

CITY OF KECHI  
KECHI, KANSAS

Special Financial Statements

December 31, 2010

City of Kechi, Kansas

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December 31, 2010

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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, 2010, 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 2009 financial statements and, in our report dated February 10, 2010, 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, 2010, 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, 2010, 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 7, 2011

## City of Kechi, Kansas

## SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2010

Funds	Unencumbered Cash Balance 12/31/09	Receipts	Expenditures	Unencumbered Cash Balance 12/31/10	Accounts Payable and Encumbrances	Cash Balance 12/31/10
<b>Primary Government</b>						
Governmental Type Funds:						
General	\$ 8,916	833,469	758,736	83,649	952	84,601
Special Revenue						
Special street and highway	9,625	70,080	28,765	50,940	-	50,940
Capital improvement	15,448	26,500	20,269	21,679	-	21,679
Equipment reserve	11,088	16,000	9,385	17,703	-	17,703
Capital Project						
Rock Pointe	49,541	2,709,000	2,746,667	11,874	-	11,874
Debt Service						
Bond and interest	1,583	2,220,408	2,214,370	7,621	-	7,621
Proprietary Type Funds:						
Enterprise						
Gas	21,115	477,315	471,288	27,142	28,814	55,956
Gas reserve	650	5,000	-	5,650	-	5,650
Waterworks	10,638	353,208	254,111	109,735	6,868	116,603
Waterworks reserve	11,369	7,500	-	18,869	-	18,869
Sewer	3,597	221,497	183,602	41,492	4,638	46,130
Sewer reserve	103	4,000	-	4,103	-	4,103
Recycling	4,442	34,360	36,650	2,152	-	2,152
Solid Waste	2,384	63,946	64,618	1,712	-	1,712
Total Primary Government	150,499	7,042,283	6,788,461	404,321	41,272	445,593
<b>Component Unit:</b>						
Kechi Public Building Commission	879	815,519	815,519	879	-	879
<b>Total Reporting Entity</b>	<b>\$ 151,378</b>	<b>7,857,802</b>	<b>7,603,980</b>	<b>405,200</b>	<b>41,272</b>	<b>446,472</b>

## City of Kechi, Kansas

## SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

<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	\$ 822,975	49,391	872,366	758,736	(113,630)
Special Revenue					
Special street and highway	65,000	-	65,000	28,765	(36,235)
Debt Service					
Bond and interest	746,802	1,540,000	2,286,802	2,214,370	(72,432)
Proprietary Type Funds:					
Enterprise					
Gas	767,000	-	767,000	471,288	(295,712)
Waterworks	302,000	-	302,000	254,111	(47,889)
Sewer	210,100	-	210,100	183,602	(26,498)
Sewer reserve	10,000	-	10,000	-	(10,000)
Recycling	40,000	-	40,000	36,650	(3,350)
Solid Waste	76,000	-	76,000	64,618	(11,382)
Expenditures subject to current budget	<u>\$ 3,039,877</u>	<u>1,589,391</u>	<u>4,629,268</u>	4,012,140	<u>(617,128)</u>
Add expenditures of unbudgeted funds					
Special Revenue				29,654	
Capital Project				<u>2,746,667</u>	
Total Expenditures, Primary government				<u>\$ 6,788,461</u>	

