

CITY OF KECHI
KECHI, KANSAS

Special Financial Statements

December 31, 2008

City of Kechi, Kansas

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December 31, 2008

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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, 2008, 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 2007 financial statements and, in our report dated May 16, 2008, 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, 2008, 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, 2008, 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

April 30, 2009

City of Kechi, Kansas
 SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
 Year ended December 31, 2008

Funds	Unencumbered Cash Balance 12/31/07	Receipts	Expenditures	Unencumbered Cash Balance 12/31/08	Accounts Payable and Encumbrances	Cash Balance 12/31/08
Primary Government						
Governmental Type Funds:						
General	\$ 10,456	832,952	830,688	12,720	860	13,580
Special Revenue						
Special street and highway	97,201	71,963	120,384	48,780	-	48,780
Capital improvement	448	20,000	20,000	448	-	448
Equipment reserve	3,148	32,007	25,054	10,101	-	10,101
Capital Projects						
Northridge Heights Addition	15,916	-	15,916	-	-	-
Wastewater Treatment	430,052	1,405,803	1,835,855	-	-	-
Northwoods Addition	37,370	598,726	622,041	14,055	-	14,055
Rock Pointe	-	2,551,516	1,090,340	1,461,176	19,421	1,480,597
Debt Service						
Bond and interest	569	683,845	595,276	89,138	-	89,138
Proprietary Type Funds:						
Enterprise						
Gas	87,389	534,516	601,264	20,641	27,467	48,108
Gas reserve	-	650	-	650	-	650
Waterworks	24,102	213,527	235,790	1,839	3,056	4,895
Waterworks reserve	1,369	-	-	1,369	-	1,369
Sewer	108,042	151,081	182,657	76,466	4,648	81,114
Sewer reserve	4,353	21,000	21,000	4,353	-	4,353
Total Primary Government	820,415	7,117,586	6,196,265	1,741,736	55,452	1,797,188
Component Unit:						
Kechi Public Building Commission	863	91,329	91,320	872	-	872
Total Reporting Entity	\$ 821,278	7,208,915	6,287,585	1,742,608	55,452	1,798,060

See notes to financial statements

City of Kechi, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2008

<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	\$ 796,850	33,967	830,817	830,688	(129)
Special Revenue					
Special street and highway	143,138	-	143,138	120,384	(22,754)
Debt Service					
Bond and interest	595,282	-	595,282	595,276	(6)
Proprietary Type Funds:					
Enterprise					
Gas	723,961	-	723,961	601,264	(122,697)
Waterworks	408,000	-	408,000	235,790	(172,210)
Sewer	298,094	-	298,094	182,657	(115,437)
Sewer reserve	<u>78,750</u>	<u>-</u>	<u>78,750</u>	<u>21,000</u>	<u>(57,750)</u>
Expenditures subject to current budget	<u>\$3,044,075</u>	<u>33,967</u>	<u>3,078,042</u>	2,587,059	<u>(490,983)</u>
Add expenditures of unbudgeted funds					
Special Revenue				45,054	
Capital Projects				3,564,152	
Enterprise reserves				<u>-</u>	
Total Expenditures, Primary government				<u>\$ 6,196,265</u>	

City of Kechi, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 272,331	334,046	339,850	(5,804)
Vehicle tax	45,085	55,421	40,363	15,058
Local sales tax	177,403	216,191	165,000	51,191
Franchise tax	38,864	43,382	45,000	(1,618)
Fines, fees, and permits	77,296	100,532	102,000	(1,468)
Rents and other	41,162	38,504	50,000	(11,496)
Interest	31,628	10,909	40,000	(29,091)
Reimbursed expenditures	-	33,967	-	33,967
Transfers from other funds	15,000	-	-	-
Total Receipts	<u>698,769</u>	<u>832,952</u>	<u>782,213</u>	<u>50,739</u>
EXPENDITURES				
Administration				
Personal services	90,671	104,866	99,000	5,866
Contracted services	146,114	171,569	133,000	38,569
Commodities and other	73,400	54,620	55,000	(380)
Capital outlay	8,560	47,280	22,000	25,280
Police and court				
Personal services	206,921	235,588	271,050	(35,462)
Contracted services and other	65,986	114,162	69,650	44,512
Street lighting				
Contracted services	6,616	7,331	7,000	331
Employee benefits				
Employee insurance premiums	66,976	54,256	51,250	3,006
Employer's share of retirement and payroll taxes	59,642	41,016	44,900	(3,884)
Transfers to other funds	10,000	-	44,000	(44,000)
	734,886	830,688	796,850	33,838
Add budget credits - Grants and other reimbursed expenditures	-	99,617	33,967	(33,967)
Total Expenditures	<u>734,886</u>	<u>830,688</u>	<u>830,817</u>	<u>(129)</u>
Receipts over (under) expenditures	(36,117)	2,264		
UNENCUMBERED CASH, beginning	46,573	10,456		
UNENCUMBERED CASH, ending	<u>\$ 10,456</u>	<u>12,720</u>		

