

CITY OF KECHI

KECHI, KANSAS

Special Financial Statements

December 31, 2005

City of Kechi, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of Kechi
Kechi, Kansas

We have audited the accompanying financial statements of the City of Kechi, Kansas, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the City'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 and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Kechi, Kansas, as of December 31, 2005, or the results of its operations for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Kechi, Kansas, as of December 31, 2005, and its cash receipts and expenditures for the year then ended on the basis of accounting described in Note 1.

Knudsen, Monroe & Company, LLC

Certified Public Accountants

February 7, 2006

City of Kechi, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2005

Funds	Unencumbered Cash Balance 12/31/04	Receipts	Expenditures	Unencumbered Cash Balance 12/31/05	Accounts Payable and Encumbrances	Cash Balance 12/31/05
Primary Government						
Governmental Type Funds:						
General	\$ 65,588	471,568	486,328	50,828	1,434	52,262
Special Revenue						
Special street and highway	134,805	53,567	33,614	154,758	-	154,758
Capital improvement	252,946	30,000	275,995	6,951	-	6,951
Equipment reserve	19,818	25,000	33,564	11,254	-	11,254
Capital Projects						
Northridge Heights Addition	41,050	-	20,528	20,522	-	20,522
Wastewater Treatment	(642)	1,977,318	1,633,086	343,590	-	343,590
Northwoods Addition	-	1,150,000	373,912	776,088	-	776,088
Debt Service						
Bond and interest	6,579	386,789	383,923	9,445	-	9,445
Proprietary Type Funds:						
Enterprise						
Gas	63,148	529,117	546,545	45,720	18,134	63,854
Waterworks	106,617	217,614	252,582	71,649	2,805	74,454
Waterworks reserve	5,886	10,000	-	15,886	-	15,886
Sewer	205,606	147,874	216,802	136,678	3,654	140,332
Sewer reserve	75,603	12,250	40,000	47,853	-	47,853
Total Primary Government	977,004	5,011,097	4,296,879	1,691,222	26,027	1,717,249
Component Unit:						
Kechi Public Building Commission	311,273	370,294	377,217	304,350	-	304,350
Total Reporting Entity	\$ 1,288,277	5,381,391	4,674,096	1,995,572	26,027	2,021,599

City of Kechi, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental Type Funds:					
General	\$ 491,800	-	491,800	486,328	5,472
Special Revenue					
Special street and highway	141,825	-	141,825	33,614	108,211
Debt Service					
Bond and Interest	383,924	-	383,924	383,923	1
Proprietary Type Funds:					
Enterprise					
Gas	598,624	-	598,624	546,545	52,079
Waterworks	332,324	-	332,324	252,582	79,742
Sewer	363,130	-	363,130	216,802	146,328
Sewer reserve	<u>119,479</u>	<u>-</u>	<u>119,479</u>	<u>40,000</u>	<u>79,479</u>
Expenditures subject to current budget	<u>\$ 2,431,106</u>	<u>-</u>	<u>2,431,106</u>	1,959,794	<u>471,312</u>
Add expenditures of unbudgeted funds					
Special Revenue				309,559	
Capital Projects				<u>2,027,526</u>	
Total Expenditures, Primary government				<u>\$ 4,296,879</u>	

