CHISHOLM CREEK UTILITY AUTHORITY

Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Chisholm Creek Utility Authority
Park City, Kansas

We have audited the accompanying financial statements of the business-type activities **Chisholm Creek Utility Authority** as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Chisholm Creek Utility Authority's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of **Chisholm Creek Utility Authority**, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 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 **Chisholm Creek Utility Authority's** financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic 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.

Adams, Brown, Beran + Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

July 26, 2010

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Balance Sheet, and Statement of Revenues, Expenses, and Change in Net Assets, and Statement of Cash Flows (fund financial statements) on pages 5 through 8 provide information about the activities of the Authority, present a longer-term view to the Authority's finances, and report the Authority's operations in detail.

REPORTING OF THE AUTHORITY

Our analysis of the Authority begins on page 6. One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Balance Sheet, Statements o Revenues, Expenses, and Change in Net Assets, and Statement of Cash Flows report information about the Authority's activities that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the Authority's net assets and changes in them. The Authority's net assets - the difference between assets and liabilities - are a way to measure the Authority's financial health and financial position. Increases and decreases in the Authority's net assets are one indicator of whether financial health is improving or deteriorating.

The Authority's only governmental fund is the proprietary fund which is shown on this report. The financial statements provide detailed information which shows how money flows in and out of this fund and the balance left available for spending. This information helps to determine whether or not more or fewer financial resources that can be spent in the near future to finance the Authority's activities.

The discussion and analysis of **Chisholm Creek Utility Authority's** financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2009. Please read in conjunction with the Authority's financial statements, which begin after this section.

INTRODUCTION

Chisholm Creek Utility Authority is a Quasi-Municipal Governmental Entity formed in the year 2001 in accordance with Kansas Statutes 12-2901 through 2909, referred to as the Kansas Interlocal Cooperation Act. It was formed through the joint action of the Cities of Park City and Bel Aire, Kansas, for the purpose of providing "wholesale" water, wastewater and utility services to the Cities. Planning and engineering proceeded in cooperation with the Cities during that year and on March 20, 2002, the Authority closed on $28,980,000 in revenue bonds allowing the construction of the planned water and wastewater facilities. In general, the initial 20 months were a period of acquisition of funds and construction; partial operations occurred in the wastewater function since the Authority purchased Park City's wastewater plant in a completely operational status. Full operation began in January 2003 in both the water and wastewater projects in addition to providing trash services to the citizens of Bel Aire; however the trash service operation was sold to an unrelated entity in December 2004.

FINANCIAL STATUS AND HIGHLIGHTS

Water and Wastewater Project Costs

This is a cooperative project between two Cities. The revenue bonds were sold based upon detailed estimates of all costs allocated to the two Cities in the categories of (1) water supply and (2) wastewater. The analysis of separated and allocated costs occurred before the sale of bonds and before the actual construction.

Highlights

- Bonds of $28,980,000 were issued on March 20, 2002.
- A tax-exempt lease purchase of $275,000 was created specially for the acquisition of water and wastewater plant related equipment.
- A tax-exempt lease purchase of $575,000 was created specially for the Authority to enter into solid waste management endeavor beginning January 1, 2003. The endeavor was not related to the water and wastewater function. During 2004, this operation was sold and the lease was paid in full via the issuance of $540,000 in revenue bonds.
- Covenants by both Cities insure that debt service and operation and maintenance expenses of the Authority relating to the project are paid.
- During 2004, in order to obtain an economic advantage by way of reduction in future total debt service payments, the Authority issued $7,235,000 in refunding revenue bonds. The proceeds of this issue were used to advance refund $6,535,000 of the 2002 revenue bond issue.
- During 2007, in order to obtain an economic advantage by way of reduction in future total debt service payments, the Authority issued $19,415,000 in refunding revenue bonds. The proceeds of this issue will be used to advance refund the 2002 revenue bond issue.

Current Year Results

Current year results reflected a gain of $30,498 in comparison with the 2008 year which reflected a loss of $35,568. Provisions of the revenue bond rate covenant were in compliance for 2009.

Discussion of Financial Statements

The statement of net assets reflects assets owned and liabilities owed at December 31, 2009. The difference between total assets and total liabilities is referred to as net assets.

The statement of revenues, expenses and changes in net assets reflect operating revenues, operating and maintenance expenses, interest income, interest expense and all other changes to net assets for the year ended December 31.

