

CITY OF KECHI
KECHI, KANSAS

Special Financial Statements

December 31, 2009

City of Kechi, Kansas

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December 31, 2009

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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, 2009, 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 2008 financial statements and, in our report dated April 30, 2009, 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, 2009, 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, 2009, 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

February 10, 2010

City of Kechi, Kansas

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2009

Funds	Unencumbered Cash Balance <u>12/31/08</u>	Receipts	Expenditures	Unencumbered Cash Balance <u>12/31/09</u>	Accounts Payable and Encumbrances	Cash Balance <u>12/31/09</u>
Primary Government						
Governmental Type Funds:						
General	\$ 12,720	802,237	806,041	8,916	1,230	10,146
Special Revenue						
Special street and highway	48,780	66,874	106,029	9,625	-	9,625
Capital improvement	448	30,000	15,000	15,448	-	15,448
Equipment reserve	10,101	35,000	34,013	11,088	9,000	20,088
Capital Projects						
Northwoods Addition	14,055	-	14,055	-	-	-
Rock Pointe	1,461,176	880	1,412,515	49,541	64,002	113,543
Debt Service						
Bond and interest	89,138	555,411	642,966	1,583	-	1,583
Proprietary Type Funds:						
Enterprise						
Gas	21,291	450,766	450,942	21,115	23,807	44,922
Gas reserve	650	-	-	650	-	650
Waterworks	1,839	320,161	311,362	10,638	5,718	16,356
Waterworks reserve	1,369	10,000	-	11,369	-	11,369
Sewer	76,466	174,813	247,682	3,597	5,960	9,557
Sewer reserve	4,353	1,750	6,000	103	-	103
Recycling	-	25,094	20,652	4,442	-	4,442
Solid Waste	-	42,584	40,200	2,384	-	2,384
Total Primary Government	1,742,386	2,515,570	4,107,457	150,499	109,717	260,216
Component Unit:						
Kechi Public Building Commission	872	94,927	94,920	879	-	879
Total Reporting Entity	\$ 1,743,258	2,610,497	4,202,377	151,378	109,717	261,095

See notes to financial statements

City of Kechi, Kansas

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009

<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	\$ 891,429	14,002	905,431	806,041	(99,390)
Special Revenue					
Special street and highway	130,081	-	130,081	106,029	(24,052)
Debt Service					
Bond and interest	697,525	-	697,525	642,966	(54,559)
Proprietary Type Funds:					
Enterprise					
Gas	811,500	-	811,500	450,942	(360,558)
Waterworks	390,477	-	390,477	311,362	(79,115)
Sewer	276,000	-	276,000	247,682	(28,318)
Sewer reserve	11,000	-	11,000	6,000	(5,000)
Recycling	15,000	-	15,000	20,652	5,652
Solid Waste	28,905	-	28,905	40,200	11,295
Expenditures subject to current budget	<u>\$ 3,251,917</u>	<u>14,002</u>	<u>3,265,919</u>	2,631,874	<u>(634,045)</u>
Add expenditures of unbudgeted funds					
Special Revenue				49,013	
Capital Projects				<u>1,426,570</u>	
Total Expenditures, Primary government				<u>\$ 4,107,457</u>	

City of Kechi, Kansas
General Fund
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
 (With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
RECEIPTS				
Ad valorem property tax	\$ 334,046	362,538	362,407	131
Vehicle tax	55,421	63,191	56,649	6,542
Local sales tax	216,191	214,846	190,000	24,846
Franchise tax	43,382	45,844	40,000	5,844
Fines, fees, and permits	100,532	63,790	105,500	(41,710)
Rents and other	38,504	33,861	40,000	(6,139)
Interest	10,909	4,165	50,000	(45,835)
Reimbursed expenditures				
Federal and state aid	-	8,999	-	8,999
Other	33,967	5,003	-	5,003
Total Receipts	<u>832,952</u>	<u>802,237</u>	<u>844,556</u>	<u>(42,319)</u>
EXPENDITURES				
Administration				
Personal services	104,866	100,790	106,779	(5,989)
Contracted services	171,569	181,231	183,400	(2,169)
Commodities and other	54,620	48,822	70,000	(21,178)
Capital outlay	47,280	10,251	26,350	(16,099)
Police and court				
Personal services	235,588	251,805	255,900	(4,095)
Contracted services and other	114,162	64,980	76,000	(11,020)
Capital outlay	-	16,456	25,000	(8,544)
Street lighting				
Contracted services	7,331	9,034	7,500	1,534
Employee benefits				
Employee insurance premiums	54,256	66,704	63,000	3,704
Employer's share of retirement and payroll taxes	41,016	41,963	50,000	(8,037)
Debt service	-	4,005	-	4,005
Transfers to other funds	-	10,000	27,500	(17,500)
	<u>830,688</u>	<u>806,041</u>	<u>891,429</u>	<u>(85,388)</u>
Add budget credits - Grants and other reimbursed expenditures	-	-	14,002	(14,002)
Total Expenditures	<u>830,688</u>	<u>806,041</u>	<u>905,431</u>	<u>(99,390)</u>
Receipts over (under) expenditures	2,264	(3,804)		
UNENCUMBERED CASH, beginning	<u>10,456</u>	<u>12,720</u>		
UNENCUMBERED CASH, ending	<u>\$ 12,720</u>	<u>8,916</u>		