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

Year ended December 31, 2010  
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 362,538	335,233	337,794	(2,561)
Vehicle tax	63,191	59,728	61,395	(1,667)
Local sales tax	214,846	235,529	235,000	529
Franchise tax	45,844	52,113	45,000	7,113
Fines, fees, and permits	63,790	59,784	80,000	(20,216)
Rents and other	33,861	40,878	55,000	(14,122)
Interest	4,165	813	7,500	(6,687)
Reimbursed expenditures				
Federal and state aid	8,999	38,488	-	38,488
Other	5,003	10,903	-	10,903
Total Receipts	<u>802,237</u>	<u>833,469</u>	<u>821,689</u>	<u>11,780</u>
<b>EXPENDITURES</b>				
Administration				
Personal services	100,790	113,962	126,000	(12,038)
Contracted services	181,231	118,803	140,000	(21,197)
Commodities and other	48,822	45,853	69,000	(23,147)
Capital outlay	10,251	50,827	32,500	18,327
Police and court				
Personal services	251,805	269,860	235,000	34,860
Contracted services and other	64,980	56,570	62,100	(5,530)
Capital outlay	16,456	45,425	45,100	325
Street lighting				
Contracted services	9,034	13,081	9,000	4,081
Employee benefits				
Employee insurance premiums	66,704	19,661	60,000	(40,339)
Employer's share of retirement and payroll taxes	41,963	10,003	39,000	(28,997)
Debt service	4,005	14,691	-	14,691
Transfers to other funds	10,000	-	5,275	(5,275)
	<u>806,041</u>	<u>758,736</u>	<u>822,975</u>	<u>(64,239)</u>
Add budget credits - Grants and other reimbursed expenditures	-	-	49,391	(49,391)
Total Expenditures	<u>806,041</u>	<u>758,736</u>	<u>872,366</u>	<u>(113,630)</u>
Receipts over (under) expenditures	(3,804)	74,733		
UNENCUMBERED CASH, beginning	12,720	8,916		
UNENCUMBERED CASH, ending	<u>\$ 8,916</u>	<u>83,649</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, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<b><u>SPECIAL STREET AND HIGHWAY FUND</u></b>				
<b>RECEIPTS</b>				
State payments - gasoline tax	\$ 43,632	47,668	49,380	(1,712)
County treasurer - highway fund	20,680	22,412	24,300	(1,888)
Other	2,562	-	-	-
	<u>66,874</u>	<u>70,080</u>	<u>73,680</u>	<u>(3,600)</u>
<b>EXPENDITURES</b>				
Contracted services	1,511	19	50,000	(49,981)
Commodities and other	5,314	25,746	15,000	10,746
Capital outlay	99,204	3,000	-	3,000
	<u>106,029</u>	<u>28,765</u>	<u>65,000</u>	<u>(36,235)</u>
Receipts over (under) expenditures	(39,155)	41,315		
UNENCUMBERED CASH, beginning	<u>48,780</u>	<u>9,625</u>		
UNENCUMBERED CASH, ending	<u>\$ 9,625</u>	<u>50,940</u>		
 <b><u>CAPITAL IMPROVEMENT FUND</u></b>				
<b>RECEIPTS</b>				
Transfers from other funds	\$ 30,000	26,500		
<b>EXPENDITURES</b>				
Contractual services	15,000	14,334		
Commodities and other	-	5,935		
	<u>15,000</u>	<u>20,269</u>		
Receipts over (under) expenditures	15,000	6,231		
UNENCUMBERED CASH, beginning	<u>448</u>	<u>15,448</u>		
UNENCUMBERED CASH, ending	<u>\$ 15,448</u>	<u>21,679</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, 2010  
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 35,000	16,000		
EXPENDITURES				
Capital outlay	<u>34,013</u>	<u>9,385</u>		NOT APPLICABLE
Receipts over (under) expenditures	987	6,615		
UNENCUMBERED CASH, beginning	<u>10,101</u>	<u>11,088</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,088</u>	<u>17,703</u>		

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

Year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
<u>ROCK POINTE ADDITION</u>		
RECEIPTS		
Debt issue proceeds	\$ 2,703,000	-
Special assessments and other	6,000	880
	<u>2,709,000</u>	<u>880</u>
EXPENDITURES		
Construction and engineering	-	1,412,455
Debt issue costs and other	28,709	60
Repayment of temporary notes	2,704,595	-
Transfer to other funds	13,363	-
	<u>2,746,667</u>	<u>1,412,515</u>
Receipts over (under) expenditures	(37,667)	(1,411,635)
UNENCUMBERED CASH, beginning	49,541	1,461,176
UNENCUMBERED CASH, ending	<u>\$ 11,874</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, 2010