The statement of cash flows reflects cash provided by or used in operating activities, capital and related financing activities, and investing activities for the year ended December 31, 2009. The statement also reconciles net operating income to net cash provided by operating activities.

Other Financial Matters

The Authority's purpose is to serve the two Cities and the function of the Cities is to insure that the expenses of the Authority related to the water and wastewater operations of the project constructed by the revenue bonds are paid. Expenses include debt service and operating expense. The Cities forming the Authority have planned that the Authority shall not create surplus cash balances from the use of City funds. Therefore, the financial position, based upon the Authority's established purpose, at the end of the year was primarily as planned.

As required by the bond covenants, the rates charged by each City to its residents and businesses should result in the funds necessary for the Cities to pay for all the water and wastewater costs of the Authority in addition to all debt service payments.

In addition to the original revenue bonds, the Authority executed a tax-exempt lease purchase with Zion's Bank of Salt Lake City, Utah of $275,000 to obtain equipment for the water and wastewater operations. The periodic debt service payments for the lease are included in the "Operation and Maintenance" budget for water and wastewater and funded fully by both Cities.

Other Financial Matters (Continued)

The Authority entered into a lease purchase of $575,000 in November 2002 to enter the solid waste management business. Operations began on January 1, 2003. The debt service of this financing had no claim on any revenue related to the water and wastewater projects and stood alone. This obligation was paid off in 2004 in connection with the sale of the solid waste management operations. A new revenue bond issue in the amount of $540,000 was used in paying off the balance of the original lease purchase obligation.

Debt Administration

At year-end the Authority had revenue bonds, capital leases and a land contract outstanding in the amount of $28,695,924. The debt is more fully described in Note 17 to the audited financial statements. Debt administration is handled by the Bank of New York and Security Bank of Kansas City, excluding the capital lease and land contract.

Capital Assets

At the end of 2009, the Authority had $22,035,264 invested in capital assets net of depreciation. Significant capital purchases for 2009 included costs expended for the construction on the Authority's Headworks Project totaling $118,159. The Authority disposed of equipment (mower trimmer) totaling $838 during the year.

Figure 1 – Capital Assets

		2009	2008
Equipment and Lines	$	**9,946,571**	9,829,250
Buildings and Plant		**15,017,148**	15,017,148
Land		**342,909**	342,909
Accumulated Depreciation		**(3,271,364)**	(2,815,441)
Net Capital Assets	$	**22,035,264**	22,373,866

Financial Report

The following statement presents abbreviated information on the Authority's statement of net assets at December 31, 2009 and summaries of activities for the year then ended.

Figure 2 – Net Assets Proprietary Funds

		2009	2008
Cash and Cash Equivalents	$	**340,461**	278,223
Bond Reserve Trust Accounts		**3,222,665**	29,077,839
Other Assets - Net		**1,220,225**	1,316,631
Capital Assets - Net		**22,035,264**	22,373,866
Total Assets		**26,818,615**	53,046,559
Accrued Expenses		**274,929**	632,492
Current Portion of Liabilities		**736,954**	660,881
Long-Term Liabilities		**27,958,971**	53,935,924
Total Liabilities		**28,970,854**	55,229,297
Invested in Capital Assets, Net of Related Debt		**(6,436,690)**	(31,967,015)
Restricted Assets		**2,255,492**	27,817,058
Unrestricted Assets		**2,028,959**	1,967,220
Total Net Assets (Deficit)	$	**(2,152,239)**	(2,182,737)

Financial Report (Continued)

Figure 3 – Change In Net Assets Proprietary Funds

Operating Revenues	**2,005,914**	2,856,376
Operating Expenses	**(1,683,166)**	(1,719,875)
Operating Income	**322,748**	1,136,501
Non-Operating Revenues (Expense)		
Interest Income	**1,140,179**	1,339,050
Other Income	**8,644**	94,210
Interest Expense	**(1,441,073)**	(2,605,329)
Total Non-Operating Revenues (Expense)	**(292,250)**	(1,172,069)
Change in Net Assets	**30,498**	(35,568)
Net Assets (Deficit) – Beginning of Year	**(2,182,737)**	(2,147,169)
Net Assets (Deficit) – End of Year	**$ (2,152,239)**	(2,182,737)

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances. The report is also designed to show the Authority's accountability for the money it receives.

Further questions concerning this report or the financial status of **Chisholm Creek Utility Authority** should be directed to the Authority's manager at 5551 N Broadway, Park City, Kansas 67219.

