

CITY OF HESSTON, KANSAS

FINANCIAL STATEMENTS  
December 31, 2006

# PIERCE, FARIS & CO., CHARTERED

CERTIFIED PUBLIC ACCOUNTANTS

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June 1, 2007

## INDEPENDENT AUDITORS' REPORT

Mayor and City Council  
City of Hesston, Kansas

We have audited the accompanying financial statements of the City of Hesston, Kansas, as of and for the year ended December 31, 2006, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States, 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 in Note 1, the City of Hesston, 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 than accounting principles generally accepted in the United States. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States are described in Note 1.

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 in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the City of Hesston, Kansas, as of December 31, 2006, or changes in financial position for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances and the maturities of long-term debt of the City of Hesston, Kansas, as of December 31, 2006, and its cash receipts, expenditures, budgetary results, and changes in long-term debt for the year then ended, on the basis of accounting described in Note 1.

*Pierce, Faris & Co., Chartered*

Certified Public Accountants

CITY OF HESSTON, KANSAS

FINANCIAL STATEMENTS  
December 31, 2006

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*Pierce, Faris & Co., Chartered*

Certified Public Accountants

## CITY OF HESSTON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES  
AND UNENCUMBERED CASH - REGULATORY BASIS  
For the Year Ended December 31, 2006

Statement 1  
Page 1 of 3

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds						
General	\$ 492,761	\$ 1,415,765	\$ 1,397,668	\$ 510,858	\$ 37,052	\$ 547,910
Special revenue						
Library	5,246	281,330	281,715	4,861	386	5,247
Special highway	576,133	104,467	339,635	340,965	-	340,965
Emergency services	111,153	247,258	243,811	114,600	11,227	125,827
Fire equipment	2,714	56,096	6,916	51,894	-	51,894
Community service program	3,381	16,644	-	20,025	-	20,025
Capital improvement	147,318	30,000	177,250	68	-	68
Equipment reserve	441,195	130,652	164,712	407,135	-	407,135
Economic development	77,526	49,032	45,800	80,758	-	80,758
Special parks	1,162	1,289	-	2,451	-	2,451
Revolving loan	42,122	40,311	70,015	12,418	-	12,418

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

CITY OF HESSTON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES  
AND UNENCUMBERED CASH - REGULATORY BASIS  
For the Year Ended December 31, 2006

Statement 1  
Page 2 of 3

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Debt service						
Bond and interest	\$ 196,452	\$ 528,636	\$ 533,851	\$ 191,237	\$ -	\$ 191,237
Capital projects	214,779	3,301,984	2,986,899	529,864	216,035	745,899
Proprietary Type Funds						
Enterprise						
Utilities	1,124,135	4,205,545	3,942,860	1,386,820	31,557	1,418,377
Golf course	123,590	533,704	538,632	118,662	5,657	124,319
Utility maintenance reserve	890,501	-	162,041	728,460	-	728,460
Golf course maintenance reserve	87,496	100,000	115,196	72,300	-	72,300
Utility deposits	-	-	-	-	45,979	45,979
Total Primary Government	4,537,664	11,042,713	11,007,001	4,573,376	347,893	4,921,269
Component Unit						
Hesston public library	29,594	181,496	172,911	38,179	-	38,179
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 4,567,258</u>	<u>\$ 11,224,209</u>	<u>\$ 11,179,912</u>	<u>\$ 4,611,555</u>	<u>\$ 347,893</u>	<u>\$ 4,959,448</u>

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

## CITY OF HESSTON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH - REGULATORY BASIS  
For the Year Ended December 31, 2006Statement 1  
Page 3 of 3

## Composition of Cash:

Checking Accounts	
Citizen State Bank, Hesston, Kansas	\$ 1,074,793
Petty Cash	210
Certificates of Deposit	
Citizen State Bank, Hesston, Kansas	3,400,000
Component Unit	
Hesston Public Library	<u>38,179</u>
	4,513,182
Utility Accounts Receivable	<u>446,266</u>
Total Reporting Entity	<u>\$ 4,959,448</u>

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

## CITY OF HESSTON, KANSAS

SUMMARY OF EXPENDITURES - REGULATORY BASIS (ACTUAL AND BUDGET)  
(BUDGETED FUNDS ONLY)

