175	720,486
Total primary government net expense	<u>\$ (7,872,873)</u>	<u>\$ (8,347,285)</u>	<u>\$ (9,796,006)</u>	<u>\$ (10,796,611)</u>	<u>\$ (13,219,809)</u>	<u>\$ (2,148,116)</u>	<u>\$ (14,218,932)</u>	<u>\$ (12,466,009)</u>	<u>\$ (14,701,868)</u>

(Continued)

CITY OF DERBY, KANSAS

CHANGES IN NET ASSETS

LAST NINE FISCAL YEARS
(accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Assets									
Governmental-Type Activities									
Taxes									
Property taxes - general	\$ 4,734,042	\$ 5,198,008	\$ 5,796,069	\$ 6,184,970	\$ 7,858,300	\$ 8,196,080	\$ 8,870,181	\$ 9,181,649	\$ 9,464,138
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	5,409,560	5,351,941
Franchise taxes	1,190,564	1,173,718	1,312,394	1,338,786	1,365,716	1,495,724	1,528,728	1,731,570	1,821,500
Excise taxes	-	-	-	-	21,282	15,649	13,148	11,778	14,744
Special assessments	2,493,717	2,500,764	2,459,857	2,812,053	-	-	-	-	-
Unrestricted investment earnings	125,531	191,328	333,020	714,666	1,260,508	487,796	219,359	51,201	50,874
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)	(395,329)	173,186
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	<u>14,151,150</u>	<u>9,508,263</u>	<u>8,310,693</u>	<u>20,216,810</u>	<u>13,483,269</u>	<u>14,489,264</u>	<u>15,468,160</u>	<u>15,990,429</u>	<u>16,876,383</u>
Business type activities:									
Unrestricted investment earnings	95,171	79,279	166,898	410,423	264,971	160,820	44,144	34,929	15,595
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	395,329	(173,186)
Total business-type activities	<u>(239,829)</u>	<u>2,059,980</u>	<u>309,411</u>	<u>10,423</u>	<u>1,896,225</u>	<u>1,553,217</u>	<u>458,556</u>	<u>430,258</u>	<u>(157,591)</u>
Total primary government	<u>\$ 13,911,321</u>	<u>\$ 11,568,243</u>	<u>\$ 8,620,104</u>	<u>\$ 20,227,233</u>	<u>\$ 15,379,494</u>	<u>\$ 16,042,481</u>	<u>\$ 15,926,716</u>	<u>\$ 16,420,687</u>	<u>\$ 16,718,792</u>
Change in Net Assets									
Governmental activities	\$ 3,492,390	\$ (1,124,181)	\$ (3,814,146)	\$ 7,095,740	\$ 58,793	\$ 12,330,962	\$ 1,313,755	\$ 2,809,245	\$ 1,454,029
Business-type activities	2,546,058	4,345,139	2,638,244	2,334,882	2,100,892	1,563,403	394,029	1,145,433	562,895
Total primary government	<u>\$ 6,038,448</u>	<u>\$ 3,220,958</u>	<u>\$ (1,175,902)</u>	<u>\$ 9,430,622</u>	<u>\$ 2,159,685</u>	<u>\$ 13,894,365</u>	<u>\$ 1,707,784</u>	<u>\$ 3,954,678</u>	<u>\$ 2,016,924</u>

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 NINE FISCAL YEARS
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund									
Reserved	\$ -	\$ 101,331	\$ -	\$ -	\$ 416,859	\$ 360,963	\$ 448,479	\$ 58,097	\$ -
Unreserved	1,629,546	1,959,011	2,194,825	2,708,400	5,656,648	6,464,755	6,104,606	7,800,661	-
Nonspendable (1)	-	-	-	-	-	-	-	-	209,459
Restricted (1)	-	-	-	-	-	-	-	-	1,716
Assigned (1)	-	-	-	-	-	-	-	-	3,798,981
Unassigned (1)	-	-	-	-	-	-	-	-	5,470,372
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>	<u>\$ 7,858,758</u>	<u>\$ 9,480,528</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	\$ 1,472,410	\$ -
Unreserved reported in:									
Debt service fund	-	-	-	-	851,782	669,747	524,334	412,393	-
Special revenue funds	4,987,559	3,817,006	4,979,931	5,863,141	9,492,008	8,387,004	6,837,153	5,930,880	-
Capital projects fund	6,525,340	2,267,897	-	-	1,681,863	1,384,811	4,250,554	4,381,329	-
Restricted (1)	-	-	-	-	-	-	-	-	8,551,064
Assigned (1)	-	-	-	-	-	-	-	-	301,984
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>	<u>\$ 12,197,012</u>	<u>\$ 8,853,048</u>

