

CITY OF KECHI
KECHI, KANSAS

Special Financial Statements

December 31, 2006

City of Kechi, Kansas

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December 31, 2006

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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 individual funds of the City of Kechi, Kansas, as of and for the year ended December 31, 2006, as listed in the table of contents. 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, 2006, 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, 2006, 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, 2006

Funds	Unencumbered Cash Balance 12/31/05	Receipts	Expenditures	Unencumbered Cash Balance 12/31/06	Accounts Payable and Encumbrances	Cash Balance 12/31/06
Primary Government						
Governmental Type Funds:						
General	\$ 50,828	606,265	610,520	46,573	3,902	50,475
Special Revenue						
Special street and highway	154,758	52,532	57,722	149,568	-	149,568
Capital improvement	6,951	35,000	40,191	1,760	-	1,760
Equipment reserve	11,254	27,500	26,412	12,342	-	12,342
Capital Projects						
Northridge Heights Addition	20,522	-	-	20,522	-	20,522
Wastewater Treatment	343,590	870,045	975,871	237,764	-	237,764
Northwoods Addition	776,088	-	756,509	19,579	-	19,579
Snow Bird Addition	-	-	228,077	(228,077)	-	(228,077)
Oliver Street Water Line	-	143,450	143,450	-	-	-
Debt Service						
Bond and interest	9,445	379,312	386,846	1,911	-	1,911
Proprietary Type Funds:						
Enterprise						
Gas	45,720	570,415	541,174	74,961	18,107	93,068
Waterworks	71,649	235,503	243,602	63,550	3,118	66,668
Waterworks reserve	15,886	-	1,617	14,269	-	14,269
Sewer	136,678	147,141	183,471	100,348	3,496	103,844
Sewer reserve	47,853	29,750	31,000	46,603	-	46,603
Total Primary Government	1,691,222	3,096,913	4,226,462	561,673	28,623	590,296
Component Unit:						
Kechi Public Building Commission	304,350	69,614	373,114	850	-	850
Total Reporting Entity	\$ 1,995,572	3,166,527	4,599,576	562,523	28,623	591,146

See notes to financial statements

City of Kechi, Kansas
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Year ended December 31, 2006

<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	\$ 610,805	-	610,805	610,520	285
Special Revenue					
Special street and highway	184,335	-	184,335	57,722	126,613
Debt Service					
Bond and Interest	386,884	-	386,884	386,846	38
Proprietary Type Funds:					
Enterprise					
Gas	655,024	-	655,024	541,174	113,850
Waterworks	284,618	-	284,618	243,602	41,016
Sewer	248,606	-	248,606	183,471	65,135
Sewer reserve	<u>105,603</u>	<u>-</u>	<u>105,603</u>	<u>31,000</u>	<u>74,603</u>
Expenditures subject to current budget	<u>\$ 2,475,875</u>	<u>-</u>	<u>2,475,875</u>	2,054,335	<u>421,540</u>
Add expenditures of unbudgeted funds					
Special Revenue				66,603	
Capital Projects				2,103,907	
Enterprise reserves				<u>1,617</u>	
Total Expenditures, Primary government				<u>\$ 4,226,462</u>	

City of Kechi, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 25,000	27,500		
EXPENDITURES				
Capital outlay	<u>33,564</u>	<u>26,412</u>		NOT APPLICABLE
Receipts over (under) expenditures	(8,564)	1,088		
UNENCUMBERED CASH, beginning	<u>19,818</u>	<u>11,254</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,254</u>	<u>12,342</u>		

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>SPECIAL STREET AND HIGHWAY FUND</u>				
RECEIPTS				
State payments - gasoline tax	\$ 34,633	35,219	35,030	189
County treasurer - highway fund	16,887	17,313	16,990	323
Other	2,047	-	-	-
	<u>53,567</u>	<u>52,532</u>	<u>52,020</u>	<u>512</u>
EXPENDITURES				
Personal services	3,982	1,029	15,000	13,971
Contracted services	1,093	7,425	35,000	27,575
Commodities and other	28,539	49,268	134,335	85,067
	<u>33,614</u>	<u>57,722</u>	<u>184,335</u>	<u>126,613</u>
Receipts over (under) expenditures	19,953	(5,190)		
UNENCUMBERED CASH, beginning	134,805	154,758		
UNENCUMBERED CASH, ending	<u>\$ 154,758</u>	<u>149,568</u>		
 <u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 30,000	35,000		
EXPENDITURES				
Capital outlay	<u>275,995</u>	<u>40,191</u>	NOT APPLICABLE	
Receipts over (under) expenditures	(245,995)	(5,191)		
UNENCUMBERED CASH, beginning	252,946	6,951		
UNENCUMBERED CASH, ending	<u>\$ 6,951</u>	<u>1,760</u>		