For the Year Ended December 31, 2006

Statement 2

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Type Funds					
General	\$ 1,855,675	\$ 67,606	\$ 1,923,281	\$ 1,397,668	\$ 525,613
Special revenue					
Library	160,594	124,822	285,416	281,715	3,701
Special highway	686,069	-	686,069	339,635	346,434
Emergency services	289,627	1,136	290,763	243,811	46,952
Fire equipment	118,721	-	118,721	6,916	111,805
Community service program	20,020	-	20,020	-	20,020
Economic development	91,761	-	91,761	45,800	45,961
Special parks	-	-	-	-	-
Revolving loan	130,171	-	130,171	70,015	60,156
Debt service					
Bond and interest	696,515	-	696,515	533,851	162,664
Proprietary Funds					
Utilities	4,626,728	-	4,626,728	3,942,860	683,868
Golf course	699,750	-	699,750	538,632	161,118

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

CITY OF HESSTON, KANSAS  
GENERAL FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
(ACTUAL AND BUDGET)  
For the Year Ended December 31, 2006

Statement 3  
Page 1 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Taxes			
Ad valorem property tax	\$ 426,390	\$ 429,782	\$ (3,392)
Back tax collections	2,801	-	2,801
Motor vehicle tax	66,008	59,975	6,033
Sales tax	336,371	295,000	41,371
Alcohol taxes	<u>1,289</u>	<u>-</u>	<u>1,289</u>
Total taxes	<u>832,859</u>	<u>784,757</u>	<u>48,102</u>
Licenses, fees, permits			
Utility franchise tax	206,781	220,000	(13,219)
Miscellaneous permits and licenses	<u>17,106</u>	<u>24,025</u>	<u>(6,919)</u>
Total licenses and permits	<u>223,887</u>	<u>244,025</u>	<u>(20,138)</u>
Other receipts			
Fines, forfeitures and penalties	44,493	54,000	(9,507)
Interest on idle funds	189,024	100,000	89,024
Reimbursed expenses	67,606	-	67,606
Miscellaneous	18,440	18,500	(60)
Lease revenues	39,456	53,700	(14,244)
Operating transfers in	<u>-</u>	<u>120,000</u>	<u>(120,000)</u>
Total other receipts	<u>359,019</u>	<u>346,200</u>	<u>12,819</u>
Total cash receipts	<u>1,415,765</u>	<u>\$ 1,374,982</u>	<u>\$ 40,783</u>
<b>EXPENDITURES</b>			
General government:			
General administration	104,125	\$ 118,035	\$ 13,910
Legal service and engineering	10,540	17,000	6,460
Audit	<u>12,150</u>	<u>13,000</u>	<u>850</u>
Total general government	<u>126,815</u>	<u>148,035</u>	<u>21,220</u>

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

CITY OF HESSTON, KANSAS  
GENERAL FUND  
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
(ACTUAL AND BUDGET)  
For the Year Ended December 31, 2006

Statement 3  
Page 2 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES (CONTINUED)			
Public Safety			
Police	\$ 509,045	\$ 529,755	\$ 20,710
Fire	80,506	82,245	1,739
Municipal court	<u>33,590</u>	<u>33,000</u>	<u>(590)</u>
Total public safety	<u>623,141</u>	<u>645,000</u>	<u>21,859</u>
Highways and streets			
Streets	260,238	287,590	27,352
Street lighting	<u>40,383</u>	<u>40,000</u>	<u>(383)</u>
Total highways and streets	<u>300,621</u>	<u>327,590</u>	<u>26,969</u>
Culture and recreation			
Park	138,133	155,270	17,137
Cemetery	440	-	(440)
Tree board	2,971	5,000	2,029
Employee functions	<u>4,004</u>	<u>-</u>	<u>(4,004)</u>
Total culture and recreation	<u>145,548</u>	<u>160,270</u>	<u>14,722</u>
Economic development			
Community development	1,704	15,000	13,296
Chamber of Commerce	18,403	-	(18,403)
Industrial development	57,252	13,500	(43,752)
Lease/Purchase Gallaway's	<u>59,184</u>	<u>53,700</u>	<u>(5,484)</u>
Total economic development	<u>136,543</u>	<u>82,200</u>	<u>(54,343)</u>
Capital Improvements	<u>-</u>	<u>427,580</u>	<u>427,580</u>
Transfers Out	<u>65,000</u>	<u>65,000</u>	<u>-</u>
	1,397,668	1,855,675	458,007
Adjustment for qualifying budget credits	<u>-</u>	<u>67,606</u>	<u>67,606</u>
Total expenditures	<u>1,397,668</u>	<u>\$ 1,923,281</u>	<u>\$ 525,613</u>
RECEIPTS OVER (UNDER) EXPENDITURES	18,097		
UNENCUMBERED CASH BEGINNING	<u>492,761</u>		
UNENCUMBERED CASH ENDING	<u>\$ 510,858</u>		