Randall Harris
Utility Manager
Chisholm Creek Utility Authority

CHISHOLM CREEK UTILITY AUTHORITY
Balance Sheet
Proprietary Fund
December 31, 2009

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 340,461
Accrued Interest Receivable	1,415
Current Portion of Sales Contract	50,187
Total Current Assets	392,063
Noncurrent Assets	
Capital Assets	
Equipment and Lines	9,946,571
Buildings and Plant	15,017,148
Land	342,909
Accumulated Depreciation	(3,271,364)
Net Capital Assets	22,035,264
Other Assets	
Investments - Bond Reserve Trust Accounts	3,222,665
Long-Term Portion of Sales Contract	232,687
Deferred Charges on Revenue Bonds	1,434,032
Intangible Assets	82,498
Accumulated Amortization Deferred Charges on Revenue Bonds	(559,973)
Accumulated Amortization Intangible Assets	(20,621)
Net Other Assets	4,391,288
Total Noncurrent Assets	26,426,552
Total Assets	$ 26,818,615

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

CHISHOLM CREEK UTILITY AUTHORITY
Balance Sheet
Proprietary Fund
December 31, 2009

LIABILITIES AND NET ASSETS	
Current Liabilities Payable from Current Assets	
Accounts Payable	$ 1,126
Accrued Compensation	9,919
Accrued Interest Payable	1,711
Current Portion of Capital Lease	31,000
Current Portion of Land Lease	954
Total Current Liabilities Payable from Current Assets	44,710
Current Liabilities Payable from Restricted Trust Accounts	
Accrued Interest Payable	262,173
Current Portion of Bonds Payable	705,000
Total Current Liabilities Payable from Restricted Trust Accounts	967,173
Total Current Liabilities	1,011,883
Noncurrent Liabilities	
Capital Lease	69,000
Land Lease	154,971
Bonds Payable	27,735,000
Total Noncurrent Liabilities	27,958,971
Total Liabilities	28,970,854
Net Assets	
Invested in Capital Assets, Net of Related Debt	(6,436,690)
Restricted	2,255,492
Unrestricted	2,028,959
Total Net Assets (Deficit)	(2,152,239)
Total Liabilities and Net Assets	$ 26,818,615

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

CHISHOLM CREEK UTILITY AUTHORITY
Statement of Revenues, Expenses, and Change in Net Assets
Proprietary Fund
For the Year Ended December 31, 2009

Operating Revenues	
Water and Wastewater Services - City of Bel Aire	$ 605,373
Water and Wastewater Services - City of Park City	1,400,541
Total Operating Revenues	2,005,914
Operating Expenses	
Operations and Maintenance	1,097,836
Insurance	43,305
Professional Fees	34,672
Amortization	50,592
Depreciation	456,761
Total Operating Expenses	1,683,166
Operating Income	322,748
Non-Operating Revenues (Expense)	
Interest Income	1,140,179
Lawsuit Proceeds	8,634
Other Income	10
Interest Expense	(1,441,073)
Total Non-Operating Revenues (Expense)	(292,250)
Change in Net Assets	30,498
Net Assets (Deficit) - Beginning of Year	(2,182,737)
Net Assets (Deficit) - End of Year	$ (2,152,239)

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

CHISHOLM CREEK UTILITY AUTHORITY
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2009

Cash Flows from Operating Activities	
Cash Received from Cities	$ 2,005,914
Cash Paid for Employee Personnel	(254,960)
Cash Paid for Operating Activities	(910,646)
Net Cash Provided by Operating Activities	840,308
Cash Flows from Capital and Related Financing Activities	
Fixed Asset Purchase	(117,321)
Interest Paid on Capital Debt	(1,809,681)
Principal Paid on Capital Debt	(660,881)
Net Cash (Used) by Capital and Related Financing Activities	(2,587,883)
Cash Flows from Investing Activities	
Proceeds on Sales Contracts	45,625
Interest Received - Net of Bond Reserves	1,140,369
Other Receipts	8,644
Collecting From (Investing In) Bond Reserves	615,175
Net Cash Provided by Investing Activities	1,809,813
Net Increase in Cash and Cash Equivalents	62,238
Cash and Cash Equivalents - Beginning of Year	278,223
Cash and Cash Equivalents - End of Year	$ 340,461

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities

Operating Income	$ 322,748
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	456,761
Amortization Expense	50,592
Change in Liabilities	
Increase in Accounts Payable	10,207
Net Cash Provided by Operating Activities	$ 840,308