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

(1) New categories associated with the implementation of GASB 54 for year ending December 31, 2011.

Note: The City implemented GASB Statement 34 in fiscal year 2003 so 2002 information is not included in this presentation.

CITY OF DERBY, KANSAS

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

LAST NINE FISCAL YEARS
(modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues									
Taxes:									
Property - general	\$ 3,692,184	\$ 4,042,374	\$ 4,638,040	\$ 4,944,060	\$ 7,668,300	\$ 8,196,080	\$ 8,870,181	\$ 9,181,649	\$ 9,464,138
Property - debt service	1,041,858	1,155,634	1,158,029	1,240,910	-	-	-	-	-
Excise	-	-	-	-	21,282	15,649	13,148	11,778	14,744
Sales	-	-	-	-	4,808,717	5,224,113	5,234,141	5,409,560	5,351,941
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	1,731,570	1,821,500
Special assessments	2,493,717	2,500,764	2,459,857	2,812,053	2,822,282	3,456,086	3,271,171	3,946,741	4,274,204
Intergovernmental	-	-	-	-	1,122,390	1,215,731	1,535,086	2,022,573	1,936,287
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	419,935	462,070
Charges for services	726,866	-	-	-	40,250	100,754	259,019	198,148	228,574
Fines & fees	-	-	-	-	756,687	740,564	737,583	799,227	795,731
State, county and other aid	-	-	808,696	179,353	-	-	-	-	-
Miscellaneous	-	-	333,020	1,536,139	1,121,723	1,174,915	1,378,551	807,353	957,048
Interest on investments	125,531	191,328	-	705,042	1,260,508	487,796	219,359	51,201	50,874
Total Revenues	14,349,292	15,709,308	18,217,505	19,748,936	21,397,586	22,701,639	23,557,843	24,579,735	25,357,111
Expenditures									
General Government	2,852,738	3,074,661	1,561,384	2,499,837	5,943,541	6,484,852	5,603,496	5,956,547	6,634,861
Public works	1,286,355	-	-	-	1,643,286	1,796,675	3,481,832	2,723,993	2,876,578
Public safety	3,032,043	3,206,664	2,554,141	2,801,331	3,128,064	3,369,950	3,687,352	3,878,726	4,008,579
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	1,116,417	1,054,174
Economic development	-	-	-	-	98,832	114,391	385,894	354,583	486,128
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	7,912,077	5,019,677
Debt service									
Principal	5,235,000	10,860,000	5,305,000	7,560,000	5,646,943	14,165,265	12,648,085	16,125,877	6,190,000
Interest	2,158,485	2,805,792	2,153,275	2,949,985	2,153,061	2,714,022	2,212,110	2,924,795	2,288,562
Bond Issuance costs	-	-	-	-	-	121,927	249,158	246,074	147,271
Total Expenditures	23,566,689	32,933,045	23,335,526	23,720,125	27,390,326	39,860,854	41,402,243	41,239,089	28,705,830
Excess of revenues over/(under) expenditures	(9,217,397)	(17,223,737)	(5,118,021)	(3,971,189)	(5,992,738)	(17,159,215)	(17,844,400)	(16,659,354)	(3,348,719)
Other Financing Sources (Uses)									
Sale of capital assets	-	-	-	-	-	88,699	23,632	99,296	-
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	10,320,000	5,665,000
General obligation refunding bonds issued	-	-	-	-	-	-	-	3,985,000	3,985,000
Premium on general obligation bonds issued	-	-	-	-	-	43,178	61,499	147,110	285,106
Discount on general obligation bonds issued	-	-	-	-	-	-	-	(32,120)	-
Payment to refunding bond escrow agent	-	-	-	-	-	-	-	(4,099,291)	(7,058,518)
Payment to refund temporary notes	-	-	-	-	-	-	-	-	(1,895,000)
Transfers in (out), net	412,972	1,007,649	261,529	112,029	400,000	400,000	413,179	656,178	664,937
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	3,460,000	-
Total other financing sources (uses)	18,879,775	10,696,896	5,776,529	7,392,301	10,010,795	18,286,877	16,238,310	14,536,173	1,626,525
Net change in fund balance	\$ 9,662,378	\$ (6,526,841)	\$ 658,508	\$ 3,421,112	\$ 4,018,057	\$ 1,127,662	\$ (1,606,090)	\$ (2,123,181)	\$ (1,722,194)
Debt service as a percentage of noncapital expenditures	46.87%	60.82%	43.36%	50.22%	39.80%	56.94%	51.47%	57.90%	36.42%