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

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<b><u>BOND AND INTEREST</u></b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ -	179,831	-	179,831
Special assessments	447,911	445,577	495,550	(49,973)
Debt issue proceeds	-	1,540,000	-	1,540,000
Transfers from other funds	107,500	55,000	65,100	(10,100)
	<u>555,411</u>	<u>2,220,408</u>	<u>560,650</u>	<u>1,659,758</u>
<b>EXPENDITURES</b>				
Bond principal	400,000	1,915,000	450,000	1,465,000
Interest	242,943	296,780	296,777	3
Bond issue costs	-	2,585	-	2,585
Commission and postage	23	5	25	(20)
	<u>642,966</u>	<u>2,214,370</u>	<u>746,802</u>	<u>1,467,568</u>
Adjustment for qualifying budget credits	-	-	1,540,000	(1,540,000)
Total Expenditures	<u>642,966</u>	<u>2,214,370</u>	<u>2,286,802</u>	<u>(72,432)</u>
Receipts over (under) expenditures	(87,555)	6,038		
UNENCUMBERED CASH, beginning	<u>89,138</u>	<u>1,583</u>		
UNENCUMBERED CASH, ending	<u>\$ 1,583</u>	<u>7,621</u>		

See notes to financial statements

## City of Kechi, Kansas

## Enterprise Funds

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

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

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<b><u>GAS FUND</u></b>				
<b>RECEIPTS</b>				
Sales	\$ 442,835	456,163	735,000	(278,837)
Connection fees	2,939	2,799	3,500	(701)
Interest	-	-	2,000	(2,000)
Refunds and other	4,992	4,990	5,000	(10)
Transfers from other funds	-	13,363	-	13,363
	<u>450,766</u>	<u>477,315</u>	<u>745,500</u>	<u>(268,185)</u>
<b>EXPENDITURES</b>				
Personal services	94,467	92,364	115,000	(22,636)
Gas purchased	246,341	247,967	480,000	(232,033)
Contractual services	19,747	23,524	35,000	(11,476)
Commodities and other	25,141	32,610	50,000	(17,390)
Capital outlay	550	9,333	22,000	(12,667)
Employee benefits	34,696	30,490	40,000	(9,510)
Transfers to other funds	30,000	35,000	25,000	10,000
	<u>450,942</u>	<u>471,288</u>	<u>767,000</u>	<u>(295,712)</u>
Receipts over (under) expenditures	(176)	6,027		
UNENCUMBERED CASH, beginning	21,291	21,115		
UNENCUMBERED CASH, ending	<u>\$ 21,115</u>	<u>27,142</u>		
<b><u>GAS RESERVE FUND</u></b>				
<b>RECEIPTS</b>				
Transfers from other funds	\$ -	5,000		
<b>EXPENDITURES</b>				
Capital outlay	-	-	NOT APPLICABLE	
Receipts over (under) expenditures	-	5,000		
UNENCUMBERED CASH, beginning	650	650		
UNENCUMBERED CASH, ending	<u>\$ 650</u>	<u>5,650</u>		

See notes to financial statements

## City of Kechi, Kansas

## Enterprise Funds

## STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2010

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

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<u>WATERWORKS FUND</u>				
RECEIPTS				
Sales	\$ 312,569	346,938	285,000	61,938
Connection fees	1,875	3,058	3,000	58
Interest	1,203	-	2,500	(2,500)
Other	4,514	3,212	3,500	(288)
	<u>320,161</u>	<u>353,208</u>	<u>294,000</u>	<u>59,208</u>
EXPENDITURES				
Personal services	87,041	81,099	95,000	(13,901)
Water purchases	93,953	101,180	75,000	26,180
Contractual services	8,956	10,209	18,000	(7,791)
Commodities and other	23,389	14,791	25,000	(10,209)
Capital outlay	-	543	12,000	(11,457)
Employee benefits	30,297	26,289	32,000	(5,711)
Debt service	37,726	-	-	-
Transfers to other funds	30,000	20,000	45,000	(25,000)
	<u>311,362</u>	<u>254,111</u>	<u>302,000</u>	<u>(47,889)</u>
Receipts over (under) expenditures	8,799	99,097		
UNENCUMBERED CASH, beginning	<u>1,839</u>	<u>10,638</u>		
UNENCUMBERED CASH, ending	<u>\$ 10,638</u>	<u>109,735</u>		
<u>WATERWORKS RESERVE FUND</u>				
RECEIPTS				
Transfers from other funds	\$ 10,000	7,500		
EXPENDITURES				
Capital outlay	-	-		NOT APPLICABLE
Receipts over (under) expenditures	10,000	7,500		
UNENCUMBERED CASH, beginning	<u>1,369</u>	<u>11,369</u>		
UNENCUMBERED CASH, ending	<u>\$ 11,369</u>	<u>18,869</u>		