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

NOTE 1 - NATURE OF ORGANIZATION

Chisholm Creek Utility Authority (Authority) was organized in April 2001 pursuant to the Kansas Interlocal Cooperation Act. The Authority was created by an Interlocal Cooperation Agreement of the Cities of Bel Aire and Park City, Kansas (Members) and is economically dependent on the Members. The purpose of the Authority is to assist its Members in planning, technical and financial matters for comprehensive utilities and public services, accomplish the desired objectives of effective utility and public services, accomplish the desired objectives of effective utility and public service facilities, and organize the operation of utility and public service systems. The Authority is governed by a four member Board of Commissioners and primarily provides water and wastewater services to the Members' residents. (Solid waste services, operated by the Authority, were sold to an outside party in December 2004.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Chisholm Creek Utility Authority** is presented to assist in understanding the Authority's financial statements. The financial statements and notes to financial statements are representations of the Authority's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Basis of Accounting, Financial Statement Presentation and Measurement Focus

The Authority's financial statements are reported using the economic resources measurement focus, the current financial resources management, and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the Balance Sheet. The Statement of Revenues, Expenses and Changes in Net Assets present increases and decreases in net total assets. Under the accrual basis of accounting revenues are recorded when earned, and expenses are recorded when a liability is incurred. Revenues are recognized as soon as they are both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers all revenues available if they are collected by the end of the year. Expenditures are recorded when the related liability is incurred, except for an un-matured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accounting records of the Authority are maintained on the accrual basis in accordance with accounting principles generally accepted in the United States of America. As a quasi-municipal corporation, the Authority applies all statements issued by the Government Accounting Standards Board (GASB) and all statements and interpretations issued by the Financial Accounting Standards Board (FASB), which are not in conflict with statements issued by the GASB. The Authority uses a single proprietary fund to account for and report its financial activities, which is limited to *business-type activities* – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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, which for the Authority is water distribution and wastewater treatment. Operating expenses 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 non-operating revenues and expenses. The Authority only had one operational fund through December 31, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all unrestricted, highly liquid deposits with original maturities of three months or less as cash and cash equivalents, which consists of the Authority's checking account.

Capital Assets and Depreciation

The costs of additions to the utility plant and replacements of retired units of property are capitalized. The utility plant includes a water treatment plant to provide water services to Members' residents and related water lines and wells. In addition, wastewater treatment facilities are included in the utility plant. Costs include labor, materials and an allowance for funds used during construction.

Certain capital leases in the approximate amount of $275,000 are also capitalized and included in utility plant assets. During 2009 there were additions of $118,159 and dispositions of $838 (salvage value of $0) of capital assets.

Capital assets are defined by the Authority as assets or a group of assets that have an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation expense is computed using the straight-line method based on service lives. Estimated useful lives for equipment and lines are 5 to 40 years. Estimated useful lives for buildings and plant are 30 to 40 years. Depreciation expense was $456,761 and as a percentage of the average depreciable utility plant in service was 1.88% for the year ended December 31, 2009.

		Beginning Balances	Increases	Decreases	Ending Balances
Depreciable Capital Assets					
Equipment and Lines	$	9,829,250	118,159	(838)	9,946,571
Buildings and Plant		15,017,148	-	-	15,017,148
Total Depreciable Capital Assets		24,846,398	118,159	(838)	24,963,719
Land		342,909	-	-	342,909
Accumulated Depreciation		(2,815,441)	(456,761)	838	(3,271,364)
Capital Assets, Net of Accumulated Depreciation	**$**	**22,373,866**	**(338,602)**	**-**	**22,035,264**

Bond Reserve Trust Accounts

Bond reserve trust accounts consist of funds for operations and maintenance, debt service, equipment replacement reserves, and construction. Such investments include U.S. government obligations and repurchase agreements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Reserve Trust Accounts (Continued)

Investments are reported at fair value and changes in unrealized gains and losses, if any, are recorded in the statement of revenues, expenses, and changes in net assets. Gains and losses realized on the sale of investments, if any, are determined by using the specific identification method. The stated fair value of investments is based on published market prices or quotations from major investment dealers.

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted, when there are legal limitations that are imposed on their use by legislation or external restrictions by creditors or grantors, to indicate that their use is limited as stipulated by contract. The proceeds of certain bond issues, as well as certain other resources, are classified as restricted net assets. All other net assets are reported as unrestricted.