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

## CITY OF HESSTON, KANSAS

LIBRARY FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 3 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Ad valorem property tax	\$ 135,226	\$ 136,301	\$ (1,075)
Back tax collections	867	-	867
Motor vehicle tax	20,415	19,046	1,369
Reimbursed expenses	<u>124,822</u>	<u>-</u>	<u>124,822</u>
 Total cash receipts	 <u>281,330</u>	 <u>\$ 155,347</u>	 <u>\$ 125,983</u>
<b>EXPENDITURES</b>			
Appropriations to Library Board	156,508	\$ 160,594	\$ 4,086
Payroll	<u>125,207</u>	<u>-</u>	<u>(125,207)</u>
	281,715	160,594	(121,121)
Adjustment for qualifying budget credit	<u>-</u>	<u>124,822</u>	<u>124,822</u>
 Total expenditures	 <u>281,715</u>	 <u>\$ 285,416</u>	 <u>\$ 3,701</u>
 RECEIPTS OVER (UNDER) EXPENDITURES	 (385)		
UNENCUMBERED CASH BEGINNING	<u>5,246</u>		
UNENCUMBERED CASH ENDING	<u>\$ 4,861</u>		

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

CITY OF HESSTON, KANSAS  
 SPECIAL HIGHWAY FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 4 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
State payments	\$ 104,467	\$ 107,840	\$ (3,373)
EXPENDITURES			
Paving and materials	103,074	\$ -	\$ (103,074)
Street improvements	227,494	686,069	458,575
Sidewalk improvements	<u>9,067</u>	<u>-</u>	<u>(9,067)</u>
Total expenditures	<u>339,635</u>	<u>\$ 686,069</u>	<u>\$ 346,434</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(235,168)		
UNENCUMBERED CASH BEGINNING	<u>576,133</u>		
UNENCUMBERED CASH ENDING	<u>\$ 340,965</u>		

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

## CITY OF HESSTON, KANSAS

EMERGENCY SERVICES FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 5 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Intergovernmental	\$ 98,696	\$ 97,000	\$ 1,696
Charges for services	143,436	81,500	61,936
Miscellaneous	3,990	-	3,990
Reimbursed expenses	1,136	-	1,136
	<u>247,258</u>	<u>\$ 178,500</u>	<u>\$ 68,758</u>
<b>EXPENDITURES</b>			
Personal services	137,125	\$ 128,965	\$ (8,160)
Contractual services	24,855	25,250	395
Commodities	21,246	17,900	(3,346)
Capital outlay	4,415	117,512	113,097
Operating transfers out	55,000	-	(55,000)
Miscellaneous	1,170	-	(1,170)
	<u>243,811</u>	<u>289,627</u>	<u>45,816</u>
Adjustment for qualifying budget credit	<u>-</u>	<u>1,136</u>	<u>1,136</u>
Total expenditures	<u>243,811</u>	<u>\$ 290,763</u>	<u>\$ 46,952</u>
RECEIPTS OVER (UNDER) EXPENDITURES	3,447		
UNENCUMBERED CASH BEGINNING	<u>111,153</u>		
UNENCUMBERED CASH ENDING	<u>\$ 114,600</u>		

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

CITY OF HESSTON, KANSAS  
 FIRE EQUIPMENT FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
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	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Ad valorem property tax	\$ 32,254	\$ 32,506	\$ (252)
Back tax collections	210	-	210
Motor vehicle tax	4,966	4,541	425
Service agreements	<u>18,666</u>	<u>-</u>	<u>18,666</u>
 Total cash receipts	 56,096	 <u>\$ 37,047</u>	 <u>\$ 19,049</u>
<b>EXPENDITURES</b>			
Capital outlay	<u>6,916</u>	<u>\$ 118,721</u>	<u>\$ 111,805</u>
 RECEIPTS OVER (UNDER) EXPENDITURES	 49,180		
 UNENCUMBERED CASH BEGINNING	 <u>2,714</u>		
 UNENCUMBERED CASH ENDING	 <u>\$ 51,894</u>		

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

CITY OF HESSTON, KANSAS  
 COMMUNITY SERVICE PROGRAM FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 7 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Ad valorem property tax	\$ 14,343	\$ 14,454	\$ (111)
Back tax collections	94	-	94
Motor vehicle tax	<u>2,207</u>	<u>2,018</u>	<u>189</u>
 Total cash receipts	 16,644	 <u>\$ 16,472</u>	 <u>\$ 172</u>
<b>EXPENDITURES</b>			
Contractual services	<u>-</u>	<u>\$ 20,020</u>	<u>\$ 20,020</u>
 RECEIPTS OVER (UNDER) EXPENDITURES	 16,644		
 UNENCUMBERED CASH BEGINNING	 <u>3,381</u>		
 UNENCUMBERED CASH ENDING	 <u>\$ 20,025</u>		