See notes to financial statements

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

Year ended December 31, 2010  
 (With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<b><u>SEWER FUND</u></b>				
<b>RECEIPTS</b>				
User fees	\$ 174,598	218,997	210,000	8,997
Connection fees	-	2,500	-	2,500
Other	215	-	-	-
	<u>174,813</u>	<u>221,497</u>	<u>210,000</u>	<u>11,497</u>
<b>EXPENDITURES</b>				
Personal services	37,202	32,700	49,000	(16,300)
Contracted waste water treatment	60,373	51,817	58,000	(6,183)
Other contractual services	16,388	19,149	20,000	(851)
Commodities and other	7,205	6,959	11,000	(4,041)
Capital outlay	-	5,598	5,000	598
Employee benefits	16,514	12,379	12,000	379
Debt service	15,000	-	-	-
Transfers to other funds	95,000	55,000	55,100	(100)
	<u>247,682</u>	<u>183,602</u>	<u>210,100</u>	<u>(26,498)</u>
Receipts over (under) expenditures	(72,869)	37,895		
UNENCUMBERED CASH, beginning	<u>76,466</u>	<u>3,597</u>		
UNENCUMBERED CASH, ending	<u>\$ 3,597</u>	<u>41,492</u>		
<b><u>SEWER RESERVE FUND</u></b>				
<b>RECEIPTS</b>				
Permits and fees	\$ 1,750	4,000	<u>10,000</u>	<u>(6,000)</u>
<b>EXPENDITURES</b>				
Transfers to other funds	<u>6,000</u>	-	<u>10,000</u>	<u>(10,000)</u>
Receipts over (under) expenditures	(4,250)	4,000		
UNENCUMBERED CASH, beginning	<u>4,353</u>	<u>103</u>		
UNENCUMBERED CASH, ending	<u>\$ 103</u>	<u>4,103</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, 2010  
(With comparative actual amounts for the year ended December 31, 2009)

	2009 Actual	2010		Variance - Over (Under)
		Actual	Budget	
<u>RECYCLING FUND</u>				
RECEIPTS				
User fees	\$ 25,094	34,360	33,000	1,360
EXPENDITURES				
Contractual services	20,502	36,650	35,250	1,400
Commodities and other	150	-	4,750	(4,750)
	<u>20,652</u>	<u>36,650</u>	<u>40,000</u>	<u>(3,350)</u>
Receipts over (under) expenditures	4,442	(2,290)		
UNENCUMBERED CASH, beginning	-	4,442		
UNENCUMBERED CASH, ending	<u>\$ 4,442</u>	<u>2,152</u>		
<u>SOLID WASTE FUND</u>				
RECEIPTS				
User fees	\$ 42,584	63,946	60,000	3,946
EXPENDITURES				
Contractual services	40,050	64,618	76,000	(11,382)
Commodities and other	150	-	-	-
	<u>40,200</u>	<u>64,618</u>	<u>76,000</u>	<u>(11,382)</u>
Receipts over (under) expenditures	2,384	(672)		
UNENCUMBERED CASH, beginning	-	2,384		
UNENCUMBERED CASH, ending	<u>\$ 2,384</u>	<u>1,712</u>		

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, 2010

	<u>2010</u>	<u>2009</u>
<b>RECEIPTS</b>		
Lease payments from the City of Kechi	\$ 69,421	94,920
Debt issue proceeds	746,098	-
Interest on investments	-	7
	<u>815,519</u>	<u>94,927</u>
<b>EXPENDITURES</b>		
Debt service		
Debt issue costs	6,691	-
Principal	760,000	45,000
Interest	48,828	49,920
	<u>815,519</u>	<u>94,920</u>
Receipts over (under) expenditures	-	7
UNENCUMBERED CASH, beginning	<u>879</u>	<u>872</u>
UNENCUMBERED CASH, ending	<u>\$ 879</u>	<u>879</u>

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010

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 2010:

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, 2010

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 2010 budget was amended to increase expenditures in the 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.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010.