Deficit Net Assets

The Authority's net assets had a deficit balance of $2,152,239 at December 31, 2009. This deficit is due to the Authority's capital assets depreciating more quickly than the debt principal, used to finance these assets, is retired. The Authority anticipates this deficit will reverse itself in subsequent accounting periods as interest expense of debt decreases and the principal payments of debt increase.

Operating Revenues

The Authority's rates are established by a rate ordinance. The Authority sells water and wastewater services to member cities at established rates. Member payments are subject to "take or pay" agreements.

Bel Aire's portions are approximately	50% Water Service	47% Wastewater
Park City's portions are approximately	50% Water Service	53% Wastewater

Revenues are pledged for payments of the revenue bonds and are recognized as billed and collected.

Deposits and Investments

As of December 31, 2009, the Authority had the following investments:

Operations and Maintenance	$	36,883
Debt Service - 2002		235,793
Debt Service - 2004		124,622
Debt Service – 2007		332,411
Debt Service Reserve		2,320,530
Replacement Reserve		172,426
Total	**$**	**3,222,665**

The Authority's investments consist of the bond reserve trust accounts, which are invested in repurchase agreements and U.S. treasury obligations. These investments are held at the Bank of New York and are to be used for bond service requirements.

The Operations and Maintenance account is used for routine operations and maintenance expenses. The Debt Service accounts are used for current and future payments of principal and interest on revenue bonds, excluding the solid waste refunding revenue bond.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments (Continued)

The Replacement Reserve account is used by the trustee, if no other funds are available, solely for the purpose of making emergency replacements and repairs in and to the Authority as may be necessary to keep the project in good repair and working order and to assure the continued effective and efficient operation of the project.

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

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

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

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. State statutes require the Authority's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Authority did not use "peak periods" during 2009.

At December 31, 2009, the Authority's carrying amount of deposits was $340,461 and the bank statement balance was $368,528, the difference being outstanding checks. The bank balance in 2009 was insured by the FDIC limit of $250,000 and $118,528 was collateralized with securities held by the pledging financial institutions' agents in the Authority's name.

Custodial Credit Risk - Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The Authority's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery *vs.* payment. As of December 31, 2009, none of the Authority's investments were exposed to risk since they are held in the Authority's name by the counterparty.

Compensated Absences

Chisholm Creek Utility Authority's employees are paid by the City of Park City, Kansas through a common paymaster system. Common paymaster is a system in which related entities are treated as a single employer for payroll purposes as approved by the Internal Revenue Service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

Vacation

Chisholm Creek Utility Authority's pay period is bi-weekly, for a total of 26 pay periods per year. The Authority's policy regarding vacation for full-time employees was as follows:

Years Worked	Amount Earned
0-1	2 Hours/Pay Period
2-5	4 Hours/Pay Period
6-10	5 Hours/Pay Period
11-15	6 Hours/Pay Period
16 or More	7 Hours/Pay Period

Vacation earned may not be taken until the employee completes six months of service. The maximum accrual for vacation shall be no more than 208 hours.

Sick Leave

Chisholm Creek Utility Authority's policy for sick leave permits full-time employees to earn sick leave at the rate of 8 hours per calendar month up to a maximum of 520 hours. For those employees who have attained and maintained a maximum accumulation of sick leave and are terminated in good standing, the Authority will pay them 50% of their accumulated sick leave at their current rate of pay. When maximum accrual of 520 hours is exceeded on October 31 of each calendar year, an "Attendance Bonus" shall be paid equivalent to 50% of the hours exceeding 520 hours. In addition to sick leave, each employee is entitled to two days of personal leave on an annual basis.

A potential liability of $9,919, which consists of $6,936 of accrued vacation and $2,983 of sick leave, existed as of December 31, 2009 for these compensated absences. The Authority has accrued these amounts for compensated absences.

Defined Benefit Pension Plan

Plan description. **Chisholm Creek Utility Authority** contributes to the Kansas Public Employees Retirement System (KPERS). KPERS is a cost-sharing multiple-employer defined benefit pension plans as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% 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 is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established for calendar year 2009 was 6.54%. **Chisholm Creek Utility Authority's** employer contributions to KPERS for the year ending December 31, 2009 was $4,234, equal to the required contributions for this year. For the years ending December 31 2008, and 2007, **Chisholm Creek Utility Authority** did not have employer contributions to the KPERS plan as no employees qualified in 2008 or 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees who qualify under the plan terms, and permits employees to defer a portion of their salary until future years.