NOTE: The City implemented GASB Statement 34 in fiscal year 2003 so 2002 information is not included in this presentation.

CITY OF DERBY, KANSAS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Utilities</u>	<u>Less: Tax Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Value</u>	<u>Assessed to Total Estimated Actual Value</u>
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%
2010	289,422,334	4,245,958	4,396,296	121,419,510	176,645,078	47.818	1,425,888,138	12.39%
2011	296,920,674	3,815,980	4,454,954	126,889,967	178,301,641	47.340	1,445,290,924	12.34%

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				
	General Rate	Debt Service	Misc	Total Direct Rate	El Paso Cemetery	USD 260	Sedgwick County	State of Kansas	Total
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
2010	31.566	11.577	4.675	47.818	1.046	58.324	29.359	1.500	138.047
2011	33.436	9.255	4.649	47.340	1.040	57.631	29.428	1.500	136.939

Source: Sedgwick County Clerk's Office

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

Taxpayer	2011			2002		
	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	\$ 4,459,829	1	2.50%			
Wal-Mart Real Estate Business Trust	2,279,988	2	1.28%			
The Greens at Derby	3,500,142	3	1.96%			
Dillon Companies	2,173,520	4	1.22%			
Target Corporation	2,040,200	5	1.14%			
Kansas Gas Electric - A Westar Energy Co.	1,745,880	6	0.98%			
Lowes Home Centers Inc	1,718,800	7	0.96%			
Kohl's Illinois Inc	1,687,500	8	0.95%			
Fairways at Derby LP	1,291,820	9	0.72%			
Kansas Gas Service-A Division of Oneok	1,263,747	10	0.71%			
Wal-Mart Stores, Inc				\$ 2,260,800	1	2.20%
SBC				1,526,476	2	1.49%
Westar Energy				1,321,476	3	1.29%
Derby Group LLC				721,083	4	0.70%
Towne Center Shopping Center				516,030	5	0.50%
Kansas Gas Service-A Division of Oneok				507,202	6	0.49%
Mid Continent Controls Inc				506,503	7	0.49%
Bristol Square LLC				470,595	8	0.46%
Asplundh Tree Expert Company				389,230	9	0.38%
Warren Family LLC				305,616	10	0.30%
Total	\$ 22,161,426		12.42%	\$ 8,525,011		8.30%

CITY OF DERBY, KANSAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percentage of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as a Percent of Current Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as a Percent of Current Levy</u>
2002	\$ 4,314,533	\$ 4,208,822	97.55%	\$ 55,902	\$ 4,264,724	98.85%	\$ 105,711	2.45%
2003	4,702,164	4,596,806	97.76%	58,455	4,655,261	99.00%	105,358	2.24%
2004	5,046,150	4,953,417	98.16%	152,917	5,106,334	101.19%	92,733	1.84%
2005	5,590,594	5,487,092	98.15%	315,150	5,802,242	103.79%	103,502	1.85%
2006	6,241,170	6,089,477	97.57%	86,443	6,175,920	98.95%	151,693	2.43%
2007	6,596,052	6,446,254	97.73%	65,373	6,511,627	98.72%	149,798	2.27%
2008	7,115,921	6,963,855	97.86%	57,437	7,021,292	98.67%	152,066	2.14%
2009	7,730,746	7,562,210	97.82%	202,619	7,764,829	100.44%	168,536	2.18%
2010	8,114,419	7,903,509	97.40%	238,083	8,141,592	100.33%	210,910	2.60%
2011	8,306,414	8,175,848	98.43%	71,443	8,247,291	99.29%	130,566	1.57%