City of Kechi, Kansas
Special Revenue Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Year ended December 31, 2008
 (With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>SPECIAL STREET AND HIGHWAY FUND</u>				
RECEIPTS				
State payments - gasoline tax	\$ 41,193	47,660	37,570	10,090
County treasurer - highway fund	20,734	23,809	18,930	4,879
Other	470	494	-	494
	<u>62,397</u>	<u>71,963</u>	<u>56,500</u>	<u>15,463</u>
EXPENDITURES				
Personal services	1,345	7,630	-	7,630
Contracted services	71,712	12,331	128,138	(115,807)
Commodities and other	41,707	100,423	15,000	85,423
	<u>114,764</u>	<u>120,384</u>	<u>143,138</u>	<u>(22,754)</u>
Receipts over (under) expenditures	(52,367)	(48,421)		
UNENCUMBERED CASH, beginning	<u>149,568</u>	<u>97,201</u>		
UNENCUMBERED CASH, ending	<u>\$ 97,201</u>	<u>48,780</u>		
 <u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Transfers from other funds	\$ <u>25,000</u>	<u>20,000</u>		
EXPENDITURES				
Contractual services	26,312	20,000		
Capital outlay	-	-		
	<u>26,312</u>	<u>20,000</u>		
Receipts over (under) expenditures	(1,312)	-		
UNENCUMBERED CASH, beginning	<u>1,760</u>	<u>448</u>		
UNENCUMBERED CASH, ending	<u>\$ 448</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, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 30,000	20,000		
Other	1,500	12,007		
	<u>31,500</u>	<u>32,007</u>		
EXPENDITURES				
Capital outlay	<u>40,694</u>	<u>25,054</u>		NOT APPLICABLE
Receipts over (under) expenditures	(9,194)	6,953		
UNENCUMBERED CASH, beginning	<u>12,342</u>	<u>3,148</u>		
UNENCUMBERED CASH, ending	<u>\$ 3,148</u>	<u>10,101</u>		

City of Kechi, Kansas
Capital Project Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET *

Year ended December 31, 2008

	Northridge Heights Addition	Wastewater Treatment Project	Northwoods Addition	Rock Pointe Addition	2008 Total
RECEIPTS					
Proceeds from general obligation bonds	\$ -	1,405,000	575,000	-	1,980,000
Proceeds from temporary notes	-	-	-	2,546,000	2,546,000
Special assessments and other	-	-	23,126	-	23,126
Accrued interest received	-	803	600	5,516	6,919
	<u>-</u>	<u>1,405,803</u>	<u>598,726</u>	<u>2,551,516</u>	<u>4,556,045</u>
EXPENDITURES					
Construction and engineering	-	-	95,164	1,061,997	1,157,161
Debt issue costs and other	-	57,695	25,453	28,343	111,491
Repayment of temporary notes	-	1,536,047	501,424	-	2,037,471
Transfer to other funds	15,916	242,113	-	-	258,029
	<u>15,916</u>	<u>1,835,855</u>	<u>622,041</u>	<u>1,090,340</u>	<u>3,564,152</u>
Receipts over (under) expenditures	(15,916)	(430,052)	(23,315)	1,461,176	991,893
UNENCUMBERED CASH, beginning	15,916	430,052	37,370	-	483,338
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>-</u>	<u>14,055</u>	<u>1,461,176</u>	<u>1,475,231</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, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Special assessments	\$ 259,446	384,816	396,406	(11,590)
Transfers from other funds	123,104	299,029	199,000	100,029
	<u>382,550</u>	<u>683,845</u>	<u>595,406</u>	<u>88,439</u>
EXPENDITURES				
Bond principal	260,000	297,877	297,877	-
Interest	123,883	297,378	297,380	(2)
Commission and postage	9	21	25	(4)
	<u>383,892</u>	<u>595,276</u>	<u>595,282</u>	<u>(6)</u>
Receipts over (under) expenditures	(1,342)	88,569		
UNENCUMBERED CASH, beginning	1,911	569		
UNENCUMBERED CASH, ending	<u>\$ 569</u>	<u>89,138</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>GAS FUND</u>				
RECEIPTS				
Sales	\$ 465,638	525,920	650,000	(124,080)
Connection fees	1,600	4,160	4,000	160
Refunds and other	4,775	5,086	-	5,086
	<u>472,013</u>	<u>535,166</u>	<u>654,000</u>	<u>(118,834)</u>
EXPENDITURES				
Personal services	78,188	100,382	99,250	1,132
Gas purchased	317,364	378,698	500,000	(121,302)
Contractual services	14,639	17,176	20,000	(2,824)
Commodities and other	23,252	37,024	28,000	9,024
Capital outlay	6,142	6,073	20,561	(14,488)
Employee benefits	-	31,261	22,150	9,111
Transfers to other funds	20,000	30,650	34,000	(3,350)
	<u>459,585</u>	<u>601,264</u>	<u>723,961</u>	<u>(122,697)</u>
Receipts over (under) expenditures	12,428	(66,098)		
UNENCUMBERED CASH, beginning	<u>74,961</u>	<u>87,389</u>		
UNENCUMBERED CASH, ending	<u>\$ 87,389</u>	<u>21,291</u>		
<u>GAS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ -	650		
EXPENDITURES				
Capital outlay	-	-		NOT APPLICABLE
Receipts over (under) expenditures	-	650		
UNENCUMBERED CASH, beginning	-	-		
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>650</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>WATERWORKS FUND</u>				
RECEIPTS				
Sales	\$ 221,520	197,218	370,000	(172,782)
Connection fees	2,275	2,110	9,099	(6,989)
Interest	-	12,856	-	12,856
Other	3,862	1,343	-	1,343
	<u>227,657</u>	<u>213,527</u>	<u>379,099</u>	<u>(165,572)</u>
EXPENDITURES				
Personal services	79,454	91,725	89,150	2,575
Water purchases	71,643	67,339	110,000	(42,661)
Contractual services	15,662	14,872	16,000	(1,128)
Commodities and other	21,228	27,737	25,000	2,737
Capital outlay	54,118	6,073	32,550	(26,477)
Employee benefits	-	28,044	20,300	7,744
Transfers to other funds	25,000	-	115,000	(115,000)
	<u>267,105</u>	<u>235,790</u>	<u>408,000</u>	<u>(172,210)</u>
Receipts over (under) expenditures	(39,448)	(22,263)		
UNENCUMBERED CASH, beginning	<u>63,550</u>	<u>24,102</u>		
UNENCUMBERED CASH, ending	<u>\$ 24,102</u>	<u>1,839</u>		
<u>WATERWORKS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ -	-		
EXPENDITURES				
Capital outlay	<u>12,900</u>	-		NOT APPLICABLE
Receipts over (under) expenditures	(12,900)	-		
UNENCUMBERED CASH, beginning	<u>14,269</u>	<u>1,369</u>		
UNENCUMBERED CASH, ending	<u>\$ 1,369</u>	<u>1,369</u>		

City of Kechi, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2008

(With comparative actual amounts for the year ended December 31, 2007)

