CITY OF BASEHOR, KANSAS

Financial Statements

For the Year Ended December 31, 2005

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City of Basehor, Kansas
Financial Statements
For the Year Ended December 31, 2005

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Mayor and City Council
City of Basehor, Kansas

We have audited the accompanying financial statements of the City of Basehor, Kansas (the City), as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Basehor, Kansas. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 in Note 1, the City of Basehor, Kansas prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other that accounting principles generally accepted in the United States of America.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Basehor, Kansas, as of December 31, 2005, or the respective changes in financial position for the year then ended.

Because of the inadequacy of internal controls, we were unable to form an opinion regarding the amount of building permit revenue in the financial statements for the year ended December 31, 2005, stated at $194,319 and included in General Fund Licenses and Permits.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had building permit revenue been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Basehor, Kansas, as of December 31, 2005, and its cash receipts and expenditures, for the year then ended on the basis of accounting described in Note 1.

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Mayor and City Council
City of Basehor, Kansas

In planning and performing our audit of the financial statements of the City for the year ended December 31, 2005, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated March 9, 2006, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. The City currently lacks adequate separation of physical control over cash and accounting control over cash in dealing with utility and municipal court receipts. In both functions, one person can enter the billing information into the computerized system, collect cash and record the cash receipt into the system. Proper cash controls provide that separate individuals be assigned to physical control and accounting control of cash receipt transactions.

2. Ordinance No. 275 directs that sales tax from a 1/2¢ sales tax (now 1¢) be deposited in the "Infrastructure Fund" and used for that purpose. Ordinance No. 8 (a.k.a. #299) directs the city portion of county 1¢ sales for same purpose. Currently, sales tax is deposited in the general fund and then transferred to consolidated highway and capital improvement funds the following year. This seems to follow the spirit of the ordinance but we recommend the use of the infrastructure fund for future receipts of sales tax. (2005 receipts should be transferred in 2006 to this new fund.)

3. We recommend the City Council approve accounting and internal control policies in the following areas:

   a. Proper accounting and internal control over accounts payable and payroll disbursements.
   b. Proper accounting and internal control for bank reconciliations.
   c. Requirement of the presentation of interim and final financial statements to the City Council by management.

4. An individual independent of the preparation of journal entries and wire transfers should review and approve the entries and transfers.

5. We recommend the City enforce the credit card policy requirement of supporting documentation for all charges and that an individual independent of the credit card charges should review and approve the supporting documentation for the individual charges. We also recommend that all City credit cards be stored in a secure location on City owned property.

This report is intended solely for the information and use of the mayor, city council and management of the City of Basehor, Kansas, and for filing with Kansas regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lowenthal, Singleton, Webb & Wilson

Professional Association

March 9, 2006

STATEMENT 1

City of Basehor, Kansas
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2005

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General	$ 697,797	$ -	$2,287,226	$ 1,777,643	$ 1,207,380	$ 28,795	$1,236,175
Special Revenue Funds:							
Special Parks and Recreation	109,787	-	34,536	52,466	91,857	-	91,857
Capital Improvements Reserve	264,321	-	216,895	131,310	349,906	-	349,906
Equipment Reserve	50,466	-	124,130	3,000	171,596	-	171,596
Consolidated Highway	247,741	-	306,082	210,371	343,452	-	343,452
Debt Service Fund:							
Bond and Interest	119,085	-	771,168	772,926	117,327	-	117,327
Capital Projects Funds:							
Road Improvements	830,072	-	227,316	28,147	1,029,241	-	1,029,241
Pinehurst Infrastructure	1,479,490	-	2,935,528	4,415,019	-	-	-
Cedar Lakes Maintenance	-	-	303,304	1,445	301,859	-	301,859
Enterprise Funds:							
Sewer	231,962	-	848,359	773,927	306,394	23,344	329,738
Solid Waste	29,051	-	121,229	116,641	33,639	15,588	49,227
Total	$ 4,059,772	$ -	$8,175,773	$ 8,282,895	$ 3,952,651	$ 67,727	$4,020,378

Composition of Cash:

First State Bank & Trust	
Checking	$ 124,448
Money Market	1,723,828
Certificates of Deposit	2,200,000
State of Kansas Pooled Money Investment Board	77,043
Outstanding Checks	[104,941]
Total	$4,020,378

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2005

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Positive [Negative]
General	$ 2,219,441	$ -	$ 2,219,441	$ 1,777,643	$ 441,798
Special Revenue Funds:					
Special Parks and Recreation	40,000	-	40,000	52,466	[12,466]
Capital Improvements Reserve	200,000	-	200,000	131,310	68,690
Equipment Reserve	8,000	-	8,000	3,000	5,000
Consolidated Highway	250,000	-	250,000	210,371	39,629
Debt Service Fund:					
Bond and Interest	885,081	-	885,081	772,926	112,155
Enterprise Funds:					
Sewer	1,159,089	-	1,159,089	773,927	385,162
Solid Waste	137,645	-	137,645	116,641	21,004

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-1

City of Basehor, Kansas
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 1,419,242	$ 1,372,671	$ 46,571
Intergovernmental	9,380	-	9,380
Licenses and permits	216,781	122,971	93,810
Fines and fees	167,882	140,400	27,482
Use of money and property	26,191	17,417	8,774
Reimbursed expenses	153,068	-	153,068
Miscellaneous	6,960	-	6,960
Transfers in	287,722	94,000	193,722
Total Cash Receipts	2,287,226	$ 1,747,459	$ 539,767
Expenditures and Transfers Subject to Budget			
General Government			
Personnel	255,113	$ 363,217	$ 108,104
Contractual services	421,469	266,645	[154,824]
Commodities	23,227	25,932	2,705
Capital outlay	5,167	11,300	6,133
Miscellaneous	35,967	33,472	[2,495]
Public Safety			
Personnel	277,562	266,772	[10,790]
Contractual services	75,120	58,575	[16,545]
Commodities	22,041	22,150	109
Capital outlay	2,830	2,500	[330]
Highways and Streets			
Personnel	67,878	81,608	13,730
Contractual services	30,857	35,785	4,928
Commodities	9,517	13,840	4,323
Capital outlay	655	3,000	2,345
Culture and Recreation			
Contractual services	1,268	4,235	2,967
Commodities	572	3,430	2,858
Transfers out	548,400	1,026,980	478,580
Total Expenditures and Transfers Subject to Budget	1,777,643	$ 2,219,441	$ 441,798
Receipts Over [Under] Expenditures	509,583		
Unencumbered Cash, Beginning	697,797		
Unencumbered Cash, Ending	$ 1,207,380		

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Special Parks and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 9,315	$ 13,750	$ [4,435]
Use of money and property	2,221	-	2,221
Fees	23,000	15,000	8,000
Total Cash Receipts	34,536	$ 28,750	$ 5,786
Expenditures and Transfers Subject to Budget			
Capital outlay	52,466	$ 40,000	$ [12,466]
Total Expenditures and Transfers Subject to Budget	52,466	$ 40,000	$ [12,466]
Receipts Over [Under] Expenditures	[17,930]		
Unencumbered Cash, Beginning	109,787		
Unencumbered Cash, Ending	$ 91,857		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-3

City of Basehor, Kansas
Capital Improvements Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Use of money and property	$ 4,195	$ 7,680	$ [3,485]
Transfers in	212,700	765,980	[553,280]
Total Cash Receipts	216,895	$ 773,660	$ [556,765]
Expenditures and Transfers Subject to Budget			
Contractual	29,350	$ -	$ [29,350]
Capital outlay	101,960	200,000	98,040
Total Expenditures and Transfers Subject to Budget	131,310	$ 200,000	$ 68,690
Receipts Over [Under] Expenditures	85,585		
Unencumbered Cash, Beginning	264,321		
Unencumbered Cash, Ending	$ 349,906		

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Equipment Reserve Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Use of money and property	$ 1,130	$ 1,765	$ [635]
Transfers in	123,000	6,000	117,000
Total Cash Receipts	124,130	$ 7,765	$ 116,365
Expenditures and Transfers Subject to Budget			
Capital outlay	3,000	$ 8,000	$ 5,000
Total Expenditures and Transfers Subject to Budget	3,000	$ 8,000	$ 5,000
Receipts Over [Under] Expenditures	121,130		
Unencumbered Cash, Beginning	50,466		
Unencumbered Cash, Ending	$ 171,596		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-5