At December 31, 2010, the carrying amount of the City's deposits, including component units, was \$446,472. The bank balance totaled \$447,515. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,879 was covered by FDIC insurance and the remaining \$196,636 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Composition of Cash Balance

The cash balance consisted of the following at December 31, 2010:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Amount on deposit with financial institutions			
Checking	\$ 445,593	879	446,472

5. COMPLIANCE WITH KANSAS STATUTES

Management is not aware of any statutory violations occurring in the year ended December 31, 2010.

6. LONG-TERM DEBT

2010 Refunding

During the year ended December 31, 2010, the City issued General Obligation Refunding Bonds, Series A-2010, in the principal amount of \$1,540,000. Proceeds from the issue were used to retire higher interest rate general obligation debt at call dates occurring in 2010. \$1,590,000 in general obligation debt was retired through this current refunding transaction.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG-TERM DEBT (Continued)

Changes in the long-term liabilities for the City for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 12/31/09	Additions	Retirements	Balance 12/31/10	Interest Paid
<b>Temporary Improvement Notes:</b>									
Series 2000 A	3.10%	07/01/08	\$2,546,000	07/01/10	\$ 2,546,000	-	2,546,000	-	158,595
Series 2010 A	2.50%	05/01/10	2,700,000	05/01/12	-	2,700,000	-	2,700,000	-
					<u>2,546,000</u>	<u>2,700,000</u>	<u>2,546,000</u>	<u>2,700,000</u>	<u>158,595</u>
<b>General Obligation Bonds, including special assessments:</b>									
Series 1995 A	6.20-7.00%	02/01/95	338,766	09/01/10	35,000	-	35,000	-	2,240
Series 1997 A	4.35-6.50%	10/01/97	470,000	10/01/13	170,000	-	170,000	-	8,548
Series 1998 A	4.60-5.50%	09/01/98	300,000	09/01/14	130,000	-	130,000	-	6,362
Series 1999 A	4.20-7.00%	05/01/99	165,519	11/01/14	70,000	-	70,000	-	3,460
Series 2000 A	5.35-7.00%	05/01/00	652,540	11/01/15	335,000	-	335,000	-	19,108
Series 2000 B	4.50-5.50%	10/15/00	425,000	10/01/16	250,000	-	30,000	220,000	13,402
Series 2003 A	2.50-4.50%	06/30/03	1,483,099	08/31/18	980,000	-	980,000	-	35,002
Series 2006 A	3.80-5.75%	11/01/06	1,011,800	11/01/22	945,000	-	55,000	890,000	39,993
Series 2007 A	3.75-5.90%	05/15/07	1,496,077	11/01/27	1,410,000	-	60,000	1,350,000	63,770
Series 2008 A	4.00-6.00%	02/28/08	1,405,000	09/01/28	1,390,000	-	50,000	1,340,000	56,900
Series 2008 B	3.00-4.65%	09/15/08	575,000	09/15/28	575,000	-	-	575,000	47,995
Series 2010 A, Refunding	1.25-3.50%	08/18/10	1,540,000	09/01/18	-	1,540,000	-	1,540,000	-
					<u>6,290,000</u>	<u>1,540,000</u>	<u>1,915,000</u>	<u>5,915,000</u>	<u>296,780</u>
<b>Capital Lease Obligations:</b>									
Technology equipment	3.80%	05/14/10	22,000	05/14/13	-	22,000	-	22,000	-
Small dump truck	7.05%	05/18/07	48,445	05/18/11	19,958	-	9,644	10,314	1,408
2008 Dodge police vehicle	5.95%	07/07/08	22,600	07/07/11	7,525	-	7,525	-	448
					<u>27,483</u>	<u>22,000</u>	<u>17,169</u>	<u>32,314</u>	<u>1,856</u>
<b>Total Long-Term Debt</b>					<b>\$ 8,863,483</b>	<b>4,262,000</b>	<b>4,478,169</b>	<b>8,647,314</b>	<b>457,231</b>