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 25,000	27,500		
EXPENDITURES				
Capital outlay	33,564	26,412		NOT APPLICABLE
Receipts over (under) expenditures	(8,564)	1,088		
UNENCUMBERED CASH, beginning	19,818	11,254		
UNENCUMBERED CASH, ending	\$ 11,254	12,342		

City of Kechi, Kansas

Capital Project Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET *

Year ended December 31, 2006

	Northridge Heights Addition	Wastewater Treatment Project	Northwoods Addition	Snow Bird Addition	Oliver Street Water line	2006 Total
RECEIPTS						
Proceeds from general obligation bonds	\$ -	868,350	-	-	143,450	1,011,800
Interest	-	1,695	-	-	-	1,695
	-	870,045	-	-	143,450	1,013,495
EXPENDITURES						
Legal and appraisal	-	419	-	228,077	-	228,496
Construction and engineering	-	93,125	756,509	-	143,450	993,084
Debt issue costs and other	-	26,935	-	-	-	26,935
Repayment of temporary notes	-	855,392	-	-	-	855,392
	-	975,871	756,509	228,077	143,450	2,103,907
Receipts over (under) expenditures	-	(105,826)	(756,509)	(228,077)	-	(1,090,412)
UNENCUMBERED CASH, beginning	20,522	343,590	776,088	-	-	1,140,200
UNENCUMBERED CASH, ending	\$ 20,522	237,764	19,579	(228,077)	-	49,788

* 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, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Ad valorem property tax	\$ -	11	-	11
Special assessments	285,789	288,301	277,520	10,781
Transfers from other funds	101,000	91,000	96,296	(5,296)
	<u>386,789</u>	<u>379,312</u>	<u>373,816</u>	<u>5,496</u>
EXPENDITURES				
Bond principal	235,000	250,000	250,000	-
Interest	148,923	136,823	136,884	61
Commission and postage	-	23	-	(23)
	<u>383,923</u>	<u>386,846</u>	<u>386,884</u>	<u>38</u>
Receipts over (under) expenditures	2,866	(7,534)		
UNENCUMBERED CASH, beginning	<u>6,579</u>	<u>9,445</u>		
UNENCUMBERED CASH, ending	<u>\$ 9,445</u>	<u>1,911</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>GAS FUND</u>				
RECEIPTS				
Sales	\$ 523,482	560,440	550,000	10,440
Connection fees	1,701	2,486	3,500	(1,014)
Refunds and other	3,934	7,489	-	7,489
	<u>529,117</u>	<u>570,415</u>	<u>553,500</u>	<u>16,915</u>
EXPENDITURES				
Personal services	75,726	76,400	85,000	8,600
Gas purchased	431,905	398,774	450,000	51,226
Contractual services	12,827	12,399	20,000	7,601
Commodities and other	16,707	15,682	25,000	9,318
Capital outlay	9,380	12,419	49,524	37,105
Transfers to other funds	-	25,500	25,500	-
	<u>546,545</u>	<u>541,174</u>	<u>655,024</u>	<u>113,850</u>
Receipts over (under) expenditures	(17,428)	29,241		
UNENCUMBERED CASH, beginning	<u>63,148</u>	<u>45,720</u>		
UNENCUMBERED CASH, ending	<u>\$ 45,720</u>	<u>74,961</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>WATERWORKS FUND</u>				
RECEIPTS				
Sales	\$ 213,608	229,606	220,000	9,606
Connection fees	1,735	4,345	5,000	(655)
Other	2,271	1,552	-	1,552
	<u>217,614</u>	<u>235,503</u>	<u>225,000</u>	<u>10,503</u>
EXPENDITURES				
Personal services	76,047	78,770	75,000	(3,770)
Water purchases	89,537	102,032	90,000	(12,032)
Contractual services	10,943	15,112	12,000	(3,112)
Commodities and other	19,522	12,067	25,000	12,933
Capital outlay	9,533	20,621	42,618	21,997
Transfers to other funds	47,000	15,000	40,000	25,000
	<u>252,582</u>	<u>243,602</u>	<u>284,618</u>	<u>41,016</u>
Receipts over (under) expenditures	(34,968)	(8,099)		
UNENCUMBERED CASH, beginning	<u>106,617</u>	<u>71,649</u>		
UNENCUMBERED CASH, ending	<u>\$ 71,649</u>	<u>63,550</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>WATERWORKS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 10,000	-		
EXPENDITURES				
Capital outlay	-	1,617		NOT APPLICABLE
Receipts over (under) expenditures	10,000	(1,617)		
UNENCUMBERED CASH, beginning	5,886	15,886		
UNENCUMBERED CASH, ending	\$ 15,886	14,269		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2006

