

CITY OF KECHI
KECHI, KANSAS

Special Financial Statements

December 31, 2007

City of Kechi, Kansas

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December 31, 2007

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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, 2007, 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. The prior year partial comparative financial information has been derived from the City's 2006 financial statements and, in our report dated February 7, 2007, we expressed an unqualified opinion on the financial statements taken as a whole.

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 described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

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 as of December 31, 2007, the changes in financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City as of December 31, 2007, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company, LLC

Certified Public Accountants

May 16, 2008

City of Kechi, Kansas
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2007

| Funds | Unencumbered Cash Balance 12/31/06 | Receipts | Expenditures | Unencumbered Cash Balance 12/31/07 | Accounts Payable and Encumbrances | Cash Balance 12/31/07 |
|----------------------------------|--|------------------|------------------|--|---|--------------------------|
| Primary Government | | | | | | |
| Governmental Type Funds: | | | | | | |
| General | \$ 46,573 | 698,769 | 734,886 | 10,456 | 2,343 | 12,799 |
| Special Revenue | | | | | | |
| Special street and highway | 149,568 | 62,397 | 114,764 | 97,201 | 58,504 | 155,705 |
| Capital improvement | 1,760 | 25,000 | 26,312 | 448 | - | 448 |
| Equipment reserve | 12,342 | 31,500 | 40,694 | 3,148 | - | 3,148 |
| Capital Projects | | | | | | |
| Northridge Heights Addition | 20,522 | 1,485,619 | 1,490,225 | 15,916 | - | 15,916 |
| Wastewater Treatment | 237,764 | 196,816 | 4,528 | 430,052 | - | 430,052 |
| Northwoods Addition | 19,579 | 1,771,400 | 1,753,609 | 37,370 | 214,375 | 251,745 |
| Snow Bird Addition | (228,077) | 231,838 | 3,761 | - | - | - |
| Debt Service | | | | | | |
| Bond and interest | 1,911 | 382,550 | 383,892 | 569 | - | 569 |
| Proprietary Type Funds: | | | | | | |
| Enterprise | | | | | | |
| Gas | 74,961 | 472,013 | 459,585 | 87,389 | 20,239 | 107,628 |
| Waterworks | 63,550 | 227,657 | 267,105 | 24,102 | 4,735 | 28,837 |
| Waterworks reserve | 14,269 | - | 12,900 | 1,369 | - | 1,369 |
| Sewer | 100,348 | 149,549 | 141,855 | 108,042 | 3,979 | 112,021 |
| Sewer reserve | 46,603 | 22,750 | 65,000 | 4,353 | - | 4,353 |
| Total Primary Government | 561,673 | 5,757,858 | 5,499,116 | 820,415 | 304,175 | 1,124,590 |
| Component Unit: | | | | | | |
| Kechi Public Building Commission | 850 | 95,449 | 95,436 | 863 | - | 863 |
| Total Reporting Entity | \$ 562,523 | 5,853,307 | 5,594,552 | 821,278 | 304,175 | 1,125,453 |

City of Kechi, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

| <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 - Over (Under)</u> |
|--|-----------------------------|--|--|--|--|
| Governmental Type Funds: | | | | | |
| General | \$ 750,557 | - | 750,557 | 734,886 | (15,671) |
| Special Revenue | | | | | |
| Special street and highway | 195,000 | - | 195,000 | 114,764 | (80,236) |
| Debt Service | | | | | |
| Bond and Interest | 383,900 | - | 383,900 | 383,892 | (8) |
| Proprietary Type Funds: | | | | | |
| Enterprise | | | | | |
| Gas | 655,024 | - | 655,024 | 459,585 | (195,439) |
| Waterworks | 294,649 | - | 294,649 | 267,105 | (27,544) |
| Sewer | 243,072 | - | 243,072 | 141,855 | (101,217) |
| Sewer reserve | <u>75,353</u> | <u>-</u> | <u>75,353</u> | <u>65,000</u> | <u>(10,353)</u> |
| Expenditures subject to current budget | <u>\$2,597,555</u> | <u>-</u> | <u>2,597,555</u> | 2,167,087 | <u>(430,468)</u> |
| Add expenditures of unbudgeted funds | | | | | |
| Special Revenue | | | | 67,006 | |
| Capital Projects | | | | 3,252,123 | |
| Enterprise reserves | | | | <u>12,900</u> | |
| Total Expenditures, Primary government | | | | <u>\$ 5,499,116</u> | |