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

CITY OF HESSTON, KANSAS  
 ECONOMIC DEVELOPMENT FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 8 of 16

	2006 Actual	2006 Budget	Variance Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Transient guest tax	\$ 24,032	\$ 28,000	\$ (3,968)
Operating transfers in	25,000	-	25,000
Total cash receipts	49,032	\$ 28,000	\$ 21,032
<b>EXPENDITURES</b>			
Contractual services	42,481	\$ 28,000	\$ (14,481)
Commodities	65	63,761	63,696
Economic development	3,254	-	(3,254)
Total expenditures	45,800	\$ 91,761	\$ 45,961
RECEIPTS OVER (UNDER) EXPENDITURES	3,232		
UNENCUMBERED CASH BEGINNING	77,526		
UNENCUMBERED CASH ENDING	\$ 80,758		

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CITY OF HESSTON, KANSAS  
 SPECIAL PARKS FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 9 of 16

	2006 Actual	2006 Budget	Variance Favorable (Unfavorable)
CASH RECEIPTS			
Miscellaneous	\$ 1,289	\$ -	\$ 1,289
EXPENDITURES			
Miscellaneous	-	-	-
RECEIPTS OVER (UNDER) EXPENDITURES	1,289		
UNENCUMBERED CASH BEGINNING	1,162		
UNENCUMBERED CASH ENDING	\$ 2,451		

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

CITY OF HESSTON, KANSAS  
 REVOLVING LOAN FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 10 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
CASH RECEIPTS			
Loan repayments	\$ 40,311	\$ 36,500	\$ 3,811
EXPENDITURES			
Loan disbursements	70,000	\$ 130,171	\$ 60,171
Miscellaneous	<u>15</u>	<u>-</u>	<u>(15)</u>
Total expenditures	<u>70,015</u>	<u>\$ 130,171</u>	<u>\$ 60,156</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(29,704)		
UNENCUMBERED CASH BEGINNING	<u>42,122</u>		
UNENCUMBERED CASH ENDING	<u>\$ 12,418</u>		

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

CITY OF HESSTON, KANSAS  
 BOND AND INTEREST FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 11 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Ad valorem property tax	\$ 159,281	\$ 160,549	\$ (1,268)
Back tax collections	1,509	-	1,509
Motor vehicle tax	24,513	22,413	2,100
Special assessments	211,333	211,401	(68)
Operating transfers in	<u>132,000</u>	<u>120,000</u>	<u>12,000</u>
Total cash receipts	<u>528,636</u>	<u>\$ 514,363</u>	<u>\$ 14,273</u>
<b>EXPENDITURES</b>			
Bond principal	403,000	\$ 403,000	\$ -
Interest coupons	130,815	130,815	-
Cash basis reserve	-	162,200	162,200
Miscellaneous	<u>36</u>	<u>500</u>	<u>464</u>
Total expenditures	<u>533,851</u>	<u>\$ 696,515</u>	<u>\$ 162,664</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(5,215)		
UNENCUMBERED CASH BEGINNING	<u>196,452</u>		
UNENCUMBERED CASH ENDING	<u>\$ 191,237</u>		

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

## CITY OF HESSTON, KANSAS

UTILITIES FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 12 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Charges for service	\$ 4,168,458	\$ 3,826,800	\$ 341,658
Connection fees	6,478	5,000	1,478
Miscellaneous	<u>30,609</u>	<u>27,000</u>	<u>3,609</u>
Total cash receipts	<u>4,205,545</u>	<u>\$ 3,858,800</u>	<u>\$ 346,745</u>
<b>EXPENDITURES</b>			
Personal services	554,002	\$ 564,080	\$ 10,078
Contractual services	388,200	371,120	(17,080)
Commodities	2,643,407	2,448,395	(195,012)
Capital outlay	95,251	810,133	714,882
Maintenance reserve transfer	100,000	158,000	58,000
Operational fund transfers	<u>162,000</u>	<u>275,000</u>	<u>113,000</u>
Total expenditures	<u>3,942,860</u>	<u>\$ 4,626,728</u>	<u>\$ 683,868</u>
RECEIPTS OVER (UNDER) EXPENDITURES	262,685		
UNENCUMBERED CASH BEGINNING	<u>1,124,135</u>		
UNENCUMBERED CASH ENDING	<u>\$ 1,386,820</u>		

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

## CITY OF HESSTON, KANSAS

GOLF COURSE FUND  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 (ACTUAL AND BUDGET)  
 For the Year Ended December 31, 2006