City of Kechi, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 148,199	179,681	178,384	1,297
Vehicle tax	29,742	30,081	28,907	1,174
Local sales tax	124,180	132,715	120,000	12,715
Franchise tax	27,657	33,675	32,000	1,675
Fines, fees, permits and other	45,962	60,797	62,800	(2,003)
Interest	10,093	22,119	8,500	13,619
Transfers from other funds	-	12,500	18,000	(5,500)
	<u>385,833</u>	<u>471,568</u>	<u>448,591</u>	<u>22,977</u>
EXPENDITURES				
Administration				
Personal services	83,895	96,422	92,000	(4,422)
Contracted services	58,787	64,339	96,800	32,461
Commodities and other	35,374	52,510	43,500	(9,010)
Capital outlay	17,656	20,545	7,500	(13,045)
Police and court				
Personal services	108,899	109,146	120,000	10,854
Contracted services and other	29,240	37,583	27,000	(10,583)
Street lighting				
Contracted services	5,529	6,373	6,500	127
Employee benefits				
Employee insurance premiums	22,554	41,273	33,000	(8,273)
Employer's share of retirement and payroll taxes	37,156	43,137	35,500	(7,637)
Transfers to other funds	-	15,000	30,000	15,000
	<u>399,090</u>	<u>486,328</u>	<u>491,800</u>	<u>5,472</u>
Receipts over (under) expenditures	(13,257)	(14,760)		
UNENCUMBERED CASH, beginning	<u>78,845</u>	<u>65,588</u>		
UNENCUMBERED CASH, ending	<u>\$ 65,588</u>	<u>50,828</u>		

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>SPECIAL HIGHWAY FUND</u>				
RECEIPTS				
State payments - gasoline tax	\$ 32,620	34,633	35,270	(637)
County treasurer - highway fund	15,852	16,887	17,240	(353)
Other	-	2,047	-	2,047
	<u>48,472</u>	<u>53,567</u>	<u>52,510</u>	<u>1,057</u>
EXPENDITURES				
Personal services	-	3,982	-	(3,982)
Contracted services	3,431	1,093	50,000	48,907
Commodities and other	13,031	28,539	91,825	63,286
	<u>16,462</u>	<u>33,614</u>	<u>141,825</u>	<u>108,211</u>
Receipts over (under) expenditures	32,010	19,953		
UNENCUMBERED CASH, beginning	<u>102,795</u>	<u>134,805</u>		
UNENCUMBERED CASH, ending	<u>\$ 134,805</u>	<u>154,758</u>		
 <u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 15,000	30,000		
EXPENDITURES				
Capital outlay	<u>83,627</u>	<u>275,995</u>	NOT APPLICABLE	
Receipts over (under) expenditures	(68,627)	(245,995)		
UNENCUMBERED CASH, beginning	<u>321,573</u>	<u>252,946</u>		
UNENCUMBERED CASH, ending	<u>\$ 252,946</u>	<u>6,951</u>		

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004	2005		Variance
	Actual	Actual	Budget	Favorable (Unfavorable)
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 10,000	25,000		
EXPENDITURES				
Capital outlay	32,823	33,564		NOT APPLICABLE
Receipts over (under) expenditures	(22,823)	(8,564)		
UNENCUMBERED CASH, beginning	42,641	19,818		
UNENCUMBERED CASH, ending	\$ 19,818	11,254		

City of Kechi, Kansas

Capital Project Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET *

Year ended December 31, 2005

	Northridge Heights Addition	Wastewater Treatment Project	Northwoods Addition	2005 Total
RECEIPTS				
Temporary note proceeds	\$ -	1,975,000	1,115,000	3,090,000
Interest	-	2,318	-	2,318
Other	-	-	35,000	35,000
	<u>-</u>	<u>1,977,318</u>	<u>1,150,000</u>	<u>3,127,318</u>
EXPENDITURES				
Legal and appraisal	1,276	-	-	1,276
Construction and engineering	19,181	1,610,187	353,231	1,982,599
Debt issue costs and other	71	22,899	20,681	43,651
	<u>20,528</u>	<u>1,633,086</u>	<u>373,912</u>	<u>2,027,526</u>
Receipts over (under) expenditures	(20,528)	344,232	776,088	1,099,792
UNENCUMBERED CASH, beginning	41,050	(642)	-	40,408
UNENCUMBERED CASH, ending	<u>\$ 20,522</u>	<u>343,590</u>	<u>776,088</u>	<u>1,140,200</u>