The deferred compensation may be withdrawn by employees before termination, retirement, death or unforeseeable emergency; however, employees are penalized for withdrawing funds before one of these events occur. The first time funds are withdrawn, the employee may not participate in the plan for one year. The second time funds are withdrawn, the employee may not participate in the plan for three years. The third time funds are withdrawn, the employee is disqualified from participating in the plan.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the Authority allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Authority is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Authority makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Authority under this program.

NOTE 3 - USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 periods. Actual results could differ from those estimates.

NOTE 4 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Authority violated KSA 10-130. The Authority did not remit payments to the state fiscal office agent, at least 20 days before the day of the maturity of any bonds or interest payable. The revenue bond affected by the payments not remitted timely (within 20 days) was the 2004 Solid Waste Disposal and Recycling bond.

NOTE 5 - SALES CONTRACT - SALE OF SOLID WASTE SERVICE BUSINESS

The Authority sold the solid waste business to an unrelated entity effective December 31, 2004 for a total amount of $594,748. The buyer made a $102,000 down payment with the remaining balance of $492,748 due in semi-annual installments over the following ten years. The Authority agreed to be responsible for billing and collecting monthly fees from recycling customers within the City of Bel Aire, Kansas and transmitting same to the purchaser. In addition, the Authority is responsible for contracting with the City of Bel Aire, Kansas for the billing and collection of residential solid waste disposal fees within that city. Fees collected will be transmitted to the purchaser after deducting an agreed-upon service charge. The Authority has obtained an irrevocable standby letter of credit from a bank in the amount of $60,000 in favor of the purchaser in order to assure payment of the fees collected. As of December 31, 2009 the contract receivable balance was $282,874. The current portion was $50,187 and the long-term portion was $232,687 for the year ended December 31, 2009. Accrued interest receivable at December 31, 2009 was $1,415. Payments are received in June and December of each year, with a final payment to be made in December 2014.

NOTE 5 - SALES CONTRACT - SALE OF SOLID WASTE SERVICE BUSINESS (CONTINUED)

The schedule of payments to be received is as follows:

Amount To Be Received In (Year)		Principal To Be Received
2010	$	**50,187**
2011		**54,750**
2012		**54,750**
2013		**59,312**
2014		**63,875**
Total Sales Contract Receivable		**282,874**
Less Current Portion of Sales Contract		**(50,187)**
Total Long-Term Portion of Sales Contract Receivable	$	**232,687**

NOTE 6 - CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception for December 31, 2009 are as follows:

Project Name		**Project Authorization**	**Cash Disbursements and Accounts Payable to Date**
Headworks Project	$	3,918,306	127,979

NOTE 7 - DEFERRED CHARGES ON REVENUE BONDS

Debt discounts and issue expenses are deferred and amortized to debt expense over the lives of the related debt issues. Capital lease costs are amortized over the life of the related leases and are reported as amortization expense. Deferred charges on revenue bonds were capitalized and are being amortized over the life of the bonds. These deferred charges on revenue bonds are as follows:

		Revenue Bond	Solid Waste Bond	Refunding Bond	Refunding Bond	**Totals**
Original Amount	$	1,102,791	39,482	186,766	104,993	**1,434,032**
Accumulated Amortization		(465,691)	(20,069)	(61,613)	(12,600)	**(559,973)**
Balance at 12/31/2009	$	**637,100**	**19,413**	**125,153**	**92,393**	**874,059**

NOTE 8 - NON-OPERATING REVENUE - LAWSUIT PROCEEDS

Chisholm Creek Utility Authority received $8,634 in 2009 from a water well contamination lawsuit. This was a class action lawsuit, involving numerous cities in Kansas, regarding a gasoline additive (MTBE) and the environmental effect it had on various city water wells. This lawsuit was settled in 2008 however the remaining amount of compensation was not received by the Authority until 2009.

NOTE 9 - LITIGATION

Chisholm Creek Utility Authority is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected fund of the Authority.

NOTE 10 - ENVIRONMENTAL ISSUES

The Authority's operation of the wastewater utility services poses a potential risk for environmental remediation liabilities. The operator of the facilities has indicated that the Authority has not violated environmental laws.

NOTE 11 - RISK MANAGEMENT CLAIMS AND JUDGMENTS

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

Chisholm Creek Utility Authority continues to carry commercial insurance for all other risks of loss, including property, general liability, inland marine, and automobile. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2009 the financial statements do not include liabilities for anticipated costs.