City of Kechi, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2007 | | | Variance - Over (Under) |
|--|------------------|----------------|----------------|-------------------------------|
| | 2006 Actual | Actual | Budget | |
| RECEIPTS | | | | |
| Ad valorem property tax | \$ 225,133 | 272,331 | 274,177 | (1,846) |
| Vehicle tax | 35,516 | 45,085 | 30,244 | 14,841 |
| Local sales tax | 150,807 | 177,403 | 160,000 | 17,403 |
| Franchise tax | 38,819 | 38,864 | 40,000 | (1,136) |
| Fines, fees, and permits | 85,373 | 77,296 | 102,500 | (25,204) |
| Rents and other | 32,474 | 41,162 | 30,200 | 10,962 |
| Interest | 27,643 | 31,628 | 27,500 | 4,128 |
| Transfers from other funds | 10,500 | 15,000 | 15,000 | - |
| | <u>606,265</u> | <u>698,769</u> | <u>679,621</u> | <u>19,148</u> |
| EXPENDITURES | | | | |
| Administration | | | | |
| Personal services | 102,882 | 90,671 | 130,000 | (39,329) |
| Contracted services | 84,290 | 146,114 | 144,757 | 1,357 |
| Commodities and other | 49,093 | 73,400 | 55,000 | 18,400 |
| Capital outlay | 31,480 | 8,560 | 25,000 | (16,440) |
| Police and court | | | | |
| Personal services | 157,635 | 206,921 | 205,000 | 1,921 |
| Contracted services and other | 59,635 | 65,986 | 55,000 | 10,986 |
| Street lighting | | | | |
| Contracted services | 6,485 | 6,616 | 6,800 | (184) |
| Employee benefits | | | | |
| Employee insurance premiums | 51,573 | 66,976 | 54,000 | 12,976 |
| Employer's share of retirement and payroll taxes | 49,947 | 59,642 | 50,000 | 9,642 |
| Transfers to other funds | 17,500 | 10,000 | 25,000 | (15,000) |
| | <u>610,520</u> | <u>734,886</u> | <u>750,557</u> | <u>(15,671)</u> |
| Receipts over (under) expenditures | (4,255) | (36,117) | | |
| UNENCUMBERED CASH, beginning | 50,828 | 46,573 | | |
| UNENCUMBERED CASH, ending | \$ <u>46,573</u> | <u>10,456</u> | | |

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|--|-------------------|----------------|----------------|-------------------------------|
| | | Actual | Budget | |
| <u>SPECIAL STREET AND HIGHWAY FUND</u> | | | | |
| RECEIPTS | | | | |
| State payments - gasoline tax | \$ 35,219 | 41,193 | 35,990 | 5,203 |
| County treasurer - highway fund | 17,313 | 20,734 | 17,580 | 3,154 |
| Other | - | 470 | - | 470 |
| | <u>52,532</u> | <u>62,397</u> | <u>53,570</u> | <u>8,827</u> |
| EXPENDITURES | | | | |
| Personal services | 1,029 | 1,345 | 15,000 | (13,655) |
| Contracted services | 7,425 | 71,712 | 35,000 | 36,712 |
| Commodities and other | 49,268 | 41,707 | 145,000 | (103,293) |
| | <u>57,722</u> | <u>114,764</u> | <u>195,000</u> | <u>(80,236)</u> |
| Receipts over (under) expenditures | (5,190) | (52,367) | | |
| UNENCUMBERED CASH, beginning | <u>154,758</u> | <u>149,568</u> | | |
| UNENCUMBERED CASH, ending | <u>\$ 149,568</u> | <u>97,201</u> | | |
| <u>CAPITAL IMPROVEMENT FUND</u> | | | | |
| RECEIPTS | | | | |
| Transfers from other funds | \$ 35,000 | 25,000 | | |
| EXPENDITURES | | | | |
| Contractual services | 40,000 | 26,312 | | |
| Capital outlay | 191 | - | | |
| | <u>40,191</u> | <u>26,312</u> | | |
| Receipts over (under) expenditures | (5,191) | (1,312) | | |
| UNENCUMBERED CASH, beginning | <u>6,951</u> | <u>1,760</u> | | |
| UNENCUMBERED CASH, ending | <u>\$ 1,760</u> | <u>448</u> | | |
| | | | NOT APPLICABLE | |