See notes to financial statements

City of Kechi, Kansas
Special Revenue Funds
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>SPECIAL STREET AND HIGHWAY FUND</u>				
RECEIPTS				
State payments - gasoline tax	\$ 47,660	43,632	47,860	(4,228)
County treasurer - highway fund	23,809	20,680	23,520	(2,840)
Other	494	2,562	-	2,562
	<u>71,963</u>	<u>66,874</u>	<u>71,380</u>	<u>(4,506)</u>
EXPENDITURES				
Personal services	7,630	-	-	-
Contracted services	12,331	1,511	100,000	(98,489)
Commodities and other	100,423	5,314	15,000	(9,686)
Capital outlay	-	99,204	15,081	84,123
	<u>120,384</u>	<u>106,029</u>	<u>130,081</u>	<u>(24,052)</u>
Receipts over (under) expenditures	(48,421)	(39,155)		
UNENCUMBERED CASH, beginning	<u>97,201</u>	<u>48,780</u>		
UNENCUMBERED CASH, ending	<u>\$ 48,780</u>	<u>9,625</u>		
 <u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 20,000	30,000		
EXPENDITURES				
Contractual services	<u>20,000</u>	<u>15,000</u>		
Receipts over (under) expenditures	-	15,000		
UNENCUMBERED CASH, beginning	<u>448</u>	<u>448</u>		
UNENCUMBERED CASH, ending	<u>\$ 448</u>	<u>15,448</u>		

City of Kechi, Kansas
Special Revenue Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
 (With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 20,000	35,000		
Other	12,007	-		
	<u>32,007</u>	<u>35,000</u>		
EXPENDITURES				
Capital outlay	<u>25,054</u>	<u>34,013</u>		NOT APPLICABLE
Receipts over (under) expenditures	6,953	987		
UNENCUMBERED CASH, beginning	<u>3,148</u>	<u>10,101</u>		
UNENCUMBERED CASH, ending	<u>\$ 10,101</u>	<u>11,088</u>		

City of Kechi, Kansas
Capital Project Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET*

Year ended December 31, 2009

	<u>Northwoods Addition</u>	<u>Rock Pointe Addition</u>	<u>2009 Total</u>
RECEIPTS			
Special assessments and other	\$ -	880	880
EXPENDITURES			
Construction and engineering	2,555	1,412,455	1,415,010
Debt issue costs and other	-	60	60
Repayment of temporary notes	-	-	-
Transfer to other funds	<u>11,500</u>	<u>-</u>	<u>11,500</u>
	<u>14,055</u>	<u>1,412,515</u>	<u>1,426,570</u>
Receipts over (under) expenditures	(14,055)	(1,411,635)	(1,425,690)
UNENCUMBERED CASH, beginning	<u>14,055</u>	<u>1,461,176</u>	<u>1,475,231</u>
UNENCUMBERED CASH, ending	<u>\$ -</u>	<u>49,541</u>	<u>49,541</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, 2009

(With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>BOND AND INTEREST</u>				
RECEIPTS				
Special assessments	\$ 384,816	447,911	396,406	51,505
Transfers from other funds	<u>299,029</u>	<u>107,500</u>	<u>301,000</u>	<u>(193,500)</u>
	<u>683,845</u>	<u>555,411</u>	<u>697,406</u>	<u>(141,995)</u>
EXPENDITURES				
Bond principal	297,877	400,000	400,000	-
Interest	297,378	242,943	297,500	(54,557)
Commission and postage	<u>21</u>	<u>23</u>	<u>25</u>	<u>(2)</u>
	<u>595,276</u>	<u>642,966</u>	<u>697,525</u>	<u>(54,559)</u>
Receipts over (under) expenditures	88,569	(87,555)		
UNENCUMBERED CASH, beginning	<u>569</u>	<u>89,138</u>		
UNENCUMBERED CASH, ending	<u>\$ 89,138</u>	<u>1,583</u>		