	2007 Actual	2008		Variance - Over (Under)
		Actual	Budget	
<u>SEWER FUND</u>				
RECEIPTS				
User fees	\$ 149,549	151,081	230,000	(78,919)
EXPENDITURES				
Personal services	52,471	48,889	35,000	13,889
Contracted waste water treatment	44,430	55,061	60,000	(4,939)
Other contractual services	19,721	23,061	20,000	3,061
Commodities and other	7,090	10,234	10,000	234
Capital outlay	3,143	3,548	32,444	(28,896)
Employee benefits	-	11,864	4,650	7,214
Transfers to other funds	15,000	30,000	136,000	(106,000)
	<u>141,855</u>	<u>182,657</u>	<u>298,094</u>	<u>(115,437)</u>
Receipts over (under) expenditures	7,694	(31,576)		
UNENCUMBERED CASH, beginning	<u>100,348</u>	<u>108,042</u>		
UNENCUMBERED CASH, ending	<u>\$ 108,042</u>	<u>76,466</u>		
<u>SEWER RESERVE FUND</u>				
RECEIPTS				
Permits and fees	\$ 22,750	21,000	55,000	(34,000)
EXPENDITURES				
Capital outlay	-	-	13,750	(13,750)
Transfers to other funds	65,000	21,000	65,000	(44,000)
	<u>65,000</u>	<u>21,000</u>	<u>78,750</u>	<u>(57,750)</u>
Receipts over (under) expenditures	(42,250)	-		
UNENCUMBERED CASH, beginning	<u>46,603</u>	<u>4,353</u>		
UNENCUMBERED CASH, ending	<u>\$ 4,353</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECEIPTS		
Lease payments from the City of Kechi	\$ 91,320	95,436
Interest on investments	<u>9</u>	<u>13</u>
	<u>91,329</u>	<u>95,449</u>
EXPENDITURES		
Debt service		
Principal	40,000	30,000
Interest	<u>51,320</u>	<u>65,436</u>
	<u>91,320</u>	<u>95,436</u>
Receipts over (under) expenditures	9	13
UNENCUMBERED CASH, beginning	<u>863</u>	<u>850</u>
UNENCUMBERED CASH, ending	<u>\$ 872</u>	<u>863</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 statements 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

The statutory basis of accounting, as used in the preparation of these financial statements, is designed to demonstrate compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. 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 disbursement is recorded in the fund from which the cash is transferred. 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 generally accepted accounting principles. 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, 2008

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 2008:

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, 2008

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 2008 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, 2008, the City's investments included only bank savings deposits with a fair value of \$1,024,465 which are not subject to investment rating.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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, 2008.

At December 31, 2008, the carrying amount of the City's deposits, including component units, was \$1,798,710. The bank balance totaled \$1,838,316. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$1,588,316 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Composition of Cash Balance

	Primary Government	Component Unit	Total
Amount on deposit with financial institutions			
Checking	\$ 773,373	872	774,245
Savings	1,024,465	-	1,024,465
	<u>\$ 1,797,838</u>	<u>872</u>	<u>1,798,710</u>

5. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violation incurred in the year ended December 31, 2008.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2008 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12/31/08	Additions	Deletions	Balance 12/31/08	Interest Paid
Temporary Improvement Notes:									
Series 2007 A	3.75%	04/01/07	\$1,485,000	04/01/09	\$1,485,000	-	1,485,000	-	51,047
Series 2007 B	3.75%	10/01/07	484,000	10/01/09	484,000	-	484,000	-	17,424
Series 2000 A	3.10%	07/01/08	2,546,000	07/01/09	-	2,546,000	-	2,546,000	-
					1,969,000	2,546,000	1,969,000	2,546,000	68,471
General Obligation Bonds, including special assessments:									
Series 1995 A	6.20-7.00%	02/01/95	338,766	09/01/10	100,000	-	30,000	70,000	6,385
Series 1997 A	4.35-6.50%	10/01/97	470,000	10/01/13	240,000	-	35,000	205,000	11,908
Series 1998 A	4.60-5.50%	09/01/98	300,000	09/01/14	175,000	-	20,000	155,000	8,468
Series 1999 A	4.20-7.00%	05/01/99	165,519	11/01/14	90,000	-	10,000	80,000	4,350
Series 2000 A	5.35-7.00%	05/01/00	652,540	11/01/15	425,000	-	45,000	380,000	23,990
Series 2000 B	4.50-5.50%	10/15/00	425,000	10/01/16	310,000	-	30,000	280,000	16,433
Series 2003 A	2.50-4.50%	06/30/03	1,483,099	08/31/18	1,160,000	-	90,000	1,070,000	39,772
Series 2006 A	3.80-5.75%	11/01/06	1,011,800	11/01/22	1,011,800	-	11,800	1,000,000	85,477
Series 2007 A	3.75-5.90%	05/15/07	1,496,077	11/01/27	1,496,077	-	26,077	1,470,000	100,595
Series 2008 A	4.00-6.00%	02/28/08	1,405,000	09/01/28	-	1,405,000	-	1,405,000	-
Series 2008 B	3.00-4.65%	09/15/08	575,000	09/15/28	-	575,000	-	575,000	-
					5,007,877	1,980,000	297,877	6,690,000	297,378
Capital Lease Obligations:									
Dump truck and equipment	3.86%	06/22/04	65,214	06/22/09	20,494	-	13,532	6,962	662
Chrysler police vehicle	6.35%	02/23/06	25,000	08/23/09	12,866	-	6,232	6,634	722
Small dump truck	7.05%	05/18/07	48,445	05/18/11	37,383	-	8,416	28,967	2,636
2008 Dodge police vehicle	5.95%	07/07/08	22,600	07/07/11	-	22,600	7,973	14,627	-
					70,743	22,600	36,153	57,190	4,020
Total Long-Term Debt					\$7,047,620	4,548,600	2,303,030	9,293,190	369,869

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

	Year ending December 31								Total
	2009	2010	2011	2012	2013	2014-2018	2019-2023	2024-Mat.	
Principal									
Temporary Improvement Notes	\$2,546,000	-	-	-	-	-	-	-	2,546,000
General Obligation Bonds	400,000	450,000	450,000	475,000	490,000	2,055,000	1,335,000	1,035,000	6,690,000
Capital Lease Obligations	29,707	17,169	10,314	-	-	-	-	-	57,190
Total principal	2,975,707	467,169	460,314	475,000	490,000	2,055,000	1,335,000	1,035,000	9,293,190
Interest									
Temporary Improvement Notes	78,926	-	-	-	-	-	-	-	78,926
General Obligation Bonds	299,674	296,780	251,120	230,485	208,485	746,628	394,442	134,525	2,562,139
Capital Lease Obligations	3,368	1,856	738	-	-	-	-	-	5,962
Total interest	381,968	298,636	251,858	230,485	208,485	746,628	394,442	134,525	2,647,027
Total principal and interest	\$3,357,675	765,805	712,172	705,485	698,485	2,801,628	1,729,442	1,169,525	11,940,217

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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>
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	55,000	42,562	97,562
2014-2018	300,000	174,148	474,148
2019-2023	375,000	94,043	469,043
2024-2026	130,000	10,162	140,162
	<u>\$ 1,045,000</u>	<u>510,163</u>	<u>1,555,163</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 5.93% at December 31, 2008. The City of Kechi contributions to KPERS for the years ending December 31, 2008, 2007 and 2006 were \$22,577, \$20,811 and \$16,255 respectively, equal to the statutory required contributions for each year.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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

2008 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	1,910,550	366,431
Northwoods Addition	2,001,500	1,894,563	106,937
Rock Pointe Addition	2,198,800	1,090,340	1,108,460
	<u>\$ 6,902,281</u>	<u>5,200,308</u>	<u>1,701,973</u>

10. INTERFUND TRANSFERS

Operating transfers were as follows:

Transfer from:	<u>Total</u>	<u>Transfer to:</u>			
		<u>Equip. Res.</u>	<u>Capital Impr.</u>	<u>Bond & Int.</u>	<u>Gas Reserve</u>
Sewer improvements project	\$ 242,113	-	-	242,113	-
Gas	30,650	15,000	15,000	-	650
Northridge project	15,916	-	-	15,916	-
Sewer	30,000	5,000	5,000	20,000	-
Sewer reserve	21,000	-	-	21,000	-
	<u>\$ 339,679</u>	<u>20,000</u>	<u>20,000</u>	<u>299,029</u>	<u>650</u>