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

	2005 Actual	2006		Variance Favorable (Unfavorable)
		Actual	Budget	
<u>SEWER FUND</u>				
RECEIPTS				
User fees	\$ 147,874	147,141	160,000	(12,859)
EXPENDITURES				
Personal services	31,431	38,138	35,000	(3,138)
Contracted waste water treatment	59,385	40,012	90,000	49,988
Other contractual services	11,926	16,257	11,000	(5,257)
Commodities and other	23,167	4,523	7,500	2,977
Capital outlay	14,393	9,541	30,106	20,565
Transfers to other funds	76,500	75,000	75,000	-
	<u>216,802</u>	<u>183,471</u>	<u>248,606</u>	<u>65,135</u>
Receipts over (under) expenditures	(68,928)	(36,330)		
UNENCUMBERED CASH, beginning	<u>205,606</u>	<u>136,678</u>		
UNENCUMBERED CASH, ending	<u>\$ 136,678</u>	<u>100,348</u>		
<u>SEWER RESERVE FUND</u>				
RECEIPTS				
Permits and fees	\$ 12,250	29,750	35,000	(5,250)
EXPENDITURES				
Capital outlay	-	-	55,603	55,603
Transfers to other funds	40,000	31,000	50,000	19,000
	<u>40,000</u>	<u>31,000</u>	<u>105,603</u>	<u>74,603</u>
Receipts over (under) expenditures	(27,750)	(1,250)		
UNENCUMBERED CASH, beginning	<u>75,603</u>	<u>47,853</u>		
UNENCUMBERED CASH, ending	<u>\$ 47,853</u>	<u>46,603</u>		

City of Kechi, Kansas
Component Unit - Kechi Public Building Commission
STATEMENT OF CASH RECEIPTS AND EXPENDITURES

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
RECEIPTS		
Improvement revenue bond proceeds	\$ -	300,000
Lease payments from the City of Kechi	69,448	68,061
Accrued interest on bonds	-	532
Interest on investments	166	1,701
	<u>69,614</u>	<u>370,294</u>
EXPENDITURES		
Debt issue costs	5,000	12,654
Construction	298,666	296,001
Debt service		
Principal	30,000	30,000
Interest	39,448	38,562
	<u>373,114</u>	<u>377,217</u>
Receipts over (under) expenditures	(303,500)	(6,923)
UNENCUMBERED CASH, beginning	<u>304,350</u>	<u>311,273</u>
UNENCUMBERED CASH, ending	<u>\$ 850</u>	<u>304,350</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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, 2006

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 2006:

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, 2006

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 2006 general fund budget was amended in this manner.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

4. DEPOSITS AND INVESTMENTS

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

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

As of December 31, 2006, the City's investments included only bank certificates of deposit with a fair value of \$450,000, which are not subject to investment rating.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City has not designated peak periods. All deposits were legally secured at December 31, 2006.

At December 31, 2006, the carrying amount of the City's deposits, including component units, was \$591,146. The bank balance totaled \$607,300. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$100,850 was covered by FDIC insurance and the remaining \$506,450 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2006:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Amount on deposit with financial institutions			
Checking and money market accounts	\$ 140,296	850	141,146
Time Deposits	<u>450,000</u>	<u>-</u>	<u>450,000</u>
	<u>\$ 590,296</u>	<u>850</u>	<u>591,146</u>

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

5. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2006.

