



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

CITY OF DE SOTO, KANSAS

**FINANCIAL STATEMENT
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2016**

CITY OF DE SOTO, KANSAS
 FINANCIAL STATEMENT
 WITH SUPPLEMENTARY INFORMATION
 REGULATORY BASIS

Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of De Soto, Kansas:

Report on the Financial Statement

We have audited the summary statement of regulatory basis receipts, expenditures, and unencumbered cash of the City of De Soto, Kansas (the City) as of and for the year ended December 31, 2016 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 2; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

An Independently Owned Member, RSM US Alliance

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statement, the financial statement is prepared by the City on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does 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, 2016, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2016, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 2.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (the basic financial statement) as a whole. The schedules listed under supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 2.

Berberich Trahan & Co., P.A.

April 11, 2017
Topeka, Kansas

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CITY OF DE SOTO, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND
UNENCUMBERED CASH
REGULATORY BASIS

Year Ended December 31, 2016

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances
General fund	\$ 861,179	\$ -
Special purpose funds:		
Law enforcement	28,802	-
Special highway	4,383	-
Special parks and recreation	7,031	-
Transient guest tax	19,054	-
Sponsorship	12,804	-
Water development fee	20,608	-
Sewer development fee	21,550	-
Electric utility investment	1,542,884	-
Enhancement community fountain	990	-
Bond and interest fund	556,523	-
Capital project funds:		
Capital projects	59,870	-
Capital improvements	3,304,362	-
CDBG	-	-
Business funds:		
Water system	615,715	-
Sewer system	245,005	-
Refuse system	28,812	-
Shop	(2,561)	-
Shughart trust fund	23,412	-
	<u>7,350,423</u>	<u>-</u>
Total reporting entity (excluding agency fund)	<u>\$ 7,350,423</u>	<u>\$ -</u>

See accompanying notes to financial statement.

Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
\$ 3,409,268	\$ 3,344,151	\$ 926,296	\$ 48,292	\$ 974,588
459,437	453,153	35,086	112,863	147,949
160,707	150,000	15,090	-	15,090
25,997	23,000	10,028	-	10,028
24,830	21,000	22,884	-	22,884
3,941	1,030	15,715	-	15,715
34,700	30,000	25,308	-	25,308
21,800	20,000	23,350	-	23,350
73,125	648,759	967,250	-	967,250
-	-	990	-	990
1,856,496	1,570,415	842,604	-	842,604
137,825	20,263	177,432	-	177,432
1,460,213	3,010,526	1,754,049	-	1,754,049
94,194	94,194	-	-	-
1,578,031	1,257,962	935,784	8,265	944,049
466,326	442,760	268,571	1,340	269,911
418,924	406,828	40,908	-	40,908
105,400	103,930	(1,091)	1,237	146
249	-	23,661	-	23,661
<u>\$ 10,331,463</u>	<u>\$ 11,597,971</u>	<u>\$ 6,083,915</u>	<u>\$ 171,997</u>	<u>\$ 6,255,912</u>

Composition of cash

Great American Bank:	
Checking accounts	\$ 130,782
ICS (insured cash sweep)	2,742,853
Certificates of deposit	3,069,177
Tri-Century Bank - checking account	345,641
Kansas Municipal Investment Pool	<u>15</u>
Total cash	6,288,468
Agency fund per Schedule 3	<u>(32,556)</u>
Total reporting entity (excluding agency fund)	<u>\$ 6,255,912</u>

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT

December 31, 2016

1 - Municipal Financial Reporting Entity

The City of De Soto, Kansas (the City) is a municipal corporation governed by a mayor and five-member council. The basic financial statement presents the City as the primary government. The City has no related municipal entities.

2 - Summary of Significant Accounting Policies

(a) Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

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 regulatory basis of accounting.

(b) Regulatory Basis Fund Types

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.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(b) Regulatory Basis Fund Types (Continued)

The following regulatory basis fund types comprise the financial activities of the City for the year ended December 31, 2016:

General Fund is used to account for the general operations of the City and is used to account for all unrestricted resources except those required to be accounted for in other funds.