City of Kechi, Kansas
Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|------------------|---------------|--------|-------------------------------|
| | | Actual | Budget | |
| <u>EQUIPMENT RESERVE FUND</u> | | | | |
| RECEIPTS | | | | |
| Transfers from other funds | \$ 27,500 | 30,000 | | |
| Other | - | 1,500 | | |
| | <u>27,500</u> | <u>31,500</u> | | |
| EXPENDITURES | | | | |
| Capital outlay | <u>26,412</u> | <u>40,694</u> | | NOT APPLICABLE |
| Receipts over (under) expenditures | 1,088 | (9,194) | | |
| UNENCUMBERED CASH, beginning | <u>11,254</u> | <u>12,342</u> | | |
| UNENCUMBERED CASH, ending | <u>\$ 12,342</u> | <u>3,148</u> | | |

City of Kechi, Kansas

Capital Project Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET *

Year ended December 31, 2007

| | Northridge Heights Addition | Wastewater Treatment Project | Northwoods Addition | Snow Bird Addition | 2007 Total |
|--|-----------------------------------|------------------------------------|------------------------|-----------------------|------------------|
| RECEIPTS | | | | | |
| Proceeds from general obligation bonds | \$ - | - | 1,264,239 | 231,838 | 1,496,077 |
| Proceeds from temporary notes | 1,485,000 | - | 484,000 | - | 1,969,000 |
| Special assessments and other | - | 196,816 | 20,000 | - | 216,816 |
| Accrued interest received | 619 | - | 3,161 | - | 3,780 |
| | <u>1,485,619</u> | <u>196,816</u> | <u>1,771,400</u> | <u>231,838</u> | <u>3,685,673</u> |
| EXPENDITURES | | | | | |
| Construction and engineering | - | - | 469,152 | 3,761 | 472,913 |
| Debt issue costs and other | 25,850 | 4,528 | 45,150 | - | 75,528 |
| Repayment of temporary notes | 1,464,375 | - | 1,181,203 | - | 2,645,578 |
| Transfer to other funds | - | - | 58,104 | - | 58,104 |
| | <u>1,490,225</u> | <u>4,528</u> | <u>1,753,609</u> | <u>3,761</u> | <u>3,252,123</u> |
| Receipts over (under) expenditures | (4,606) | 192,288 | 17,791 | 228,077 | 433,550 |
| UNENCUMBERED CASH, beginning | <u>20,522</u> | <u>237,764</u> | <u>19,579</u> | <u>(228,077)</u> | <u>49,788</u> |
| UNENCUMBERED CASH, ending | <u>\$ 15,916</u> | <u>430,052</u> | <u>37,370</u> | <u>-</u> | <u>483,338</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, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|-----------------|----------------|----------------|-------------------------------|
| | | Actual | Budget | |
| <u>BOND AND INTEREST</u> | | | | |
| RECEIPTS | | | | |
| Ad valorem property tax | \$ 11 | - | - | - |
| Special assessments | 288,301 | 259,446 | 279,015 | (19,569) |
| Transfers from other funds | 91,000 | 123,104 | 110,607 | 12,497 |
| | <u>379,312</u> | <u>382,550</u> | <u>389,622</u> | <u>(7,072)</u> |
| EXPENDITURES | | | | |
| Bond principal | 250,000 | 260,000 | 260,000 | - |
| Interest | 136,823 | 123,883 | 123,900 | (17) |
| Commission and postage | 23 | 9 | - | 9 |
| | <u>386,846</u> | <u>383,892</u> | <u>383,900</u> | <u>(8)</u> |
| Receipts over (under) expenditures | (7,534) | (1,342) | | |
| UNENCUMBERED CASH, beginning | 9,445 | 1,911 | | |
| UNENCUMBERED CASH, ending | <u>\$ 1,911</u> | <u>569</u> | | |