Statement 3  
 Page 13 of 16

	<u>2006 Actual</u>	<u>2006 Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<b>CASH RECEIPTS</b>			
Charges for service	\$ 483,716	\$ 521,000	\$ (37,284)
Miscellaneous	19,988	26,200	(6,212)
Franchise fee	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Total cash receipts	<u>533,704</u>	<u>\$ 577,200</u>	<u>\$ (43,496)</u>
<b>EXPENDITURES</b>			
Personal services	194,352	\$ 187,396	\$ (6,956)
Contractual services	251,549	248,285	(3,264)
Commodities	68,739	78,900	10,161
Capital outlay	512	185,169	184,657
Lease payments	23,524	-	(23,524)
Reimbursed expenditures	<u>(44)</u>	<u>-</u>	<u>44</u>
Total expenditures	<u>538,632</u>	<u>\$ 699,750</u>	<u>\$ 161,118</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(4,928)		
UNENCUMBERED CASH BEGINNING	<u>123,590</u>		
UNENCUMBERED CASH ENDING	<u>\$ 118,662</u>		

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

CITY OF HESSTON, KANSAS  
 ENTERPRISE NONBUDGETED FUNDS  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2006

Statement 3  
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	<u>Utility Reserve</u>	<u>Golf Course Maintenance Reserve</u>
CASH RECEIPTS		
Operational transfers in	\$ -	\$ 100,000
EXPENDITURES		
Equipment	-	115,196
Improvements	<u>162,041</u>	<u>-</u>
Total expenditures	<u>162,041</u>	<u>115,196</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(162,041)	(15,196)
UNENCUMBERED CASH BEGINNING	<u>890,501</u>	<u>87,496</u>
UNENCUMBERED CASH ENDING	<u>\$ 728,460</u>	<u>\$ 72,300</u>

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

CITY OF HESSTON, KANSAS  
 SPECIAL REVENUE NONBUDGETED FUNDS  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2006

Statement 3  
 Page 15 of 16

	<u>Capital Improvement</u>	<u>Equipment Reserve</u>
CASH RECEIPTS		
Miscellaneous	\$ -	\$ 35,652
Operating transfers in	<u>30,000</u>	<u>95,000</u>
Total cash receipts	<u>30,000</u>	<u>130,652</u>
EXPENDITURES		
Capital outlay	<u>177,250</u>	<u>164,712</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(147,250)	(34,060)
UNENCUMBERED CASH BEGINNING	<u>147,318</u>	<u>441,195</u>
UNENCUMBERED CASH ENDING	<u>\$ 68</u>	<u>\$ 407,135</u>

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

CITY OF HESSTON, KANSAS

CAPITAL PROJECTS NONBUDGETED FUNDS  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2006

Statement 3  
 Page 16 of 16

	Neufeld Drive	Unruh Addition	Grasslands	Windover	Farmington	West Embers	Schwalter	South Meadows	Harvest	Other
<b>CASH RECEIPTS</b>										
Temporary note proceeds	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ 1,022,000	\$ -	\$ 396,000	\$ 394,000	\$ -
Special assessments	-	-	-	-	61,984	-	-	-	-	-
Bond proceeds	-	14,309	243,054	734,345	123,301	-	162,991	-	-	-
Total cash receipts	<u>150,000</u>	<u>14,309</u>	<u>243,054</u>	<u>734,345</u>	<u>185,285</u>	<u>1,022,000</u>	<u>162,991</u>	<u>396,000</u>	<u>394,000</u>	<u>-</u>
<b>EXPENDITURES</b>										
Construction	114,870	(1,878)	106,571	19,802	69,545	929,617	(24,454)	85,797	232,388	(191)
Legal	478	193	3,172	9,604	2,436	3,352	3,209	1,520	1,568	-
Interest	-	-	8,242	27,473	9,456	-	6,534	-	-	-
Bond fees	-	215	3,646	11,015	1,849	-	2,445	-	-	-
Temporary note payment	-	-	222,000	740,000	220,425	-	176,000	-	-	-
Total expenditures	<u>115,348</u>	<u>(1,470)</u>	<u>343,631</u>	<u>807,894</u>	<u>303,711</u>	<u>932,969</u>	<u>163,734</u>	<u>87,317</u>	<u>233,956</u>	<u>(191)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	34,652	15,779	(100,577)	(73,549)	(118,426)	89,031	(743)	308,683	160,044	191
UNENCUMBERED CASH BEGINNING	<u>(3,281)</u>	<u>(15,779)</u>	<u>102,377</u>	<u>73,549</u>	<u>121,627</u>	<u>(64,079)</u>	<u>743</u>	<u>(269)</u>	<u>-</u>	<u>(109)</u>
UNENCUMBERED CASH ENDING	<u>\$ 31,371</u>	<u>\$ -</u>	<u>\$ 1,800</u>	<u>\$ -</u>	<u>\$ 3,201</u>	<u>\$ 24,952</u>	<u>\$ -</u>	<u>\$ 308,414</u>	<u>\$ 160,044</u>	<u>\$ 82</u>