Special Purpose Funds are used to account for the proceeds of specific tax levies and other specific revenue sources (other than major capital projects and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund is used to account for the accumulation of resources, including tax levies, transfers from other funds, and payment of general long-term debt.

Capital Project Funds are used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Funds are financed in whole or in part by fees charged to users of the goods or services.

Shughart Trust Fund is used to report assets held in trust for the benefit of the City.

Agency Funds are used to report assets held by the City in a purely custodial capacity.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(c) Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), the bond and interest fund, and business funds. Although directory rather than mandatory, 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 on or before August 5th of the proposed budget and notice of public hearing on the budget.
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 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 City had no budget amendments for the year ended December 31, 2016.

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 budgeted fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory 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 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 certain special purpose funds, capital project funds, trust funds, or agency funds.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(c) Budgetary Information (Continued)

Spending in funds which are not subject to the legal annual operating budget requirements are controlled by Federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

All budgets must be filed with the County Clerk by August 25th. The County Clerk must calculate the final tax levy rates necessary to finance the budget subject to any legal limitations. After all budgets have been received and tax rates calculated, the County Clerk certifies the tax roll to the County Treasurer, who prepares tax statements and receives payment.

These taxes become a lien against all property on November 1st. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20th and May 10th. Delinquent taxes are assessed interest at 12% per annum. This interest is retained by the County.

Taxes levied to finance the budget are made available to the City after January 1st and are distributed by the County Treasurer approximately every month and a half. At least 50% of the taxes levied are available in January. Delinquent tax collections are distributed throughout the year.

The County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the City, is on or before January 20th of the ensuing year. Additional amounts are distributed on four subsequent dates throughout the calendar year.

(d) Annual Personal and Sick Leave Benefits

Under the terms of the City's personnel policy, City employees are granted annual personal and sick leave in varying amounts.

Full-time employees accrue vacation each year at the following rates:

- One to four years of service – ten days
- Five to nine years of service – fifteen days
- Ten to fourteen years of service – twenty days
- Fifteen to nineteen years of service – twenty-five days
- Twenty or more years of service – thirty days

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

(d) Annual Personal and Sick Leave Benefits (Continued)

Employees cannot carry over more than one half of the annual entitlement for the year in which it was earned. Upon termination or resignation, an employee on regular status shall be compensated for all authorized accumulated unused vacation leave.

(e) Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase.

(f) Use of Estimates

The preparation of the financial statement in compliance with the regulatory basis requires management to make estimates and assumptions that affect the reported amounts of encumbrances at the date of the financial statement and the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

3 - 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, or in an adjoining county if such institution has been designated as an official depository, 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 KMIP). The City has no investment policy that would further limit its investment choices.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

3 - Deposits and Investments (Continued)

Some of the City's investments are of bond proceeds invested pursuant to K.S.A. 10-131. This statute allows additional investment authority beyond that of K.S.A. 12-1675. Investments of bond proceeds may follow K.S.A. 12-1675 or include other investments such as the KMIP, direct obligations of the U.S. government or any agency thereof, and various other investments as specified in K.S.A. 10-131.

At December 31, 2016, the City has the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
Kansas Municipal Investment Pool	<u>\$ 15</u>	S&P AA Af/S1+

The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

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. The City's investments were composed of KMIP deposits as of the fiscal year ended December 31, 2016.

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. Kansas statutes require the deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City.

At December 31, 2016, the City's carrying amount of deposits was \$ 6,288,468 and the bank balance was \$ 6,439,484. Of the bank balance, \$ 6,292,028 was covered by federal depository insurance and the remaining balance of \$ 147,456 was uncollateralized.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

3 - Deposits and Investments (Continued)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. At December 31, 2016, the City's investments were not exposed to custodial credit risk.