NOTE 12 - RELATED PARTY TRANSACTIONS

The following related party transactions were identified for 2009. Related party transactions do not include compensation arrangements, expense allowances and reimbursements, and similar items incurred in the ordinary course of operations and accordingly, such items are not included below:

The Authority has contracts with its Members to provide water and wastewater service for minimum amounts through 2032. Sales to its Members amounted to $2,005,914 for December 31, 2009.

NOTE 13 - CONCENTRATIONS

Water and wastewater services are only sold to the Member cities of Park City and Bel Aire. The total number of customers of each city at December 31, 2009 were 2,865 and 2,485, respectively. The Authority is economically dependent on these two Members.

NOTE 14 - TEMPORARY FINANCING AGREEMENT

On October 13, 2009 a temporary financing agreement was issued per the Interlocal Cooperation Agreement between the City of Bel Aire, Kansas and the City of Park City, Kansas for **Chisholm Creek Utility Authority** to proceed with certain improvements to the wastewater treatment facilities. The improvements were approved up to but not to exceed $3,918,306, of which the City of Bel, Kansas is liable for $1,322,934 and the City of Park City, Kansas is liable for $1,875,372. The City of Bel Aire, Kansas will issue temporary notes for financing the allocable portion of the costs. **Chisholm Creek Utility Authority** will create bonded indebtedness for the long-term financing of the temporary notes issued by the City of Bel Aire, Kansas and the City of Bel Aire, Kansas will pay the Authority for this indebtedness.

NOTE 15 - DEBT RESTRICTIONS AND COVENANTS

On March 1, 2002, **Chisholm Creek Utility Authority** entered into a bond agreement for the purchase and construction of a wastewater treatment plant and water plant.

NOTE 15 - DEBT RESTRICTIONS AND COVENANTS (CONTINUED)

The Series 2002 Water and Wastewater bond requires that rates must be established by the Cities of Bel Aire and Park City to allow a net profit of 125% of all base charges and 110% of any additional indebtedness. This rate covenant's calculation combines all water fund operations for the City of Bel Aire and the City of Park City with the Authority's activity. The cities bill customers for the water services then reimburse the Authority for these services provided. This process leads to timing differences between the transfers of revenues. The Authority is in compliance with this rate covenant requirement in 2009; the combined net revenues of the Authority and its Members exceeded the requirement by $404,610.

This bond agreement also requires the Authority to carry insurance that is in accordance with the Prudent Utility Practice. The Authority is in compliance with this requirement as of December 31, 2009. A detailed summary of insurance carried by the Authority is represented on the supplemental schedule on page 19.

NOTE 16 - LONG-TERM DEBT

Chisholm Creek Utility Authority has the following types of long-term debt:

Revenue Bonds - In 2002, the Authority issued $28,980,000 in series 2002 serial and term revenue bonds for the purchase and construction of a wastewater treatment plant and water plant.

In 2004, the Authority issued $540,000 in series 2004 serial and term revenue bonds to pay in full a lease regarding the solid waste management function of the Authority.

In 2004, the Authority issued $7,235,000 in series 2004 revenue bonds to advance refund $6,535,000 of the series 2002 bonds.

In 2007, The Authority issued $19,415,000 in series 2007 revenue bonds to advance refund the remaining Series 2002 revenue bonds.

Refunding Revenue Bonds Expanded

On October 1, 2004, the Authority issued revenue bonds of $7,235,000 (par value) Water and Wastewater Facilities Refunding Revenue Series 2004 with an interest rate of 3.00 - 5.00% to advance refund term bonds. The revenue bonds were issued at a premium and, after paying issuance costs, the net proceeds were $6,535,000. The net proceeds from the issuance of the revenue bond were used to purchase US Government Securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until term bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and term bonds were removed from the Authority's financial statements.

On April 1, 2007, the Authority issued revenue bonds of $19,415,000 (par value) Water and Wastewater Facilities Refunding Revenue Series 2007 with an interest rate of 4.00-4.50% to advance refund term bonds. The revenue bonds were issued at a premium and, after paying issuance costs, the net proceeds were $18,705,000. The net proceeds from the issuance of the revenue bond were used to purchase US Government Securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until term bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and term bonds were removed from the Authority's financial statements.

Capital Leases - The Authority has entered into several capital lease agreements with options to purchase the equipment and/or land at the expiration of the lease term.