* Capital project funds are not subject to a statutory budget

City of Kechi, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2005)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
BOND AND INTEREST				
RECEIPTS				
Ad valorem property tax	\$ -	-	-	-
Special assessments	282,143	285,789	275,413	10,376
Transfers from other funds	50,000	101,000	101,927	(927)
	<u>332,143</u>	<u>386,789</u>	<u>377,340</u>	<u>9,449</u>
EXPENDITURES				
Bond principal	243,100	235,000	235,000	-
Interest	170,153	148,923	148,924	1
Commission and postage	1	-	-	-
	<u>413,254</u>	<u>383,923</u>	<u>383,924</u>	<u>1</u>
Receipts over (under) expenditures	(81,111)	2,866		
UNENCUMBERED CASH, beginning	87,690	6,579		
UNENCUMBERED CASH, ending	<u>\$ 6,579</u>	<u>9,445</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>GAS FUND</u>				
RECEIPTS				
Sales	\$ 523,144	523,482	575,000	(51,518)
Connection fees	3,604	1,701	2,000	(299)
Refunds and other	4,564	3,934	-	3,934
	<u>531,312</u>	<u>529,117</u>	<u>577,000</u>	<u>(47,883)</u>
EXPENDITURES				
Personal services	64,222	75,726	69,000	(6,726)
Gas purchased	394,650	431,905	460,000	28,095
Contractual services	11,860	12,827	15,000	2,173
Commodities and other	14,471	16,707	20,000	3,293
Capital outlay	3,085	9,380	29,124	19,744
Transfers to other funds	-	-	5,500	5,500
	<u>488,288</u>	<u>546,545</u>	<u>598,624</u>	<u>52,079</u>
Receipts over (under) expenditures	43,024	(17,428)		
UNENCUMBERED CASH, beginning	<u>20,124</u>	<u>63,148</u>		
UNENCUMBERED CASH, ending	<u>\$ 63,148</u>	<u>45,720</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>WATERWORKS FUND</u>				
RECEIPTS				
Sales	\$ 192,297	213,608	215,000	(1,392)
Connection fees	4,420	1,735	5,000	(3,265)
Other	1,515	2,271	-	2,271
	<u>198,232</u>	<u>217,614</u>	<u>220,000</u>	<u>(2,386)</u>
EXPENDITURES				
Personal services	59,786	76,047	65,000	(11,047)
Water purchases	63,106	89,537	95,000	5,463
Contractual services	8,591	10,943	12,000	1,057
Commodities and other	22,557	19,522	20,000	478
Capital outlay	40,059	9,533	83,324	73,791
Transfers to other funds	45,340	47,000	57,000	10,000
	<u>239,439</u>	<u>252,582</u>	<u>332,324</u>	<u>79,742</u>
Receipts over (under) expenditures	(41,207)	(34,968)		
UNENCUMBERED CASH, beginning	<u>147,824</u>	<u>106,617</u>		
UNENCUMBERED CASH, ending	<u>\$ 106,617</u>	<u>71,649</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>WATERWORKS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 20,000	10,000		
EXPENDITURES				
Capital outlay	<u>100,000</u>	<u>-</u>		NOT APPLICABLE
Receipts over (under) expenditures	(80,000)	10,000		
UNENCUMBERED CASH, beginning	<u>85,886</u>	<u>5,886</u>		
UNENCUMBERED CASH, ending	<u>\$ 5,886</u>	<u>15,886</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2005

(With comparative actual amounts for the year ended December 31, 2004)