4 - Defined Benefit Pension Plan

Plan Description. The City 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 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 Avenue, Suite 100, Topeka, Kansas 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6.00% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1.00% contribution rate through March 31, 2016 for the Death and Disability Program) and the statutory contribution rate was 9.18% for the fiscal year ended December 31, 2016. Contributions to the pension plan from the City were \$ 144,345 for the year ended December 31, 2016.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

4 - Defined Benefit Pension Plan (Continued)

Net Pension Liability

At December 31, 2016, the City's proportionate share of the collective net pension liability reported by KPERS was \$ 1,430,322. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in the basic financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

CITY OF DE SOTO, KANSAS
NOTES TO FINANCIAL STATEMENT
(Continued)

5 - Long-Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government activities.

Changes in long-term debt for the City for the year ended December 31, 2016 were as follows:

Issue	Interest Rates	Date of Issue	Date of Final Maturity	Original Amount Issued	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General obligation bonds:									
Series 2003 A	2.00% - 4.00%	4/15/2003	9/1/2017	\$ 1,180,000	\$ 55,000	\$ -	\$ 25,000	\$ 30,000	\$ 2,175
Series 2009 A	4.10% - 5.25%	4/14/2009	9/1/2039	1,320,000	1,320,000	-	-	1,320,000	65,191
Series 2010 A	1.00% - 4.30%	4/28/2010	9/1/2030	1,285,000	1,100,000	-	40,000	1,060,000	43,303
Series 2010 B	6.00%	4/28/2010	9/1/2035	710,000	710,000	-	-	710,000	42,600
Series 2010 C	6.50% - 7.00%	12/7/2010	9/1/2040	1,080,000	1,080,000	-	-	1,080,000	73,700
Series 2010 D	4.60%	12/7/2010	9/1/2027	85,000	85,000	-	-	85,000	3,910
Series 2012 A	2.00% - 3.30%	6/6/2012	9/1/2034	4,475,000	3,780,000	-	280,000	3,500,000	87,373
Series 2013 A	2.30% - 5.00%	9/19/2013	9/1/2043	1,015,000	975,000	-	20,000	955,000	44,025
Series 2015 A	2.00% - 4.00%	7/24/2015	9/1/2045	9,635,000	9,635,000	-	425,000	9,210,000	293,988
Series 2015 B	0.85% - 4.00%	7/31/2015	9/1/2035	1,765,000	1,765,000	-	75,000	1,690,000	49,150
					<u>\$ 20,505,000</u>	<u>\$ -</u>	<u>\$ 865,000</u>	<u>\$ 19,640,000</u>	<u>\$ 705,415</u>

CITY OF DE SOTO, KANSAS
NOTES TO FINANCIAL STATEMENT
(Continued)

5 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

	Year											
	2017	2018	2019	2020	2021	2022 - 2026	2027 - 2031	2032 - 2036	2037 - 2041	2042 - 2046	Total	
Principal:												
General obligation bonds:												
Series 2003 A	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Series 2009 A	-	-	-	-	45,000	250,000	320,000	405,000	300,000	-	-	1,320,000
Series 2010 A	40,000	40,000	45,000	45,000	45,000	320,000	525,000	-	-	-	-	1,060,000
Series 2010 B	-	-	-	-	-	-	125,000	585,000	-	-	-	710,000
Series 2010 C	-	-	-	-	-	-	305,000	400,000	375,000	-	-	1,080,000
Series 2010 D	-	-	-	-	-	60,000	25,000	-	-	-	-	85,000
Series 2012 A	285,000	325,000	330,000	335,000	305,000	1,325,000	375,000	220,000	-	-	-	3,500,000
Series 2013 A	20,000	20,000	20,000	20,000	20,000	125,000	160,000	195,000	255,000	120,000	-	955,000
Series 2015 A	430,000	435,000	440,000	445,000	450,000	2,390,000	2,580,000	720,000	675,000	645,000	-	9,210,000
Series 2015 B	75,000	75,000	75,000	75,000	80,000	425,000	490,000	395,000	-	-	-	1,690,000
Total principal	880,000	895,000	910,000	920,000	945,000	4,895,000	4,905,000	2,920,000	1,605,000	765,000	-	19,640,000
Interest:												
General obligation bonds:												
Series 2003 A	\$ 1,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,200
Series 2009 A	65,191	65,191	65,191	65,191	65,191	296,490	232,074	144,561	32,026	-	-	1,031,106
Series 2010 A	42,263	41,063	39,783	38,253	36,655	156,113	57,455	-	-	-	-	411,585
Series 2010 B	27,690	27,690	27,690	27,690	27,690	138,450	138,450	58,696	-	-	-	474,046
Series 2010 C	40,536	40,536	40,536	40,536	40,536	202,680	183,550	119,276	36,834	-	-	745,020
Series 2010 D	3,910	3,910	3,910	3,910	3,910	19,550	1,150	-	-	-	-	40,250
Series 2012 A	81,773	76,073	69,573	62,973	56,273	180,888	65,413	15,675	-	-	-	608,641
Series 2013 A	43,565	43,105	42,645	42,185	41,725	194,625	165,138	123,988	69,500	9,000	-	775,476
Series 2015 A	285,488	276,888	268,188	259,388	250,488	1,012,240	627,190	300,840	203,532	63,744	-	3,547,986
Series 2015 B	48,513	47,875	46,938	46,000	44,500	192,475	126,025	37,850	-	-	-	590,176
Total interest	640,129	622,331	604,454	586,126	566,968	2,393,511	1,596,445	800,886	341,892	72,744	-	8,225,486
Total principal and interest	\$ 1,520,129	\$ 1,517,331	\$ 1,514,454	\$ 1,506,126	\$ 1,511,968	\$ 7,288,511	\$ 6,501,445	\$ 3,720,886	\$ 1,946,892	\$ 837,744	\$ -	\$ 27,865,486