City of Kechi, Kansas
Enterprise Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
 (With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>GAS FUND</u>				
RECEIPTS				
Sales	\$ 525,920	442,835	700,000	(257,165)
Connection fees	4,160	2,939	4,000	(1,061)
Refunds and other	5,086	4,992	5,000	(8)
	<u>535,166</u>	<u>450,766</u>	<u>709,000</u>	<u>(258,234)</u>
EXPENDITURES				
Personal services	100,382	94,467	100,000	(5,533)
Gas purchased	378,698	246,341	550,000	(303,659)
Contractual services	17,176	19,747	25,000	(5,253)
Commodities and other	37,024	25,141	50,000	(24,859)
Capital outlay	6,073	550	21,500	(20,950)
Employee benefits	31,261	34,696	30,000	4,696
Transfers to other funds	30,650	30,000	35,000	(5,000)
	<u>601,264</u>	<u>450,942</u>	<u>811,500</u>	<u>(360,558)</u>
Receipts over (under) expenditures	(66,098)	(176)		
UNENCUMBERED CASH, beginning	87,389	21,291		
UNENCUMBERED CASH, ending	<u>\$ 21,291</u>	<u>21,115</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	-	650		
UNENCUMBERED CASH, ending	<u>\$ 650</u>	<u>650</u>		

City of Kechi, Kansas
Enterprise Funds
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
 (With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>WATERWORKS FUND</u>				
RECEIPTS				
Sales	\$ 197,218	312,569	345,375	(32,806)
Connection fees	2,110	1,875	3,000	(1,125)
Interest	12,856	1,203	-	1,203
Other	1,343	4,514	4,000	514
	<u>213,527</u>	<u>320,161</u>	<u>352,375</u>	<u>(32,214)</u>
EXPENDITURES				
Personal services	91,725	87,041	89,950	(2,909)
Water purchases	67,339	93,953	88,000	5,953
Contractual services	14,872	8,956	20,000	(11,044)
Commodities and other	27,737	23,389	17,000	6,389
Capital outlay	6,073	-	27,000	(27,000)
Employee benefits	28,044	30,297	28,525	1,772
Debt service	-	37,726	-	37,726
Transfers to other funds	-	30,000	120,002	(90,002)
	<u>235,790</u>	<u>311,362</u>	<u>390,477</u>	<u>(79,115)</u>
Receipts over (under) expenditures	(22,263)	8,799		
UNENCUMBERED CASH, beginning	<u>24,102</u>	<u>1,839</u>		
UNENCUMBERED CASH, ending	<u>\$ 1,839</u>	<u>10,638</u>		
<u>WATERWORKS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ -	10,000		
EXPENDITURES				
Capital outlay	-	-		NOT APPLICABLE
Receipts over (under) expenditures	-	10,000		
UNENCUMBERED CASH, beginning	<u>1,369</u>	<u>1,369</u>		
UNENCUMBERED CASH, ending	<u>\$ 1,369</u>	<u>11,369</u>		

City of Kechi, Kansas
Enterprise Funds
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>SEWER FUND</u>				
RECEIPTS				
User fees	\$ 151,081	174,598	200,000	(25,402)
Other	-	215	-	215
	<u>151,081</u>	<u>174,813</u>	<u>200,000</u>	<u>(25,187)</u>
EXPENDITURES				
Personal services	48,889	37,202	42,000	(4,798)
Contracted waste water treatment	55,061	60,373	58,000	2,373
Other contractual services	23,061	16,388	16,000	388
Commodities and other	10,234	7,205	10,000	(2,795)
Capital outlay	3,548	-	5,000	(5,000)
Employee benefits	11,864	16,514	12,000	4,514
Debt service	-	15,000	-	15,000
Transfers to other funds	30,000	95,000	133,000	(38,000)
	<u>182,657</u>	<u>247,682</u>	<u>276,000</u>	<u>(28,318)</u>
Receipts over (under) expenditures	(31,576)	(72,869)		
UNENCUMBERED CASH, beginning	<u>108,042</u>	<u>76,466</u>		
UNENCUMBERED CASH, ending	<u>\$ 76,466</u>	<u>3,597</u>		
<u>SEWER RESERVE FUND</u>				
RECEIPTS				
Permits and fees	\$ 21,000	1,750	<u>50,000</u>	<u>(48,250)</u>
EXPENDITURES				
Transfers to other funds	<u>21,000</u>	<u>6,000</u>	<u>11,000</u>	<u>(5,000)</u>
Receipts over (under) expenditures	-	(4,250)		
UNENCUMBERED CASH, beginning	<u>4,353</u>	<u>4,353</u>		
UNENCUMBERED CASH, ending	<u>\$ 4,353</u>	<u>103</u>		