	2004 Actual	2005		Variance Favorable (Unfavorable)
		Actual	Budget	
SEWER FUND				
RECEIPTS				
User fees	\$ 139,353	147,874	150,000	(2,126)
Other	1,781	-	-	-
	<u>141,134</u>	<u>147,874</u>	<u>150,000</u>	<u>(2,126)</u>
EXPENDITURES				
Personal services	26,989	31,431	30,000	(1,431)
Contracted waste water treatment	86,236	59,385	72,000	12,615
Other contractual services	7,702	11,926	15,000	3,074
Commodities and other	6,536	23,167	5,000	(18,167)
Capital outlay	59,380	14,393	50,000	35,607
Transfers to other funds	50,000	76,500	191,130	114,630
	<u>236,843</u>	<u>216,802</u>	<u>363,130</u>	<u>146,328</u>
Receipts over (under) expenditures	(95,709)	(68,928)		
UNENCUMBERED CASH, beginning	<u>301,315</u>	<u>205,606</u>		
UNENCUMBERED CASH, ending	<u>\$ 205,606</u>	<u>136,678</u>		
SEWER RESERVE FUND				
RECEIPTS				
Permits and fees	\$ 26,250	12,250	25,000	(12,750)
EXPENDITURES				
Contractual services and other	-	-	75,000	75,000
Capital outlay	-	-	44,479	44,479
Transfers to other funds	65,126	40,000	-	(40,000)
	<u>65,126</u>	<u>40,000</u>	<u>119,479</u>	<u>79,479</u>
Receipts over (under) expenditures	(38,876)	(27,750)		
UNENCUMBERED CASH, beginning	<u>114,479</u>	<u>75,603</u>		
UNENCUMBERED CASH, ending	<u>\$ 75,603</u>	<u>47,853</u>		

City of Kechi, Kansas

Component Unit - Kechi Public Building Commission

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECEIPTS		
Improvement revenue bond proceeds	\$ 300,000	875,000
Lease payments from the City of Kechi	68,061	446
Accrued interest on bonds	532	-
Interest on investments	1,701	-
	<u>370,294</u>	<u>875,446</u>
EXPENDITURES		
Debt issue costs	12,654	35,472
Construction	296,001	528,701
Debt service		
Principal	30,000	-
Interest	38,562	-
	<u>377,217</u>	<u>564,173</u>
Receipts over (under) expenditures	(6,923)	311,273
UNENCUMBERED CASH, beginning	<u>311,273</u>	-
UNENCUMBERED CASH, ending	<u>\$ 304,350</u>	<u>311,273</u>

City of Kechi, Kansas

STATEMENT OF CHANGES IN LONG-TERM DEBT
Year ended December 31, 2005

	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Interest Paid
Temporary Improvement Notes:									
Series 2004	3.25%	12/01/04	\$ 210,000	12/01/06	\$ 210,000	-	-	210,000	-
Series 2005, A	3.25%	04/15/05	\$ 1,975,000	04/15/07	-	1,975,000	-	1,975,000	-
Series 2005, B	3.75%	11/01/05	\$ 1,115,000	11/01/07	-	1,115,000	-	1,115,000	-
					<u>210,000</u>	<u>3,090,000</u>	<u>-</u>	<u>3,300,000</u>	<u>-</u>
General Obligation Bonds, including special assessments:									
Series 1992 A	4.00-6.30%	08/15/92	1,110,000	08/01/07	40,000	-	10,000	30,000	2,503
Series 1995 A	6.20-7.00%	02/01/95	338,766	09/01/10	180,000	-	25,000	155,000	11,387
Series 1997 A	4.35-6.50%	10/01/97	470,000	10/01/13	335,000	-	30,000	305,000	16,250
Series 1998 A	4.60-5.50%	09/01/98	300,000	09/01/14	235,000	-	20,000	215,000	11,448
Series 1999 A	4.20-7.00%	05/01/99	165,519	11/01/14	120,000	-	10,000	110,000	5,700
Series 2000 A	5.35-7.00%	05/01/00	652,540	11/01/15	540,000	-	35,000	505,000	31,005
Series 2000 B	4.50-5.50%	10/15/00	425,000	10/01/16	385,000	-	25,000	360,000	20,033
Series 2003 A	2.50-4.50%	07/01/03	1,483,100	09/01/18	1,410,000	-	80,000	1,330,000	50,597
					<u>3,245,000</u>	<u>-</u>	<u>235,000</u>	<u>3,010,000</u>	<u>148,923</u>
Capital Lease Obligations:									
John Deere loader/backhoe	4.90%	12/15/02	42,785	12/15/07	21,863	-	6,935	14,928	1,096
Dump truck and equipment	3.86%	06/22/04	65,214	06/22/09	58,118	-	12,065	46,053	2,128
					<u>79,981</u>	<u>-</u>	<u>19,000</u>	<u>60,981</u>	<u>3,224</u>
Total Long-Term Debt					<u>\$ 3,534,981</u>	<u>3,090,000</u>	<u>254,000</u>	<u>6,370,981</u>	<u>152,147</u>