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

5 - Long-Term Debt (Continued)

Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State of Kansas, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statement. As of December 31, 2016, there were two series of Industrial Revenue Bonds outstanding, with principal balances of \$ 3,500,000 and \$ 9,000,000.

6 - Interfund Transfers

A reconciliation of transfers by fund for 2016 follows:

From	To	Regulatory Authority	Amount
Water System Fund	General Fund	K.S.A. 12-825d	\$ 40,000
Water Development Fee Fund	Bond and Interest Fund	K.S.A. 12-825d	30,000
Sewer Development Fee Fund	Bond and Interest Fund	K.S.A. 12-825d	20,000
Capital Improvement Fund	Bond and Interest Fund	K.S.A. 12-825d	500,276
Water System Fund	Bond and Interest Fund	K.S.A. 12-825d	150,275
Sewer System Fund	Bond and Interest Fund	K.S.A. 12-825d	70,000
Special Highway Fund	Bond and Interest Fund	Bond Ord 2168	35,000
Capital Projects Fund	Bond and Interest Fund	Bond Ord 2168	20,000
General Fund	Capital Improvement Fund	K.S.A. 12-1118	591,653
Special Highway Fund	Capital Improvement Fund	K.S.A. 12-1118	115,000
Special Parks and Recreation Fund	Capital Improvement Fund	K.S.A. 12-1118	23,000
CDBG Fund	Capital Improvement Fund	K.S.A. 12-1118	94,194
Electric Utility Investment Fund	Capital Improvement Fund	K.S.A. 12-1118	480,434

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

7 - Other Post-Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in the basic financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

8 - Lease Agreement

The City continues to operate the water treatment plant at the former Sunflower Army Ammunition Plant, now owned by private developer Sunflower Redevelopment, LLC. The City's use is pursuant to a perpetual lease agreement dated July 29, 2005. Pursuant to a Real Estate Transfer Agreement dated July 29, 2005 between the City and Sunflower Redevelopment, LLC, the City will receive fee title interest to the treatment plant as soon as the land receives a CERCLA Covenant pursuant to 42 U.S.C. § 9620(h)(3)(A)(ii). The City initiated improvements to the water treatment plant site in 2010; the improvements included a back-up electrical generator, the installation of new electrical service to the plant, and a new water main leading from the plant to the City's distribution system. Construction was completed in 2011. The City, in conjunction with the City of Baldwin, the City of Wellsville, and the Douglas County Rural Water District #4, completed a broader water facilities study in 2012. The study evaluated the concept and costs of creating a regional wholesale water supply district. Proceeding with the creation of a regional wholesale water supply district does not appear feasible at the present time due to the City of Baldwin deciding not to participate.