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2006 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Interest Paid
Temporary Improvement Notes:									
Series 2004	3.25%	12/01/04	\$ 210,000	12/01/06	\$ 210,000	-	210,000	-	13,650
Series 2005, A	3.25%	04/15/05	1,975,000	04/15/07	1,975,000	-	600,000	1,375,000	31,687
Series 2005, B	3.75%	11/01/05	1,115,000	11/01/07	1,115,000	-	-	1,115,000	-
					<u>3,300,000</u>	<u>-</u>	<u>810,000</u>	<u>2,490,000</u>	<u>45,337</u>
General Obligation Bonds, including special assessments:									
Series 1992 A	4.00-6.30%	08/15/92	1,110,000	08/01/07	30,000	-	15,000	15,000	1,883
Series 1995 A	6.20-7.00%	02/01/95	338,766	09/01/10	155,000	-	25,000	130,000	9,838
Series 1997 A	4.35-6.50%	10/01/97	470,000	10/01/13	305,000	-	30,000	275,000	14,900
Series 1998 A	4.60-5.50%	09/01/98	300,000	09/01/14	215,000	-	20,000	195,000	10,417
Series 1999 A	4.20-7.00%	05/01/99	165,519	11/01/14	110,000	-	10,000	100,000	5,200
Series 2000 A	5.35-7.00%	05/01/00	652,540	11/01/15	505,000	-	40,000	465,000	28,730
Series 2000 B	4.50-5.50%	10/15/00	425,000	10/01/16	360,000	-	25,000	335,000	18,858
Series 2003 A	2.50-4.50%	06/30/03	1,483,099	08/31/18	1,330,000	-	85,000	1,245,000	46,997
Series 2006 A	3.80-5.75%	11/01/06	1,011,800	11/01/22	-	1,011,800	-	1,011,800	-
					<u>3,010,000</u>	<u>1,011,800</u>	<u>250,000</u>	<u>3,771,800</u>	<u>136,823</u>
Capital Lease Obligations:									
John Deere loader/backhoe	4.90%	12/15/02	42,785	12/15/07	14,928	-	7,282	7,646	748
Dump truck and equipment	3.86%	06/22/04	65,214	06/22/09	46,053	-	12,535	33,518	1,658
Chrysler police vehicle	6.35%	02/23/06	25,000	08/23/09	-	25,000	6,277	18,723	678
					<u>60,981</u>	<u>25,000</u>	<u>26,094</u>	<u>59,887</u>	<u>3,084</u>
Total Long-Term Debt					<u>\$6,370,981</u>	<u>1,036,800</u>	<u>1,086,094</u>	<u>6,321,687</u>	<u>185,244</u>

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31							
	2007	2008	2009	2010	2011	2012-2016	2017-Mat.	Total
Principal								
Temporary Improvement Notes	\$2,490,000	-	-	-	-	-	-	2,490,000
General Obligation Bonds	260,000	271,800	325,000	340,000	320,000	1,510,000	745,000	3,771,800
Capital Lease Obligations	26,527	19,764	13,596	-	-	-	-	59,887
Total principal	<u>2,776,527</u>	<u>291,564</u>	<u>338,596</u>	<u>340,000</u>	<u>320,000</u>	<u>1,510,000</u>	<u>745,000</u>	<u>6,321,687</u>
Interest								
Temporary Improvement Notes	173,000	-	-	-	-	-	-	173,000
General Obligation Bonds	123,882	196,782	143,095	128,115	112,393	340,130	90,555	1,134,952
Capital Lease Obligations	2,651	1,384	455	-	-	-	-	4,490
Total interest	<u>299,533</u>	<u>198,166</u>	<u>143,550</u>	<u>128,115</u>	<u>112,393</u>	<u>340,130</u>	<u>90,555</u>	<u>1,312,442</u>
Total principal and interest	<u>\$3,076,060</u>	<u>489,730</u>	<u>482,146</u>	<u>468,115</u>	<u>432,393</u>	<u>1,850,130</u>	<u>835,555</u>	<u>7,634,129</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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>
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>\$ 1,115,000</u>	<u>626,919</u>	<u>1,741,919</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, Suite 100, Topeka, KS 66603) 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 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 4.81% at December 31, 2006. The City of Kechi contributions to KPERS for the years ending December 31, 2005 and 2006 were \$16,255 and \$13,771 respectively, equal to the statutory required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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

2006 capital improvement authorizations compared to actual expenditures since the beginning of the projects are 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	1,797,281	479,700
Northwoods Addition	1,224,500	1,130,421	94,079
Snow Bird Addition	370,000	228,077	141,923
Oliver Street Waterline	188,400	145,067	43,333
	<u>\$ 4,484,881</u>	<u>3,490,476</u>	<u>994,405</u>

10. INTERFUND TRANSFERS

Operating transfers were as follows:

Transfer to	<u>Total</u>	<u>Transfer From</u>				
		<u>General</u>	<u>Gas</u>	<u>Water</u>	<u>Sewer</u>	<u>Sewer Res.</u>
General	\$ 10,500	-	5,500	-	5,000	-
Equipment reserve	27,500	7,500	10,000	5,000	5,000	-
Capital improvement	35,000	10,000	10,000	10,000	5,000	-
Bond and interest	91,000	-	-	-	60,000	31,000
	<u>\$ 164,000</u>	<u>17,500</u>	<u>25,500</u>	<u>15,000</u>	<u>75,000</u>	<u>31,000</u>