Source: Sedgwick County Treasurer's Office

CITY OF DERBY, KANSAS
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Legal debt limit	\$ 53,358,349	\$ 58,677,471	\$ 61,653,774	\$ 66,693,855	\$ 71,009,848	\$ 75,954,945	\$ 81,081,113	\$ 83,493,058	\$ 89,419,376	\$ 91,735,682
Total net debt applicable to debt limit	<u>37,095,008</u>	<u>46,395,758</u>	<u>43,058,035</u>	<u>42,106,374</u>	<u>44,313,245</u>	<u>46,918,218</u>	<u>62,790,253</u>	<u>65,480,666</u>	<u>59,917,607</u>	<u>56,503,891</u>
Legal debt margin	<u>\$ 16,263,341</u>	<u>\$ 12,281,713</u>	<u>\$ 18,595,739</u>	<u>\$ 24,587,481</u>	<u>\$ 26,696,603</u>	<u>\$ 29,036,727</u>	<u>\$ 18,290,860</u>	<u>\$ 18,012,392</u>	<u>\$ 29,501,769</u>	<u>\$ 35,231,791</u>
Legal debt margin as a percentage of debt limit	30.48%	20.93%	30.16%	36.87%	37.60%	38.23%	22.56%	21.57%	32.99%	38.41%

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed value	\$ 178,895,641
Add back: exempt real property	<u>126,889,967</u>
Total assessed value	\$ 305,785,608
Debt limit (30% of total assessed value)	91,735,682
Debt applicable to limit:	
General obligation bonds	57,445,000
Less: amount set aside for repayment of general obligation debt	<u>(941,109)</u>
Total net debt applicable to limit	<u>\$ 56,503,891</u>

Note: Per Kansas Statutes Annotated ("K.S.A.") Section 10-308, "The authorized and outstanding bonded indebtedness of any city shall not exceed 30% of the assessed valuation of the city. K.S.A. Section 10-309 allows for certain exceptions to calculating the legal debt limit.

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				
2002	\$ 37,410,000	\$ 2,340,000	\$ 3,845,000	\$ 408,452	\$ 14,095,000	\$ -	\$ 58,098,452	N/A	\$ 3,086	18,828
2003	46,765,000	6,850,000	3,540,000	186,749	13,395,000	-	70,736,749	N/A	3,696	19,140
2004	43,620,000	1,450,000	3,230,000	137,515	-	19,710,000	68,147,515	N/A	3,356	20,309
2005	42,790,000	4,045,000	2,780,000	56,281	-	17,730,000	67,401,281	N/A	3,281	20,543
2006	45,035,000	2,360,000	2,415,000	17,555	-	16,450,000	66,277,555	N/A	3,193	20,759
2007	47,770,000	10,155,000	2,140,000	11,407	-	9,425,000	69,501,407	N/A	3,294	21,101
2008	54,960,000	6,840,000	1,860,000	6,142	-	8,500,000	72,166,142	N/A	3,272	22,058
2009	54,135,000	11,570,000	1,565,000	877	-	11,570,000	78,840,877	N/A	3,501	22,517
2010	60,330,000	3,460,000	1,265,000	-	-	11,000,000	76,055,000	N/A	3,432	22,158
2011	57,445,000	1,565,000	960,000	-	-	10,075,000	70,045,000	N/A	3,161	22,158

Note: Percentage of personal income information not available.