9 - Interfund Balances

The Electric Utility Investment Fund has advanced money to the General Fund and Water Fund for the purchase of vehicles in the amount of \$ 507,240 which includes \$ 205,394 advanced during 2016. The General Fund and Water Fund paid the Electric Utility Investment Fund \$ 46,533 in 2016 for repayment of the vehicle advance. The balance of the advance remaining at December 31, 2016 was \$ 331,345.

CITY OF DE SOTO, KANSAS

NOTES TO FINANCIAL STATEMENT
(Continued)

10 - Commitments and Contingencies

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the basic financial statement as of December 31, 2016.

11 - 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 for which it carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have not been significant reductions in coverage from prior years.

SUPPLEMENTARY INFORMATION

CITY OF DE SOTO, KANSAS

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

Year Ended December 31, 2016

Fund	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General fund	\$ 3,626,713	\$ -	\$ 3,626,713	\$ 3,344,151	\$ (282,562)
Special purpose funds:					
Law enforcement	470,000	-	470,000	453,153	(16,847)
Special highway	150,000	-	150,000	150,000	-
Special parks and recreation	23,000	-	23,000	23,000	-
Transient guest tax	21,000	-	21,000	21,000	-
Sponsorship	3,000	-	3,000	1,030	(1,970)
Water development fee	30,000	-	30,000	30,000	-
Sewer development fee	20,000	-	20,000	20,000	-
Bond and interest fund	2,263,777	-	2,263,777	1,570,415	(693,362)
Business funds:					
Water system	1,423,720	-	1,423,720	1,257,962	(165,758)
Sewer system	498,585	-	498,585	442,760	(55,825)
Refuse system	440,400	-	440,400	406,828	(33,572)
Totals	<u>\$ 8,970,195</u>	<u>\$ -</u>	<u>\$ 8,970,195</u>	<u>\$ 7,720,299</u>	

CITY OF DE SOTO, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts and transfers:			
Property taxes	\$ 620,693	\$ 633,244	\$ 12,551
Sales and use taxes	1,260,950	1,388,263	127,313
Intergovernmental	12,000	13,290	1,290
Licenses and permits	29,500	95,989	66,489
Franchise fee	652,000	597,742	(54,258)
Charges for services	80,000	92,564	12,564
Use of money and property	61,100	63,754	2,654
Fines and fees	316,082	290,889	(25,193)
Miscellaneous	3,177	188,414	185,237
Interest income	6,000	5,119	(881)
Transfers in	40,000	40,000	-
	\$ 3,081,502	3,409,268	\$ 327,766
Expenditures, encumbrances, and transfers:			
Personal services	\$ 1,788,660	1,602,305	\$ (186,355)
Contractual services	808,450	785,081	(23,369)
Commodities	339,350	286,990	(52,360)
Capital outlay	98,600	78,122	(20,478)
Transfers out	591,653	591,653	-
	\$ 3,626,713	3,344,151	\$ (282,562)
Receipts and transfers over expenditures, encumbrances, and transfers		65,117	
Unencumbered cash, beginning		861,179	
Unencumbered cash, ending		\$ 926,296	

(Continued)

CITY OF DE SOTO, KANSAS

LAW ENFORCEMENT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Property taxes	\$ 451,558	\$ 459,437	\$ 7,879
Expenditures and encumbrances:			
Contractual services	\$ 466,000	453,153	\$ (12,847)
Capital outlay	4,000	-	(4,000)
Total expenditures and encumbrances	\$ 470,000	453,153	\$ (16,847)
Receipts over expenditures and encumbrances		6,284	
Unencumbered cash, beginning		28,802	
Unencumbered cash, ending		\$ 35,086	

(Continued)

CITY OF DE SOTO, KANSAS

SPECIAL HIGHWAY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS

(Continued)