City of Basehor, Kansas
Consolidated Highway Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 89,859	$ 79,072	$ 10,787
Use of money and property	3,523	-	3,523
Transfers in	212,700	255,000	[42,300]
Total Cash Receipts	306,082	$ 334,072	$ [27,990]
Expenditures and Transfers			
Contractual	192,809	$ 117,500	$ [75,309]
Personnel	1,184	-	[1,184]
Commodities	16,378	132,500	116,122
Total Expenditures and Transfers	210,371	$ 250,000	$ 39,629
Receipts Over [Under] Expenditures	95,711		
Unencumbered Cash, Beginning	247,741		
Unencumbered Cash, Ending	$ 343,452		

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Bond and Interest Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Taxes	$ 11,399	$ 7,302	$ 4,097
Use of money and property	3,264	3,511	[247]
Special assessments	306,505	324,079	[17,574]
Transfers in	450,000	450,000	-
Total Cash Receipts	771,168	$ 784,892	$ [13,724]
Expenditures and Transfers Subject to Budget			
Principal	342,638	$ 105,000	$ [237,638]
Interest and other charges	430,288	230,081	[200,207]
Other debt service	-	550,000	550,000
Total Expenditures and Transfers Subject to Budget	772,926	$ 885,081	$ 112,155
Receipts Over [Under] Expenditures	[1,758]		
Unencumbered Cash, Beginning	119,085		
Unencumbered Cash, Ending	$ 117,327		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-7

City of Basehor, Kansas
Road Improvements Fund*
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2005

Cash Receipts	
Taxes	$ 204,055
Use of money and property	23,261
Total Cash Receipts	227,316
Expenditures and Transfers	
Capital outlay	28,147
Total Expenditures and Transfers	28,147
Receipts Over [Under] Expenditures	199,169
Unencumbered Cash, Beginning	830,072
Unencumbered Cash, Ending	$ 1,029,241

*This fund is not required to be budgeted.

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Pinehurst Infrastructure Fund*
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2005

Cash Receipts	
Use of money and property	$ 33,085
Temporary note proceeds	2,840,000
Special assessment	62,443
Total Cash Receipts	2,935,528
Expenditures and Transfers	
Contractual services	9,683
Capital outlay	13,864
Transfer out	287,722
Temporary note payment	4,020,000
Interest and other charges	83,750
Total Expenditures and Transfers	4,415,019
Receipts Over [Under] Expenditures	[1,479,490]
Unencumbered Cash, Beginning	1,479,490
Unencumbered Cash, Ending	$ -

*This fund is not required to be budgeted.

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-9

City of Basehor, Kansas
Cedar Lakes Maintenance Fund*
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2005

Cash Receipts	
Charges to customers	$ 302,743
Use of money and property	561
Total Cash Receipts	303,304
Expenditures and Transfers Subject to Budget	
Contractual	1,445
Total Expenditures and Transfers Subject to Budget	1,445
Receipts Over [Under] Expenditures	301,859
Unencumbered Cash, Beginning	-
Unencumbered Cash, Ending	$ 301,859

*This fund is not required to be budgeted.

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Sewer Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Charges to customers	$ 749,919	$ 679,160	$ 70,759
Use of money and property	10,720	16,634	[5,914]
Loan proceeds	87,720	383,330	[295,610]
Transfers in	-	64,000	[64,000]
Total Cash Receipts	848,359	$ 1,143,124	$ [294,765]
Expenditures and Transfers Subject to Budget			
Personnel	117,907	$ 124,146	$ 6,239
Contractual	180,265	104,511	[75,754]
Commodities	20,321	26,602	6,281
Capital outlay	5,434	389,830	384,396
Transfers out	450,000	514,000	64,000
Total Expenditures and Transfers Subject to Budget	773,927	$ 1,159,089	$ 385,162
Receipts Over [Under] Expenditures	74,432		
Unencumbered Cash, Beginning	231,962		
Unencumbered Cash, Ending	$ 306,394		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-11