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|------------------|----------------|----------------|-------------------------------|
| | | Actual | Budget | |
| <u>GAS FUND</u> | | | | |
| RECEIPTS | | | | |
| Sales | \$ 560,440 | 465,638 | 637,804 | (172,166) |
| Connection fees | 2,486 | 1,600 | 3,500 | (1,900) |
| Refunds and other | 7,489 | 4,775 | - | 4,775 |
| | <u>570,415</u> | <u>472,013</u> | <u>641,304</u> | <u>(169,291)</u> |
| EXPENDITURES | | | | |
| Personal services | 76,400 | 78,188 | 87,500 | (9,312) |
| Gas purchased | 398,774 | 317,364 | 476,000 | (158,636) |
| Contractual services | 12,399 | 14,639 | 19,804 | (5,165) |
| Commodities and other | 15,682 | 23,252 | 28,000 | (4,748) |
| Capital outlay | 12,419 | 6,142 | 23,720 | (17,578) |
| Transfers to other funds | 25,500 | 20,000 | 20,000 | - |
| | <u>541,174</u> | <u>459,585</u> | <u>655,024</u> | <u>(195,439)</u> |
| Receipts over (under) expenditures | 29,241 | 12,428 | | |
| UNENCUMBERED CASH, beginning | 45,720 | 74,961 | | |
| UNENCUMBERED CASH, ending | <u>\$ 74,961</u> | <u>87,389</u> | | |

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|------------------|----------------|----------------|-------------------------------|
| | | Actual | Budget | |
| <u>WATERWORKS FUND</u> | | | | |
| RECEIPTS | | | | |
| Sales | \$ 229,606 | 221,520 | 255,000 | (33,480) |
| Connection fees | 4,345 | 2,275 | 5,000 | (2,725) |
| Other | 1,552 | 3,862 | - | 3,862 |
| | <u>235,503</u> | <u>227,657</u> | <u>260,000</u> | <u>(32,343)</u> |
| EXPENDITURES | | | | |
| Personal services | 78,770 | 79,454 | 84,500 | (5,046) |
| Water purchases | 102,032 | 71,643 | 110,000 | (38,357) |
| Contractual services | 15,112 | 15,662 | 15,000 | 662 |
| Commodities and other | 12,067 | 21,228 | 25,000 | (3,772) |
| Capital outlay | 20,621 | 54,118 | 15,149 | 38,969 |
| Transfers to other funds | 15,000 | 25,000 | 45,000 | (20,000) |
| | <u>243,602</u> | <u>267,105</u> | <u>294,649</u> | <u>(27,544)</u> |
| Receipts over (under) expenditures | (8,099) | (39,448) | | |
| UNENCUMBERED CASH, beginning | <u>71,649</u> | <u>63,550</u> | | |
| UNENCUMBERED CASH, ending | <u>\$ 63,550</u> | <u>24,102</u> | | |

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|------------------|--------------|--------|-------------------------------|
| | | Actual | Budget | |
| <u>WATERWORKS RESERVE FUND</u> | | | | |
| RECEIPTS | | | | |
| Transfers from other funds | \$ - | - | | |
| EXPENDITURES | | | | |
| Capital outlay | 1,617 | 12,900 | | NOT APPLICABLE |
| Receipts over (under) expenditures | (1,617) | (12,900) | | |
| UNENCUMBERED CASH, beginning | 15,886 | 14,269 | | |
| UNENCUMBERED CASH, ending | <u>\$ 14,269</u> | <u>1,369</u> | | |