See notes to financial statements

City of Kechi, Kansas

SCHEDULE OF MATURITY OF LONG-TERM DEBT

Year ended December 31, 2005

	Year ending December 31							Total
	2006	2007	2008	2009	2010	2011-2015	2016-2018	
Principal								
Temporary Improvement Notes	\$ 210,000	3,090,000	-	-	-	-	-	3,300,000
General Obligation Bonds	250,000	260,000	260,000	270,000	285,000	1,285,000	400,000	3,010,000
Capital Lease Obligations	19,817	20,671	13,531	6,962	-	-	-	60,981
Total principal	479,817	3,370,671	273,531	276,962	285,000	1,285,000	400,000	6,370,981
Interest								
Temporary Improvement Notes	13,650	212,000	-	-	-	-	-	225,650
General Obligation Bonds	136,822	123,883	111,305	100,188	88,122	254,345	30,930	845,595
Capital Lease Obligations	2,406	1,552	662	135	-	-	-	4,755
Total interest	152,878	337,435	111,967	100,323	88,122	254,345	30,930	1,076,000
Total principal and interest	\$ 632,695	3,708,106	385,498	377,285	373,122	1,539,345	430,930	7,446,981

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Kechi is a municipal corporation governed by an elected five-member council. These financial statements present the City of Kechi (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its operational and financial relationship with the City.

Discretely Presented Component Units

The component unit financial statement includes the financial data of the discretely presented component unit. The component unit is reported separately to emphasize that it is legally separate from the City. The governing body of the component unit is appointed by the Kechi city council.

Kechi Public Building Commission – The Commission was formed during 2004, under K.S.A. 12-1757 to 12-1768, to provide financing for City buildings and facilities. Information concerning the revenue bonds issued to provide these improvements is included in Note 6 to the financial statements.

Basis of Accounting

These financial statements are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

Departure from Generally Accepted Accounting Principles

The basis of presentation described above results in a statement of revenues on the cash basis and expenditures on a modified accrual basis further modified by the inclusion of encumbrances. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. In addition, general fixed assets that account for the land, buildings and equipment owned by the City of Kechi are not recorded. The required balance sheet, income statement, and the statement of cash flows are not presented for the proprietary fund types. Accounting principles generally accepted in the United States of America require these fund types to be accounted for by the full accrual method of accounting. The City has passed a resolution to waive reporting under generally accepted accounting principles, in accordance with K.S.A. 75-1120a.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. FUND DESCRIPTION

In governmental accounting, 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.

The following types of funds comprise the financial activities of the City for the year 2005:

Governmental Funds

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

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

Capital Projects Funds--to account for financial resources segregated for the acquisition of major capital facilities other than those financed totally by proprietary funds.

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

Proprietary Funds

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

3. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The 2005 budget was not amended.

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

All legal annual operating budgets are prepared using a modified cash basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for fiduciary funds, capital project funds, enterprise bond reserve accounts, and the following special revenue funds:

1. Capital Improvement Fund
2. Equipment Reserve Fund

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

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

4. DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2005, the carrying amount of the City's deposits, including certificates of deposit, was \$2,021,599. The bank balances were \$2,018,451. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$200,000 was covered by FDIC insurance and the remaining \$1,818,451 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank, and the independent third-party bank holding the pledged securities.

Investments

Kansas statutes authorize the City to invest in U.S. Treasury bills and notes, repurchase agreements, and the Kansas State Treasurer's Investment Pool. All investments must be insured, registered, or held by the City or its agent in the City's name.