City of Basehor, Kansas
Solid Waste Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2005

	Actual	Budget	Variance Positive [Negative]
Cash Receipts			
Charges to customers	$ 120,428	$ 130,950	$ [10,522]
Use of money and property	801	-	801
Total Cash Receipts	121,229	$ 130,950	$ [9,721]
Expenditures and Transfers Subject to Budget			
Personnel	15,966	$ 16,537	$ 571
Contractual	97,683	106,886	9,203
Commodities	2,992	3,222	230
Transfers out	-	11,000	11,000
Total Expenditures and Transfers Subject to Budget	116,641	$ 137,645	$ 21,004
Receipts Over [Under] Expenditures	4,588		
Unencumbered Cash, Beginning	29,051		
Unencumbered Cash, Ending	$ 33,639		

The notes to the financial statements are an integral part of this statement.

City of Basehor, Kansas
Statement of Changes in Long Term Debt
For the Year Ended December 31, 2005

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year
General Obligation Bonds								
Street Repairs & Improvements	Various	11/01/93	$ 100,000	11/01/17	$ 20,000	$ -	$ 5,000	$ 15,000
Sewer District #12	Various	08/01/97	256,592	11/01/08	195,000	-	10,000	185,000
Improvements	Various	01/15/04	3,415,000	09/01/19	3,415,000	-	90,000	3,325,000
Series 2005	Various	08/15/05	2,840,000	09/01/25	-	2,840,000	-	2,840,000
					3,630,000	2,840,000	105,000	6,365,000
Temporary Notes								
Temporary Note - Series 2003B	2.50%	12/01/03	4,020,000	11/01/05	4,020,000	-	4,020,000	-
					4,020,000	-	4,020,000	-
Revolving Loan								
Kansas Department of Health & Environment	2.82%	09/01/00	7,192,600	03/01/20	6,949,756	87,720	237,638	6,799,838
					$14,599,756	$2,927,720	$4,362,638	$13,164,838

The notes to the financial statements are an integral part of this statement.

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Basehor, Kansas (the City), is a municipal corporation governed by an elected six-member council. The City has no component units.

Basis of Accounting

These financial statements are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets 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, temporary notes, and compensated absences are not presented in the financial statements.

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the City to use this statutory basis of accounting.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash 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.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The City's governmental fund types are:

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types (Continued)

Special Revenue Funds - are used to account for revenues derived from specific taxes, governmental grants or other revenue sources which are restricted to finance particular functions or activities of the City.

The Debt Service Fund is used to account for the accumulation of cash for, and the payment of, principal, interest and other related costs of the City's general obligation bonds.

The Capital Project Funds are used to account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body 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.

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 of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the city council 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 2005 budget was amended for the Consolidated Highway and Capital Improvements Reserve Funds.

The statutes permit transferring budgeted amounts between accounts 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 the statutory basis of accounting in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the City 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 capital projects funds, agency funds, and certain special revenue funds.

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

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 city council.

NOTE 2 - Deposits

The City's cash is considered to be active funds by management and is invested according to KSA 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate for active funds.

Various City investments are considered to be idle funds by management and are invested according to KSA 12-1675. The statute requires that at the City invest it's idle funds in only temporary notes of the City, bank certificates of deposit, repurchase agreements, and if eligible banks do not offer an acceptable rate for the funds: U.S. Treasury bills or notes, the Municipal Investment Pool (KMIP). Maturities of the above investments may not exceed two years by statute.

Some of the City's investments are of bond proceeds invested pursuant to KSA 10-131. This statute allows additional investment authority beyond that of KSA 12-1675. Investments of bond proceeds may follow KSA 12-1675 or include other investments such as the KMIP, direct obligations of the US government or any agency thereof, investment agreements with a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's investors service or Standard and Poor's corporation, and various other investments as specified in KSA 10-131.
At December 31, 2005, the City has the following investments:

Investment Type	Fair Value	Rating
Kansas Municipal Investment Pool	$ 77,043	S&P AAAF/S1+

The City does not have any formal investment policies that would further limit concentration of credit risk, interest rate, or custodial credit risks beyond state statutes.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402.