CITY OF DERBY, KANSAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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
2010	71,330,000	412,393	70,917,607	40.15%	3,200.54
2011	57,445,000	941,109	56,503,891	31.58%	2,550.04

CITY OF DERBY, KANSAS

GOVERNMENTAL ACTIVITIES DIRECT AND OVERLAPPING DEBT

December 31, 2011

Taxing Body	Debt		City's Share		Per Capita
	Amount	As of	Percent	Amount	
Estimated Overlapping debt:					
Sedgwick County	\$ 77,925,000	12/31/2011	4.14%	\$ 3,229,537	145.75
USD No. 260	4,620,000	12/31/2011	72.25%	<u>3,337,818</u>	<u>150.64</u>
Total Overlapping Debt				6,567,355	296.39
City of Derby Direct Debt	59,970,000			59,970,000	2,706
Direct and estimated overlapping debt	142,515,000			66,537,355	3,003

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 ¹	County Total Personal Income ² (000's omitted)	County Population ¹	County Per Capita Income ²	City School Enrollment ³	Unemployment Rate ² (Sedgwick County)
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%
2010	22,158	19,241,873	498,365	38,610	6,753	7.9%
2011	22,158	Not Available	501,355	Not Available	6,258	7.1%

Data Sources:

¹Bureau of the Census

²US Bureau of Labor Statistics, Sedgwick County

³Kansas State Department of Education

⁴Bureau of Economic Analysis

CITY OF DERBY, KANSAS
 PRINCIPAL EMPLOYERS
 AS OF DECEMBER 31, 2011

	2011		
Employer	Employees	Rank	Percentage of Total City Employment
USD 260	1,070	1	25.50%
Walmart	381	2	9.08%
Dillons	188	3	4.48%
City of Derby	175	4	4.17%
Shared Services, a division of Wal Mart	145	5	3.46%
Lowes	120	6	2.86%
Derby Health & Rehab, LLC	99	7	2.36%
Derby Recreation Commission	92	8	2.19%
Kohl's	80	9	1.91%
Westview Manor	74	10	1.76%
Total City Employment (est.)	4,196		

Note: Derby City Clerk's Office
 Information from 2002 not available.

CITY OF DERBY, KANSAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

LAST SIX FISCAL YEARS

Function/Program	2006	2007	2008	2009	2010	2011
General Government						
Administration	5	7.5	15.5	16.5	16.5	18.25
Finance	10	8	6.5	8.5	8.5	7.5
Law	5	4	1	1	1	0
Economic Development	2	2	1	1	1	0
Operations	9	9	8	10	4	4
Community Development/Engineering	10	12	13	12	12	12
Public Safety						
Police	51.5	51.5	51.5	54	57	61
Animal Control	1	1	1	1	1.5	1.5
Fire	10.5	11.5	14	14.5	15	16.15
Public Works	34	34	35	32	33	35
Water	8	8	8	7.5	7.5	8.75
Wastewater	13.3	11.3	11.3	11	11	11
Total	<u>159.3</u>	<u>159.8</u>	<u>165.8</u>	<u>169</u>	<u>168</u>	<u>175.15</u>

Data Source: City of Derby Operating Budgets

Note: Information from 2002 through 2005 not available. Beginning in 2011 the Law and Economic Development functions have moved to Administration.

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

Program/Function	<u>Fiscal Year</u>					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police						
Dispatched Calls	21,808	24,651	26,999	24,878	27,594	27,739
Offenses	2,653	2,845	2,982	2,878	3,022	2,879
Offenses Cleared	1,998	2,074	2,564	1,949	2,392	1,758
Arrests	1,864	1,924	1,996	2,525	1,857	2,077
Serious Offenses	787	831	820	775	784	750
Fire						
Emergency Responses	1,402	1,558	1,520	1,768	1,862	2,069
First Responder/Medical	1,030	1,113	1,254	1,414	1,454	1,422
Life Safety Inspections	450	464	477	576	644	773
Water						
New Connections	349	136	153	132	120	127
Water Main Breaks	17	12	9	7	9	25
Average Daily Consumption	2,175,595	2,003,162	1,902,481	1,968,976	2,287,457	2,570,113
Peak Daily Consumption	4,351,100	4,252,700	3,584,100	4,334,700	4,839,500	6,424,800
Wastewater						
Average Daily Sewage Treatment	1,800,000	1,840,000	1,834,000	1,788,000	1,600,000	1,581,000

Note: Information from 2002 through 2005 not available.
 Source: Various city departments.