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

	Year ending December 31								Total
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-Mat.	
<b>Principal</b>									
Temporary Improvement Notes	\$ -	2,700,000	-	-	-	-	-	-	2,700,000
General Obligation Bonds	475,000	495,000	505,000	480,000	445,000	1,690,000	1,210,000	615,000	5,915,000
Capital Lease Obligations	17,376	7,330	7,608	-	-	-	-	-	32,314
<b>Total principal</b>	<u>492,376</u>	<u>3,202,330</u>	<u>512,608</u>	<u>480,000</u>	<u>445,000</u>	<u>1,690,000</u>	<u>1,210,000</u>	<u>615,000</u>	<u>8,647,314</u>
<b>Interest</b>									
Temporary Improvement Notes	-	135,000	-	-	-	-	-	-	135,000
General Obligation Bonds	222,576	208,558	193,312	176,428	160,380	584,277	284,370	51,485	1,881,386
Capital Lease Obligations	1,574	568	291	-	-	-	-	-	2,433
<b>Total interest</b>	<u>224,150</u>	<u>344,126</u>	<u>193,603</u>	<u>176,428</u>	<u>160,380</u>	<u>584,277</u>	<u>284,370</u>	<u>51,485</u>	<u>2,018,819</u>
<b>Total principal and interest</b>	<b>\$ 716,526</b>	<b>3,546,456</b>	<b>706,211</b>	<b>656,428</b>	<b>605,380</b>	<b>2,274,277</b>	<b>1,494,370</b>	<b>666,485</b>	<b>10,666,133</b>

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

6. LONG-TERM DEBT (Continued)

Kechi Public Building Commission (KPBC) – Improvement Revenue Bonds

During 2004 and 2005, the KPBC issued Improvement Revenue Bonds in the principal amount of \$1,175,000. Proceeds from the bonds were 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.

During the year ended December 31, 2010, the City issued Series 2010 Refunding Bonds in the principal amount of \$745,000. Proceeds from the 2010 issue were used to retire the outstanding bonds remaining from the 2004 KPBC issue at the optional call date in 2010.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 45,000	40,205	85,205
2012	50,000	39,028	89,028
2013	60,000	37,552	97,552
2014	60,000	35,700	95,700
2015	65,000	33,630	98,630
2016-2020	330,000	131,300	461,300
2021-2025	350,000	51,525	401,525
2026	25,000	1,250	26,250
	<u>\$ 985,000</u>	<u>370,190</u>	<u>1,355,190</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 to 6% 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 6.14% at December 31, 2010. The City of Kechi contributions to KPERS for the years ending December 31, 2010, 2009 and 2008 were \$30,617, \$26,850 and \$22,577 respectively, equal to the statutory required contributions for each year.

City of Kechi, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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

2010 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>
Rock Pointe Addition	\$ 2,001,500	1,897,118	104,382

10. INTERFUND TRANSFERS

Operating transfers were as follows:

Transfer to:	Transfers from:				
	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Rock Pt.</u>	<u>Total</u>
Equipment Reserve	\$ 6,000	10,000	-	-	16,000
Capital Improvement	6,500	20,000	-	-	26,500
Bond & Interest	-	-	55,000	-	55,000
Waterworks Reserve	7,500	-	-	-	7,500
Gas	-	-	-	13,363	13,363
Gas Reserve	-	5,000	-	-	5,000
	<u>\$ 20,000</u>	<u>35,000</u>	<u>55,000</u>	<u>13,363</u>	<u>123,363</u>

11. MANAGEMENT'S DATE OF REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through April 7, 2011, which is the date at which the financial statements were available to be issued.