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2007

(With comparative actual amounts for the year ended December 31, 2006)

| | 2006 Actual | 2007 | | Variance - Over (Under) |
|------------------------------------|-------------------|----------------|----------------|-------------------------------|
| | | Actual | Budget | |
| <u>SEWER FUND</u> | | | | |
| RECEIPTS | | | | |
| User fees | \$ 147,141 | 149,549 | 170,000 | (20,451) |
| EXPENDITURES | | | | |
| Personal services | 38,138 | 52,471 | 45,000 | 7,471 |
| Contracted waste water treatment | 40,012 | 44,430 | 85,000 | (40,570) |
| Other contractual services | 16,257 | 19,721 | 15,000 | 4,721 |
| Commodities and other | 4,523 | 7,090 | 15,000 | (7,910) |
| Capital outlay | 9,541 | 3,143 | 18,818 | (15,675) |
| Transfers to other funds | 75,000 | 15,000 | 64,254 | (49,254) |
| | <u>183,471</u> | <u>141,855</u> | <u>243,072</u> | <u>(101,217)</u> |
| Receipts over (under) expenditures | (36,330) | 7,694 | | |
| UNENCUMBERED CASH, beginning | <u>136,678</u> | <u>100,348</u> | | |
| UNENCUMBERED CASH, ending | \$ <u>100,348</u> | <u>108,042</u> | | |
| <u>SEWER RESERVE FUND</u> | | | | |
| RECEIPTS | | | | |
| Permits and fees | \$ 29,750 | 22,750 | 52,500 | (29,750) |
| EXPENDITURES | | | | |
| Capital outlay | - | - | 14,000 | (14,000) |
| Transfers to other funds | 31,000 | 65,000 | 61,353 | 3,647 |
| | <u>31,000</u> | <u>65,000</u> | <u>75,353</u> | <u>(10,353)</u> |
| Receipts over (under) expenditures | (1,250) | (42,250) | | |
| UNENCUMBERED CASH, beginning | <u>47,853</u> | <u>46,603</u> | | |
| UNENCUMBERED CASH, ending | \$ <u>46,603</u> | <u>4,353</u> | | |

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

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---------------------------------------|-----------|-----------|
| RECEIPTS | | |
| Lease payments from the City of Kechi | \$ 95,436 | 69,448 |
| Interest on investments | 13 | 166 |
| | 95,449 | 69,614 |
| EXPENDITURES | | |
| Debt issue costs | - | 5,000 |
| Construction | - | 298,666 |
| Debt service | | |
| Principal | 30,000 | 30,000 |
| Interest | 65,436 | 39,448 |
| | 95,436 | 373,114 |
| Receipts over (under) expenditures | 13 | (303,500) |
| UNENCUMBERED CASH, beginning | 850 | 304,350 |
| UNENCUMBERED CASH, ending | \$ 863 | 850 |

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 section of these financial statement includes the financial data of one 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. 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. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made. The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of presentation described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. 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. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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 2007:

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.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

3. BUDGETARY INFORMATION (Continued)

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 2007 general fund 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.

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, 2007, the City's investments included only bank certificates of deposit with a fair value of \$500,000, which are not subject to investment rating.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

4. DEPOSITS AND INVESTMENTS (Continued)

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, 2007.

At December 31, 2007, the carrying amount of the City's deposits, including component units, was \$1,125,453. The bank balance totaled \$1,131,345. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$100,863 was covered by FDIC insurance and the remaining \$1,030,482 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Composition of Cash Balance

| | <u>Primary Government</u> | <u>Component Unit</u> | <u>Total</u> |
|---|-------------------------------|---------------------------|------------------|
| Amount on deposit with financial institutions | | | |
| Checking and money market accounts | \$ 624,590 | 863 | 625,453 |
| Time deposits | <u>500,000</u> | <u>-</u> | <u>500,000</u> |
| | <u>\$ 1,124,590</u> | <u>863</u> | <u>1,125,453</u> |

5. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2007.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2007 were as follows:

| Issue | Interest Rates | Date of Issue | Amount of Issue | Maturity Date | Balance 12/31/06 | Additions | Deletions | Balance 12/31/07 | Interest Paid |
|---|----------------|---------------|-----------------|---------------|--------------------|------------------|------------------|------------------|----------------|
| Temporary Improvement Notes: | | | | | | | | | |
| Series 2005 A | 3.25% | 04/15/05 | 1,975,000 | 04/15/07 | \$1,375,000 | - | 1,375,000 | - | 89,375 |
| Series 2005 B | 3.75% | 11/01/05 | 1,115,000 | 11/01/07 | 1,115,000 | - | 1,115,000 | - | 66,203 |
| Series 2007 A | 3.75% | 04/01/07 | 1,485,000 | 04/01/09 | - | 1,485,000 | - | 1,485,000 | - |
| Series 2007 B | 3.75% | 10/01/07 | 484,000 | 10/01/09 | - | 484,000 | - | 484,000 | - |
| | | | | | <u>2,490,000</u> | <u>1,969,000</u> | <u>2,490,000</u> | <u>1,969,000</u> | <u>155,578</u> |
| General Obligation Bonds, including special assessments: | | | | | | | | | |
| Series 1992 A | 4.00-6.30% | 08/15/92 | 1,110,000 | 08/01/07 | 15,000 | - | 15,000 | - | 945 |
| Series 1995 A | 6.20-7.00% | 02/01/95 | 338,766 | 09/01/10 | 130,000 | - | 30,000 | 100,000 | 8,275 |
| Series 1997 A | 4.35-6.50% | 10/01/97 | 470,000 | 10/01/13 | 275,000 | - | 35,000 | 240,000 | 13,535 |
| Series 1998 A | 4.60-5.50% | 09/01/98 | 300,000 | 09/01/14 | 195,000 | - | 20,000 | 175,000 | 9,388 |
| Series 1999 A | 4.20-7.00% | 05/01/99 | 165,519 | 11/01/14 | 100,000 | - | 10,000 | 90,000 | 4,780 |
| Series 2000 A | 5.35-7.00% | 05/01/00 | 652,540 | 11/01/15 | 465,000 | - | 40,000 | 425,000 | 26,130 |
| Series 2000 B | 4.50-5.50% | 10/15/00 | 425,000 | 10/01/16 | 335,000 | - | 25,000 | 310,000 | 17,657 |
| Series 2003 A | 2.50-4.50% | 06/30/03 | 1,483,099 | 08/31/18 | 1,245,000 | - | 85,000 | 1,160,000 | 43,173 |
| Series 2006 A | 3.80-5.75% | 11/01/06 | 1,011,800 | 11/01/22 | 1,011,800 | - | - | 1,011,800 | - |
| Series 2007 A | 3.75-5.90% | 05/15/07 | 1,496,077 | 11/01/27 | - | 1,496,077 | - | 1,496,077 | - |
| | | | | | <u>3,771,800</u> | <u>1,496,077</u> | <u>260,000</u> | <u>5,007,877</u> | <u>123,883</u> |
| Capital Lease Obligations: | | | | | | | | | |
| John Deere loader/backhoe | 4.90% | 12/15/02 | 42,785 | 12/15/07 | 7,646 | - | 7,646 | - | 383 |
| Dump truck and equipment | 3.86% | 06/22/04 | 65,214 | 06/22/09 | 33,518 | - | 13,024 | 20,494 | 1,169 |
| Chrysler police vehicle | 6.35% | 02/23/06 | 25,000 | 08/23/09 | 18,723 | - | 5,857 | 12,866 | 1,098 |
| Small dump truck | 7.05% | 05/18/07 | 48,445 | 05/18/11 | - | 48,445 | 11,052 | 37,393 | 678 |
| | | | | | <u>59,887</u> | <u>48,445</u> | <u>37,579</u> | <u>70,753</u> | <u>3,328</u> |
| Total Long-Term Debt | | | | | <u>\$6,321,687</u> | <u>3,513,522</u> | <u>2,787,579</u> | <u>7,047,630</u> | <u>282,789</u> |