The changes in long-term debt and maturity of long-term debt are disclosed on the following two pages.

NOTE 16 - LONG-TERM DEBT (CONTINUED)
Changes in long-term debt for the year ended December 31, 2009 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Revenue Bonds										
Series 2002 Water and Wastewater	3.25-5.25%	2002	$ 28,980,000	2032	$ 27,575,000	-	25,735,000	(25,735,000)	1,840,000	96,981
Series 2004 Water and Wastewater Refunding	3.00-5.00%	2004	7,235,000	2020	7,050,000	-	60,000	(60,000)	6,990,000	282,735
Series 2004 Solid Waste Disposal and Recycling	5.00-6.00%	2004	540,000	2014	360,000	-	50,000	(50,000)	310,000	21,100
Series 2007 Water and Wastewater Refunding	4.00-4.50%	2007	19,415,000	2032	19,325,000	-	25,000	(25,000)	19,300,000	883,712
Total Revenue Bonds					54,310,000	-	25,870,000	(25,870,000)	28,440,000	1,284,528
Capital Leases										
2002 Water Equipment	4.19%	2002	275,000	2012	130,000	-	30,000	(30,000)	100,000	5,133
Wastewater Plant Land	8.00%	1992	179,403	2042	156,805		880	(880)	155,925	12,511
Total Capital Leases					286,805	-	30,880	(30,880)	255,925	17,644
Compensated Absences	N/A	N/A	N/A	N/A	5,751	-	-	4,168	9,919	-
Total Debt					54,602,556	-	25,900,880	(25,896,712)	28,705,844	1,302,172
Repurchase Reserves					(25,735,000)	25,735,000	-	25,735,000	-	215,190
Total Debt Net of Repurchase Reserves			$ 56,624,403		$ 28,867,556	25,735,000	25,900,880	(161,712)	28,705,844	1,517,362

NOTE 16 - LONG-TERM DEBT (CONTINUED)
Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Principal	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2042	**Total**
Revenue Bonds	705,000	770,000	805,000	835,000	865,000	4,485,000	5,570,000	7,075,000	7,330,000	-	-	**28,440,000**
Capital Leases	31,954	33,033	38,117	1,211	1,312	8,383	12,488	18,607	27,722	41,301	41,797	**255,925**
Total Principal	736,954	803,033	843,117	836,211	866,312	4,493,383	5,582,488	7,093,607	7,357,722	41,301	41,797	**28,695,925**
Interest												
Revenue Bonds	1,457,128	1,229,422	1,196,472	1,161,772	1,130,772	5,152,610	4,078,412	2,584,562	828,638	-	-	**18,819,788**
Capital Leases	16,314	14,915	13,490	12,181	12,080	58,577	54,472	48,353	39,238	25,659	6,231	**301,510**
Total Interest	1,473,442	1,244,337	1,209,962	1,173,953	1,142,852	5,211,187	4,132,884	2,632,915	867,876	25,659	6,231	**19,121,298**
Total Principal and Interest	2,210,396	2,047,370	2,053,079	2,010,164	2,009,164	9,704,570	9,715,372	9,726,522	8,225,598	66,960	48,028	**47,817,223**

CHISHOLM CREEK UTILITY AUTHORITY

Supplementary Information

CHISHOLM CREEK UTILITY AUTHORITY
Insurance Coverage
December 31, 2009

The Authority's insurance coverage is as follows:

Insurance Coverage

Blanket policy on all real and personal property ($5,000 deductible), replacement cost, coinsurance 100%	$ 18,955,309
Property:	
Additional benefits	Scheduled
Inland marine:	
Contractors' equipment ($1,000 deductible)	262,248
Electronic data processing ($1,000 deductible), replacement cost	20,000/10,000
Automobile liability:	
Bodily injury and property damage	1,000,000
Uninsured/underinsured motorist	1,000,000
Personal injury protection	Included
Physical damage (comprehensive $500 deductible, collision $500 deductible)	Actual cash value
General Liability:	
General aggregate	2,000,000
Products and completed operations - aggregate	2,000,000
Each event limit	1,000,000
Personal injury and advertising injury	1,000,000
Public entity management liability ($5,000 deductible)	1,000,000
Umbrella:	
Occurrence ($10,000 deductible), governmental unit endorsement	1,000,000
Each event limit ($10,000 deductible)	1,000,000
Excess errors and omissions:	
Total limit	1,000,000

See independent auditors' report.