See notes to financial statements

City of Kechi, Kansas
Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Years ended December 31, 2009
(With comparative actual amounts for the year ended December 31, 2008)

	2008 Actual	2009		Variance - Over (Under)
		Actual	Budget	
<u>RECYCLING FUND</u>				
RECEIPTS				
User fees	\$ -	25,094	16,000	9,094
EXPENDITURES				
Contractual services	-	20,502	15,000	5,502
Commodities and other	-	150	-	150
	-	20,652	15,000	5,652
Receipts over (under) expenditures	-	4,442		
UNENCUMBERED CASH, beginning	-	-		
UNENCUMBERED CASH, ending	\$ -	4,442		
<u>SOLID WASTE FUND</u>				
RECEIPTS				
User fees	\$ -	42,584	28,905	13,679
EXPENDITURES				
Contractual services	-	40,050	28,905	11,145
Commodities and other	-	150	-	150
	-	40,200	28,905	11,295
Receipts over (under) expenditures	-	2,384		
UNENCUMBERED CASH, beginning	-	-		
UNENCUMBERED CASH, ending	\$ -	2,384		

See notes to financial statements

City of Kechi, Kansas
Component Unit - Kechi Public Building Commission

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

Years ended December 31, 2009

	<u>2009</u>	<u>2008</u>
RECEIPTS		
Lease payments from the City of Kechi	\$ 94,920	91,320
Interest on investments	<u>7</u>	<u>9</u>
	<u>94,927</u>	<u>91,329</u>
EXPENDITURES		
Debt service		
Principal	45,000	40,000
Interest	<u>49,920</u>	<u>51,320</u>
	<u>94,920</u>	<u>91,320</u>
Receipts over (under) expenditures	7	9
UNENCUMBERED CASH, beginning	<u>872</u>	<u>863</u>
UNENCUMBERED CASH, ending	<u>\$ 879</u>	<u>872</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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, 2009

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 2009:

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.

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, 2009

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 2009 budget was amended to increase expenditures in the Sewer, Recycling and Solid Waste funds.

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, 2009, the City's investments included only bank savings deposits with a fair value of \$34,610 which are not subject to investment rating.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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, 2009.

At December 31, 2009, the carrying amount of the City's deposits, including component units, was \$261,095. The bank balance totaled \$286,935. The balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$285,707 was covered by FDIC insurance and the remaining \$1,228 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	\$ 225,606	879	226,485
Savings	34,610	-	34,610
	<u>\$ 260,216</u>	<u>879</u>	<u>261,095</u>

5. COMPLIANCE WITH KANSAS STATUTES

Budget Violation

The City was not in compliance with K.S.A. 79-2935 which limits fund expenditures to the appropriated budget, in the Recycling and Sold Waste funds.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

6. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2009 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12/31/08	Additions	Deletions	Balance 12/31/09	Interest Paid
Temporary Improvement Notes:									
Series 2000 A	3.10%	07/01/08	\$ 2,546,000	07/01/10	\$ 2,546,000	-	-	2,546,000	-
General Obligation Bonds, including special assessments:									
Series 1995 A	6.20-7.00%	02/01/95	338,766	09/01/10	70,000	-	35,000	35,000	4,480
Series 1997 A	4.35-6.50%	10/01/97	470,000	10/01/13	205,000	-	35,000	170,000	10,245
Series 1998 A	4.60-5.50%	09/01/98	300,000	09/01/14	155,000	-	25,000	130,000	7,538
Series 1999 A	4.20-7.00%	05/01/99	165,519	11/01/14	80,000	-	10,000	70,000	3,910
Series 2000 A	5.35-7.00%	05/01/00	652,540	11/01/15	380,000	-	45,000	335,000	21,560
Series 2000 B	4.50-5.50%	10/15/00	425,000	10/01/16	280,000	-	30,000	250,000	14,932
Series 2003 A	2.50-4.50%	06/30/03	1,483,099	08/31/18	1,070,000	-	90,000	980,000	37,523
Series 2006 A	3.80-5.75%	11/01/06	1,011,800	11/01/22	1,000,000	-	55,000	945,000	42,907
Series 2007 A	3.75-5.90%	05/15/07	1,496,077	11/01/27	1,470,000	-	60,000	1,410,000	67,310
Series 2008 A	4.00-6.00%	02/28/08	1,405,000	09/01/28	1,405,000	-	15,000	1,390,000	89,269
Series 2008 B	3.00-4.65%	09/15/08	575,000	09/15/28	575,000	-	-	575,000	-
					6,690,000	-	400,000	6,290,000	299,674
Capital Lease Obligations:									
Chrysler police vehicle	6.35%	02/23/06	25,000	08/23/09	6,634	-	6,634	-	322
Small dump truck	7.05%	05/18/07	48,445	05/18/11	28,967	-	9,009	19,958	2,043
2008 Dodge police vehicle	5.95%	07/07/08	22,600	07/07/11	14,627	-	7,102	7,525	870
					50,228	-	22,745	27,483	3,235
Total Long-Term Debt					\$ 9,286,228	-	422,745	8,863,483	302,909

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

	Year ending December 31								Total
	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-Mat.	
Principal									
Temporary Improvement Notes	\$ 2,546,000	-	-	-	-	-	-	-	2,546,000
General Obligation Bonds	450,000	450,000	475,000	490,000	475,000	1,845,000	1,275,000	830,000	6,290,000
Capital Lease Obligations	17,169	10,314	-	-	-	-	-	-	27,483
Total principal	3,013,169	460,314	475,000	490,000	475,000	1,845,000	1,275,000	830,000	8,863,483
Interest									
Temporary Improvement Notes	157,852	-	-	-	-	-	-	-	157,852
General Obligation Bonds	296,780	251,120	230,485	208,485	185,747	662,821	338,527	88,500	2,262,465
Capital Lease Obligations	1,856	738	-	-	-	-	-	-	2,594
Total interest	456,488	251,858	230,485	208,485	185,747	662,821	338,527	88,500	2,422,911
Total principal and interest	\$ 3,469,657	712,172	705,485	698,485	660,747	2,507,821	1,613,527	918,500	11,286,394

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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>
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	55,000	40,228	95,228
2015-2019	310,000	159,838	469,838
2020-2024	395,000	74,787	469,787
2025-2026	45,000	3,500	48,500
	<u>\$ 1,000,000</u>	<u>460,243</u>	<u>1,460,243</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 6.54% at December 31, 2009. The City of Kechi contributions to KPERs for the years ending December 31, 2009, 2008 and 2007 were \$26,850, \$22,577 and \$20,811 respectively, equal to the statutory required contributions for each year.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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

2009 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>
Northwoods Addition	\$ 2,001,500	1,897,118	104,382
Rock Pointe Addition	<u>3,498,800</u>	<u>2,457,394</u>	<u>1,041,406</u>
	<u>\$ 5,500,300</u>	<u>4,354,512</u>	<u>1,145,788</u>

10. INTERFUND TRANSFERS

Operating transfers were as follows:

Transfer from:	Total	Transfer to:			
		Equip. Res.	Capital Impr.	Bond & Int.	WW Reserve
General	\$ 10,000	10,000	-	-	-
Northwoods Addition	11,500	-	-	11,500	-
Gas	30,000	15,000	15,000	-	-
Water	30,000	10,000	10,000	-	10,000
Sewer	95,000	-	5,000	90,000	-
Sewer reserve	6,000	-	-	6,000	-
	<u>\$ 182,500</u>	<u>35,000</u>	<u>30,000</u>	<u>107,500</u>	<u>10,000</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

11. SUBSEQUENT EVENTS

Subsequent Period

Management has evaluated the effects on the financial statements occurring through February 10, 2010, which is the date at which the financial statements were available to be released.

2010 Bond Issue

On January 15, 2010, the Kechi Public Building Commission KPBC (a component unit of the City of Kechi) issued general obligation bonds in the principal amount of \$745,000. Proceeds from these bonds was used to retire the remaining Series 2004 KPBC bonds on the call date.