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

| | Year ending December 31 | | | | | | | | |
|-------------------------------------|-------------------------|------------------|----------------|----------------|----------------|------------------|------------------|----------------|------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013-2017 | 2018-2022 | 2023-Mat. | Total |
| Principal | | | | | | | | | |
| Temporary Improvement Notes | \$ - | 1,969,000 | - | - | - | - | - | - | 1,969,000 |
| General Obligation Bonds | 297,877 | 385,000 | 400,000 | 380,000 | 400,000 | 1,730,000 | 995,000 | 420,000 | 5,007,877 |
| Capital Lease Obligations | 28,180 | 22,605 | 9,644 | 10,324 | - | - | - | - | 70,753 |
| Total principal | <u>326,057</u> | <u>2,376,605</u> | <u>409,644</u> | <u>390,324</u> | <u>400,000</u> | <u>1,730,000</u> | <u>995,000</u> | <u>420,000</u> | <u>7,047,630</u> |
| Interest | | | | | | | | | |
| Temporary Improvement Notes | - | 147,675 | - | - | - | - | - | - | 147,675 |
| General Obligation Bonds | 297,377 | 210,405 | 191,885 | 172,623 | 154,787 | 505,858 | 214,055 | 59,150 | 1,806,140 |
| Capital Lease Obligations | 4,020 | 2,498 | 1,408 | 728 | - | - | - | - | 8,654 |
| Total interest | <u>301,397</u> | <u>360,578</u> | <u>193,293</u> | <u>173,351</u> | <u>154,787</u> | <u>505,858</u> | <u>214,055</u> | <u>59,150</u> | <u>1,962,469</u> |
| Total principal and interest | <u>\$ 627,454</u> | <u>2,737,183</u> | <u>602,937</u> | <u>563,675</u> | <u>554,787</u> | <u>2,235,858</u> | <u>1,209,055</u> | <u>479,150</u> | <u>9,010,099</u> |

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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> |
|---------|---------------------|-----------------|------------------|
| 2008 | \$ 40,000 | 51,321 | 91,321 |
| 2009 | 45,000 | 49,920 | 94,920 |
| 2010 | 45,000 | 48,238 | 93,238 |
| 2011 | 45,000 | 46,457 | 91,457 |
| 2012 | 50,000 | 44,633 | 94,633 |
| 2013-17 | 290,000 | 187,603 | 477,603 |
| 2018-22 | 355,000 | 112,075 | 467,075 |
| 2023-26 | 215,000 | 21,237 | 236,237 |
| | <u>\$ 1,085,000</u> | <u>561,484</u> | <u>1,646,484</u> |

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Kechi contributes to 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 5.31% at December 31, 2007. The City of Kechi contributions to KPERs for the years ending December 31, 2007, 2006 and 2005 were \$20,811, \$16,255 and \$13,771 respectively, equal to the statutory required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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

2007 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 | 304,855 | 120,145 |
| Wastewater Treatment Improvements | 2,276,981 | 1,801,809 | 475,172 |
| Northwoods Addition | 2,001,500 | 1,769,030 | 232,470 |
| Snow Bird Addition | 370,000 | 231,838 | 138,162 |
| | <u>\$ 5,073,481</u> | <u>4,107,532</u> | <u>965,949</u> |

10. INTERFUND TRANSFERS

Operating transfers were as follows:

| Transfer from: | Total | Transfer to: | | | |
|----------------------------|-------------------|---------------|---------------|----------------|----------------|
| | | General | Equip. res. | Capital outlay | Bond & int. |
| General | \$ 10,000 | - | 10,000 | - | - |
| Northwoods capital project | 58,104 | - | - | - | 58,104 |
| Gas | 20,000 | - | 20,000 | - | - |
| Water | 25,000 | - | - | 25,000 | - |
| Sewer | 15,000 | 15,000 | - | - | - |
| Sewer reserve | 65,000 | - | - | - | 65,000 |
| | <u>\$ 193,104</u> | <u>15,000</u> | <u>30,000</u> | <u>25,000</u> | <u>123,104</u> |