The City of Kechi held no investments during 2005.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Amount on deposit with financial institutions			
Checking account	\$ 897,729	304,350	1,202,079
Savings and time deposits	<u>819,520</u>	<u>-</u>	<u>819,520</u>
	<u>\$ 1,717,249</u>	<u>304,350</u>	<u>2,021,599</u>

5. COMPLIANCE WITH KANSAS STATUES

Management is not aware of any statutory violation incurred in the year ended December 31, 2005.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

6. LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2005:

	<u>General Obligation</u>		
	<u>Capital Leases</u>	<u>G.O. Bonds</u>	<u>Temporary Notes</u>
Debt Outstanding, beginning	\$ 79,981	3,245,000	210,000
Additions	-	-	3,090,000
Retirements	(19,000)	(235,000)	-
Debt Outstanding, ending	<u>\$ 60,981</u>	<u>3,010,000</u>	<u>3,300,000</u>
Interest Paid 2005	<u>\$ 3,224</u>	<u>148,923</u>	<u>-</u>

Capital Leases

Future minimum lease payments for all capital lease agreements are as follows:

2006	\$ 22,223
2007	22,223
2008	14,193
2009	<u>7,097</u>
Total lease payments	65,736
Less interest	<u>(4,755)</u>
Present value of lease payments	<u>\$ 60,981</u>

Temporary Notes

During 2004 the City issued \$210,000 in temporary renewal notes to finance a capital improvement project during construction. In 2005, the City issued an additional \$3,090,000 to provide financing for a waste water treatment line extension and other capital projects. These notes carry interest rates ranging from 3.25% to 3.75%. All temporary notes will be retired with the proceeds of general obligation bonds during 2006 and 2007.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

6. LONG-TERM DEBT (Continued)

Kechi Public Building Commission (KPBC) – Improvement Revenue Bonds

During 2004, the KPBC issued Series 2004 Improvement Revenue Bonds in the principal amount of \$875,000. On November 1, 2005 an additional \$300,000 in Series 2005 Improvement Revenue Bonds were issued. Proceeds from the bonds are being used by the KPBC, to construct new City administrative, police and maintenance facilities. The agreement requires the KPBC to lease these facilities back to the City of Kechi for the amount necessary to meet the debt service requirement on the outstanding revenue bonds.

Debt Service requirements to maturity for all of the outstanding KPBC bonds, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 30,000	39,448	69,448
2007	30,000	65,435	95,435
2008	40,000	51,321	91,321
2009	45,000	49,920	94,920
2010	45,000	48,238	93,238
2011-15	265,000	211,717	476,717
2016-20	320,000	144,713	464,713
2021-25	345,000	54,325	399,325
2026	25,000	1,250	26,250
	<u>\$ 1,145,000</u>	<u>666,367</u>	<u>1,811,367</u>

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Kechi participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603-3803) or by calling 1-800-228-0366.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute was 4.21% at December 31, 2005. The City of Kechi contributions to KPERS for the year ending December 31, 2005 were \$13,771, equal to the statutory required contributions for the year.

8. COMPENSATED ABSENCES

Full-time employees accrue vacation and sick leave benefits based on years of service to the City. Upon termination, unused vacation is paid to employees while accrued sick leave is not.

No provision for the liability which has accrued on the compensated absences described above has been included in the accompanying financial statements.

9. CAPITAL IMPROVEMENT PROJECTS

Project Authorizations

2005 capital improvement authorizations compared to actual expenditures since the beginning of the project is as follows:

	<u>Authorization</u>	<u>Expenditures to Date</u>	<u>Excess Authorization</u>
Northridge Heights Addition	\$ 425,000	189,630	235,370
Wastewater Treatment Improvements	2,276,981	1,631,410	645,571
Northwoods Addition	<u>1,224,500</u>	<u>373,912</u>	<u>850,588</u>
	<u>\$ 3,926,481</u>	<u>2,194,952</u>	<u>1,731,529</u>