NOTE 3 - Retirement Plans

All employees employed by the City are entitled to enroll at the City Council's discretion, in a Deferred Compensation Plan, offered by AETNA Life insurance & Annuity Company or such other insurance company as may offer a plan approved by the Kansas Legislature pursuant to KSA 75-5522 et seq. and KSA 75-5529 et seq. For an employee who is employed at least 520 hours per year, the City shall contribute to the Plan an amount as specified according to the current maximum contribution to old age Social Security benefits. The payroll for employees covered by the Plan was $299,653. Total gross payroll was $579,157. The contribution for the year ending December 31, 2005 was $1,635 from employees and $34,416 from employer representing .5% and 12% of covered payroll, respectively.

The City participates in the Kansas Police and Firemen's Retirement System (KP&F) which is part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KP&F provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KP&F issues a publicly available financial report that includes financial statements and required

NOTE 3 - Retirement Plans (Continued)

supplementary information. Those reports may be obtained by writing to Kansas Public Employees Retirement System (KPERS); 611 South Kansas Avenue, Topeka, KS 66603.

K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% 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 rates be determined annually based on the results of an annual actuarial valuation. KP&F is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KP&F uniform participating employer rate established for fiscal years beginning in 2005 is 11.69%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City contributions to KP&F for the years ending December 31, 2005, 2004 and 2003 were $25,770, $17,153 and $11,496, respectively equal to the required contribution for each year.

NOTE 4 - Long-Term Debt

See Statement 4 for a summary of the changes in long term debt for the year ended December 31, 2005.

The annual debt service requirements to maturity for the general obligation bonds to be paid with tax levies:

Year Ending December 31,	Principal	Interest	Total Debt Service
2006	$ 280,000	$ 267,377	$ 547,377
2007	295,000	249,617	544,617
2008	310,000	236,491	546,491
2009	335,000	222,659	557,659
2010	345,000	208,088	553,088
2011 - 2015	1,940,000	818,140	2,758,140
2016 - 2020	1,920,000	406,765	2,326,765
2021 - 2025	940,000	118,608	1,058,608
Totals	$ 6,365,000	$ 2,527,745	$ 8,892,745

NOTE 5 - Sewer Improvement Loan

In September of 2000, the City entered into a loan agreement with the Kansas Department of Health and Environment to borrow up to $8,285,000 for sewer facility improvements. The City will repay this loan over a 20-year period ending in March, 2020. The gross interest rate being charged on this loan is 3.07 percent. Of this, 0.25 percent is a service fee for a net interest rate of 2.82 percent. See Statement 4 for a summary of the changes in this debt for the year ended December 31, 2005.

The City has yet to receive all of the proceeds on this loan and thus a final amortization schedule is not available at this time.

NOTE 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - Interfund Transfers

A reconciliation of all operating transfers by fund type for 2005 follows:

Fund	In	Out
General	$ 287,722	$ 548,400
Capital Improvements Reserve	212,700	-
Equipment Reserve	123,000	-
Bond and Interest	450,000	-
Consolidated Highway	212,700	-
Sewer	-	450,000
Pinehurst Infrastructure	-	287,722
	$ 1,286,122	$ 1,286,122

NOTE 8 - Restricted Cash

In an agreement with the developer of the Falcon Lakes subdivision dated February 20, 2001, the City agreed to restrict the use of the $2,405 per lot impact fee. This restriction limited the use of these funds to improvements to the perimeter roads (Donohoo Road, Hollingsworth Road and 147th Street). Of the $1,029,241 of unencumbered cash in the Road Improvements Fund as of December 31, 2005, $192,400 was subject to this restriction.

NOTE 9 - Related Party Transactions

During 2005, the City received the following amounts from certain elected officials for engineering services provided to companies with which the officials are connected:

Joseph Scherer, Mayor Up To April, 2005	$ 3,320
John Bonee, Council Member	10,376

NOTE 10 - Compliance With Kansas Statutes

Actual exceeded budgeted expenditures in the Special Parks and Recreation Fund which violates KSA 79-2935.