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

CITY OF HESSTON, KANSAS  
 HESSTON PUBLIC LIBRARY  
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS  
 For the Year Ended December 31, 2006

	Statement 4
	Actual
<b>CASH RECEIPTS</b>	
City appropriations	\$ 156,508
Fines and donations	9,126
Grants	14,000
Interest	1,467
Miscellaneous	395
Total cash receipts	181,496
<b>EXPENDITURES</b>	
Equipment and furniture	1,968
Maintenance	2,951
Payroll	124,672
Supplies and materials	27,914
Utilities	5,837
Miscellaneous	9,569
Total expenditures	172,911
RECEIPTS OVER (UNDER) EXPENDITURES	8,585
UNENCUMBERED CASH BEGINNING	29,594
UNENCUMBERED CASH ENDING	\$ 38,179

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

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CITY OF HESSTON, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Reporting Entity**

The City of Hesston, Kansas is a municipal corporation governed by an elected mayor and five-member council. These financial statements present the City of Hesston (the primary government) and its component unit. The component unit is included in the City's reporting entity because of the significance of its financial relationship with the City.

**Discretely Presented Component Unit**

The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City of Hesston. The Library is governed by a board, all appointees of which are approved by the City Mayor. The Library is not a separate taxing entity under Kansas statutes, and the City levies taxes for the Library operation, which represents a significant portion of its total revenues.

**Basis of Presentation - Fund Accounting**

The accounts of the City of Hesston, Kansas are organized on the basis of funds, each of which is considered a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The following types of funds comprise the financial activities of the City for the year of 2006:

**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 project funds-to account for the financial resources segregated for the acquisition or construction of major capital facilities and improvements.

Debt service funds-to account for the accumulation of resources for and the payment of, interest and principal on general long-term debt.

**Proprietary Funds**

Enterprise funds-to account for operations that are financed and operated in a manner similar to private business enterprises-where the stated intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges-or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

## CITY OF HESSTON, KANSAS

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Statutory Basis of Accounting**

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Revenues are recognized when received rather than when they are earned and certain expenditures are recorded when paid rather than when they are incurred. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures and encumbrances 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, 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. General fixed assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. The required balance sheet, income statement, and the statement of cash flows are not presented for proprietary fund types. Accounting principles generally accepted in the United States require these fund types to be accounted for by the full accrual method of accounting.

The City has obtained a waiver from accounting principles generally accepted in the United States which allows the municipality to revert to the statutory basis of accounting.

**Interest Income**

Unless otherwise designated, all investment income is credited to the general fund.

**Compensated Absences**

The City's policies regarding vacation and sick leave permit employees to accumulate a maximum of 20 days vacation and 120 days sick leave. Policies prohibit payment of vacation time in lieu of time off and all accumulated vacation pay is payable upon employment termination. Policy prohibits payment of unused sick pay upon termination by the City. However, certain long-time employees have been grandfathered into the City's policy, and once 120 sick days have been accrued, additional sick days accrued are put into a sick bank at a rate of 1/4<sup>th</sup> day per month. These grandfathered employees will be paid for sick leave earned in excess of 120 days upon termination.

**Use of Estimates**

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Reimbursed Expenditures**

The City's records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

CITY OF HESSTON, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets

Kansas statutes require that an annual operating budget be legally adopted for all funds (including debt service and enterprise funds) unless exempted by specific statute. The statutes provided for the following sequence and timetable in adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1 of each year.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

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 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 the modified accrual basis of accounting modified further by the encumbrance method 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. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for equipment and building reserve funds, capital projects funds and the following special revenue funds:

Spending in funds which are not subject to the legal annual operating budget requirement are maintained by the review and internal appropriation process established by management.

Taxes levied to finance the budget become a lien against all property November 1<sup>st</sup>. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20<sup>th</sup> and May 10<sup>th</sup>. These taxes are made available to the city after January 1<sup>st</sup> and are distributed by the county treasurer generally in the months of January and June. Delinquent tax collections are distributed throughout the year.

CITY OF HESSTON, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of this pool is displayed on the Summary of Cash Receipts, Expenditures and Unencumbered Cash. The cash balances of certain funds are restricted as to their use.