CITY OF DERBY, KANSAS
 CAPITAL ASSET STATISTICS BY PROGRAM/FUNCTION
 LAST SIX FISCAL YEARS

Program/Function	Fiscal Year					
	2006	2007	2008	2009	2010	2011
Police						
Stations	1.00	1.00	1.00	1.00	1.00	1.00
Patrol units	12.00	14.00	16.00	15.00	15.00	17.00
Fire Stations	2.00	2.00	3.00	3.00	3.00	3.00
Public Works						
Streets(lane miles)	274.80	286.10	293.50	299.50	302.50	427.78
Traffic signals	15.00	15.00	16.00	16.00	17.00	17.00
Culture and Recreation						
Acreage	297.00	297.00	297.00	297.00	297.00	313.68
Playgrounds	18.00	18.00	18.00	18.00	18.00	19.00
Baseball/Softball diamonds	24.00	24.00	19.00	19.00	19.00	19.00
Aquatic Park	1.00	1.00	1.00	1.00	1.00	1.00
Water						
Water Meter Station	1.00	1.00	1.00	1.00	1.00	1.00
Water mains(miles)	120.60	124.40	127.90	130.80	132.50	133.00
Fire hydrants	880.00	919.00	936.00	960.00	975.00	976.00
Storage capacity(000's gallons)	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00
Wastewater						
Sanitary Sewers(miles)	111.20	115.70	118.60	120.30	122.10	122.19
Storm Sewer(combined, miles)	32.10	33.30	35.90	37.90	46.10	46.84
Treatment capacity (gallons per day)	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00	2,500,000.00

Source: City of Derby GIS Department

Note: Information from 2002 through 2005 not available.

CITY OF DERBY, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Expenditures
U.S. Department of Transportation:			
Federal Transit Cluster:			
Passed through the City of Wichita:			
Federal Transit Formula Grants	20.507	605008/606008	\$ 56,399
Passed through the Kansas Department of Transportation:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	SP-1300-11/SP-1300-12/SP-09311-11	5,088
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	87 TE-0287-01	<u>398,894</u>
Total U.S. Department of Transportation			<u>460,381</u>
U.S. Department of Homeland Security:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2007-FF-00487	61,585
Assistance to Firefighters Grant	97.044	EMW-2009-FO-08361	<u>36,045</u>
Total U.S. Department of Homeland Security			<u>97,630</u>
Total expenditures of federal awards			<u><u>\$ 558,011</u></u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DERBY, KANSAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City of Derby, Kansas (the City). The City's reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards passed through other government agencies are included on the schedule.

2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting which is described in Note 1 of the City's basic financial statements.

CITY OF DERBY, KANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2011

Section I – Summary of Independent Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	2009-1
Noncompliance material to financial statements:	None

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	None noted
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133:	None

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction Cluster

CITY OF DERBY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as a low-risk auditee:	No

Section II – Financial Statement Findings

Finding 2009-1 – Significant Deficiency (repeated from prior year)

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) – A software conversion of the water utility occurred in 2011 which will enhance the transparency of the general ledger which should reduce future adjusting entries.

Section III – Federal Award Findings and Questioned Cost

No matters reported.

CITY OF DERBY, KANSAS

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Year Ended December 31, 2011

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) – A utility billing module software conversion occurred in late 2010 and early 2011 which required substantial staff time. Therefore, additional entries were required and year end adjusting entries were delayed. Upon completion of the conversion process management does not anticipate similar problems in the future.

Follow-up – While the City has made significant improvement in reviewing its trial balance, there were still several adjusting journal entries to the trial balance presented to us at the beginning of the audit. This comment is repeated in the current year.



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

INDEPENDENT AUDITOR'S 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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 on a timely basis.

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd, Topeka, KS 66611-2050
785-234-3427 toll-free 800-530-5526 f 785-233-1768
btandco.cpa.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 questioned costs 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 a 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 questioned costs. 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 the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berberich Trahan & Co., P.A.

June 5, 2012



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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Derby, Kansas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2011. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

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

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Berberich Trahan & Co., P.A.

June 5, 2012