K.S.A. 9-1401 established 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 other policies 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.

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. All deposits were legally secured at December 31, 2006.

Deposits

At year-end the carrying amount of the City's deposits, including certificates of deposit was \$4,512,972. The bank balance was \$4,476,463. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance \$100,000 was covered by FDIC insurance and the remaining \$4,376,463 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

CITY OF HESSTON, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2006

NOTE 3 –LONG -TERM DEBT

Terms for long-term liabilities for the City of Hesston for the year ended December 31, 2006 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
General obligation bonds:				
Series 1993	4.40% to 5.50%	06/01/93	\$ 590,000	06/01/08
Series 2000	4.90% to 5.625%	03/01/00	1,135,000	09/01/10
Series 2002A	1.55% to 3.45%	11/01/02	2,080,000	12/01/11
Series 2002B	1.70% to 4.80%	11/01/02	338,716	12/01/23
Series 2004A	2.50% to 4.70%	07/01/04	658,000	09/01/25
Series 2006	3.70% to 4.40%	09/01/06	1,278,000	09/01/26
Capital Leases:				
Fire equipment	5.070%	04/13/99	65,872	03/13/06
Restaurant	3.660%	09/13/01	495,000	12/01/14
Golf course improvements	4.755%	12/07/01	371,000	12/07/11
Sewer improvements	3.500%	06/01/03	130,000	06/01/08
Automatic meter reader	6.348%	12/15/05	165,715	12/15/15
Temporary Notes:				
Series 2006 A	3.550%	03/01/06	1,172,000	03/01/08
Series 2006 B	3.900%	09/07/06	790,000	09/07/08

Principal payments are due annually for general obligation bonds on December 1 for the series 2002A bonds, and 2002B bonds, June 1 for the series 1993 bonds, and September 1 for the series 2000 bonds, 2004 bonds, and 2006 bonds. Interest payments are due semi-annually on June 1 and December 1 for the series 1993 bonds, 2002A bonds, 2002B bonds, and March 1 and September 1 for the series 2000 bonds, 2004 bonds, and 2006 bonds.

Conduit debt

The City has issued Industrial Revenue bonds not directly obligated by the City. The total amount outstanding at December 31, 2006 was \$68,543,286, for the Industrial Revenue Bonds. These bonds do not constitute an indebtedness or pledge of the faith and credit of the responsible entities or the City.

CITY OF HESSTON, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006

NOTE 3 – LONG TERM DEBT (continued)

Changes in long-term liabilities for the City of Hesston for the year ended December 31, 2006, were as follows:

Issue	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General obligation bonds:					
Series 1993	\$ 75,000	\$ -	\$ 25,000	\$ 50,000	\$ 3,388
Series 2000	410,000	-	75,000	335,000	21,056
Series 2002A	1,770,000	-	260,000	1,510,000	52,450
Series 2002B	320,000	-	15,000	305,000	12,360
Series 2004A	658,000	-	28,000	630,000	41,563
Series 2006	-	1,278,000	-	1,278,000	-
Capital Leases:					
Fire equipment	1,855	-	1,855	-	12
Restaurant	453,237	-	43,318	409,919	15,867
Golf course improvements	243,105	-	243,105	-	11,139
Sewer improvements	67,814	-	26,422	41,392	2,144
Automatic meter reader	165,715	-	12,368	153,347	10,167
Temporary Notes:					
Series 2005 B	1,138,000	-	1,138,000	-	42,249
Series 2005 A	220,425	-	220,425	-	9,456
Series 2006 A	-	1,172,000	-	1,172,000	-
Series 2006 B	-	790,000	-	790,000	-
Total Bonded Indebtedness	5,523,151	3,240,000	2,088,493	6,674,658	221,851
Compensated absences	50,955	7,081	-	58,036	-
Total Long-Term Debt	<u>\$ 5,574,106</u>	<u>\$ 3,247,081</u>	<u>\$ 2,088,493</u>	<u>\$ 6,732,694</u>	<u>\$ 221,851</u>

CITY OF HESSTON, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2006

## NOTE 3 – LONG-TERM DEBT (continued)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Principal			Interest			TOTAL PRINCIPAL & INTEREST
	General Obligation Bonds	Capital Leases	Temporary Notes	General Obligation Bonds	Capital Leases	Temporary Notes	
2007	\$ 478,000	\$ 85,439	\$ 1,962,000	\$ 154,134	\$ 24,848	\$ 72,416	\$ 2,776,837
2008	485,000	74,629	-	138,844	21,374	72,416	792,263
2009	500,000	63,214	-	122,846	18,506	-	704,566
2010	530,000	65,957	-	105,152	15,763	-	716,872
2011	455,000	68,828	-	85,656	12,893	-	622,377
2012-2016	600,000	246,591	-	300,143	21,104	-	1,167,838
2017-2021	440,000	-	-	190,034	-	-	630,034
2022-2026	620,000	-	-	70,336	-	-	690,336
<b>TOTAL</b>	<b>\$ 4,108,000</b>	<b>\$ 604,658</b>	<b>\$ 1,962,000</b>	<b>\$ 1,167,145</b>	<b>\$ 114,488</b>	<b>\$ 144,832</b>	<b>\$ 8,101,123</b>

## NOTE 4 – REVOLVING LOANS

The City has a revolving loan fund to loan money to local businesses. Balances of note receivables at year end are as follows:

Date of Loan	Company	Original Loan Amount	Interest Rate	Original Terms in years	Balance Due at 12/31/2006
2006	Emma Creek Co	30,000	5.75%	5 years	\$ 26,927
2006	Hesston Chiropractic	40,000	5.75%	10 years	38,243
2004	Sunflower Patch	23,000	3.00%	10 years	4,408
2004	Super Catering and Bakery	10,000	3.00%	10 years	4,140
2004	Stone Creek Nursery	40,000	3.00%	10 years	18,265
2004	Hesston Hospitality LLC	100,000	3.00%	10 years	60,772
2004	Ledford Hospitality	192,597	3.00%	10 years	184,414
Total notes receivable					<b>\$ 337,169</b>

CITY OF HESSTON, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2006

NOTE 5 – INTERFUND TRANSFERS

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Utility fund	Bond and interest fund	K.S.A. 12-825D	\$ 132,000
Utility fund	Economic development fund	K.S.A. 12-825D	25,000
Utility fund	Capital improvement reserve fund	K.S.A. 12-1, 117	5,000
Utility fund	Golf course maintenance reserve fund	K.S.A. 12-825D	100,000
General fund	Capital improvement reserve fund	K.S.A. 12-1, 117	25,000
General fund	Equipment reserve fund	K.S.A. 12-1, 117	40,000
Emergency service fund	Equipment reserve fund	K.S.A. 12-1, 117	55,000
			<u>\$ 382,000</u>

NOTE 6 - CAPITAL PROJECTS

At year-end, capital project authorizations with approved change orders compared with expenditures from inceptions are as follows:

	Expenditures 12/31/06	Project Authorization
South Meadows project	\$ 129,180	\$ 396,000
Windover project	734,345	740,000
Harvest project	233,956	417,375
Schowalter project	162,991	243,919
Farmington project	182,084	220,429
Grasslands 2 project	241,254	273,000
West Embers project	997,048	1,156,000
Unruh Addition project	14,094	150,000
Neufeld Drive project	118,629	150,000

At December 31, 2006, the City is in the early phase of substantial improvement to its water system. The project which the City anticipates being let for construction in 2007 with a completion date of 2008 is estimated to cost in excess of \$2,000,000. The funding for the project is expected to be through the state's revolving loan fund and the loan will be repaid with system revenues.

NOTE 7 - DEFERRED COMPENSATION PLAN

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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NOTE 8 - RISK MANAGEMENT

The City is subject to certain risks such as torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined with other cities in the State to form the Kansas Municipal Insurance Trust (KMIT) which is a public entity risk pool. The City pays an annual premium for workmen's compensation to KMIT. KMIT is self-sustaining through member premiums. Additional premiums may be due if total losses for the pool are different than what has been anticipated by KMIT management. If the pool fails, the City may be required to pay its own obligations. Other risks are covered by commercial insurance purchased from third parties. There have been no significant reductions in insurance coverage from the prior year and there have been no settled claims in excess of insurance coverage for the prior three years.

NOTE 9 – CONCENTRATIONS

One customer accounts for approximately 45% of the City's utility fund revenue.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

*Plan description.* The City of Hesston participates in 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 established 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 South Kansas Avenue, Suite 100, Topeka, KS 66603-3803, 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 for 2006, 2005, and 2004 were 4.71%, 4.11%, and 3.52%, respectively. The City of Hesston employer contributions to KPERS for the years ending December 31, 2006, 2005, and 2004 were \$56,235, \$45,986, and \$39,182, respectively, equal to the required contributions for each year.

NOTE 11 – SUBSEQUENT EVENT

On May 14, 2007, the City approved the issuance of general obligation bonds totaling \$1,754,000. The proceeds of the bonds will be used to retire temporary improvement notes outstanding at December 31, 2006.