Year Ended December 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Receipts:			
Intergovernmental	\$ <u>152,410</u>	\$ 160,707	<u>\$ 8,297</u>
Transfers:			
Transfers out	\$ <u>150,000</u>	<u>150,000</u>	<u>\$ -</u>
Receipts over transfers		10,707	
Unencumbered cash, beginning		<u>4,383</u>	
Unencumbered cash, ending		<u>\$ 15,090</u>	

(Continued)

CITY OF DE SOTO, KANSAS

SPECIAL PARKS AND RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Receipts:			
Intergovernmental	\$ 12,000	\$ 13,290	\$ 1,290
Charges for services	<u>10,850</u>	<u>12,707</u>	<u>1,857</u>
Total receipts	<u>\$ 22,850</u>	25,997	<u>\$ 3,147</u>
Transfers:			
Transfers out	<u>\$ 23,000</u>	<u>23,000</u>	<u>\$ -</u>
Receipts over transfers		2,997	
Unencumbered cash, beginning		<u>7,031</u>	
Unencumbered cash, ending		<u>\$ 10,028</u>	

(Continued)

CITY OF DE SOTO, KANSAS

TRANSIENT GUEST TAX FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Intergovernmental	\$ 21,000	\$ 24,830	\$ 3,830
Expenditures:			
Contractual services	\$ 21,000	21,000	\$ -
Receipts over expenditures		3,830	
Unencumbered cash, beginning		19,054	
Unencumbered cash, ending		\$ 22,884	

(Continued)

CITY OF DE SOTO, KANSAS

SPONSORSHIP FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Charges for services	\$ 3,300	\$ 3,941	\$ 641
Expenditures:			
Commodities	\$ 3,000	1,030	\$ (1,970)
Receipts over expenditures		2,911	
Unencumbered cash, beginning		12,804	
Unencumbered cash, ending		\$ 15,715	

(Continued)

CITY OF DE SOTO, KANSAS

WATER DEVELOPMENT FEE FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Receipts:			
Charges for services	<u>\$ 15,000</u>	\$ 34,700	<u>\$ 19,700</u>
Transfers:			
Transfers out	<u>\$ 30,000</u>	<u>30,000</u>	<u>\$ -</u>
Receipts over transfers		4,700	
Unencumbered cash, beginning		<u>20,608</u>	
Unencumbered cash, ending		<u>\$ 25,308</u>	

(Continued)

CITY OF DE SOTO, KANSAS

SEWER DEVELOPMENT FEE FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
 REGULATORY BASIS
 (Continued)

Year Ended December 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Receipts:			
Charges for services	<u>\$ 9,000</u>	\$ 21,800	<u>\$ 12,800</u>
Transfers:			
Transfers out	<u>\$ 20,000</u>	<u>20,000</u>	<u>\$ -</u>
Receipts over transfers		1,800	
Unencumbered cash, beginning		<u>21,550</u>	
Unencumbered cash, ending		<u>\$ 23,350</u>	

(Continued)

CITY OF DE SOTO, KANSAS

ELECTRIC UTILITY INVESTMENT FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts:	
Interest income	\$ 23,273
Charges for services	49,852
	73,125
Total receipts	73,125
Expenditures and transfers:	
Capital outlay	168,325
Transfers out	480,434
	648,759
Total expenditures and transfers	648,759
Receipts under expenditures and transfers	(575,634)
Unencumbered cash, beginning	1,542,884
Unencumbered cash, ending	\$ 967,250

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

ENHANCEMENT COMMUNITY FOUNTAIN FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Unencumbered cash, beginning	<u>\$ 990</u>
Unencumbered cash, ending	<u><u>\$ 990</u></u>

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

BOND AND INTEREST FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts and transfers:			
Taxes	\$ 1,001,402	\$ 970,778	\$ (30,624)
Miscellaneous	44,613	44,806	193
Interest income	5,000	6,044	1,044
Special assessments	107,654	9,317	(98,337)
Transfers in	439,614	825,551	385,937
Total receipts and transfers	\$ 1,598,283	1,856,496	\$ 258,213
Expenditures:			
Bond principal	\$ 865,000	865,000	\$ -
Interest expense	705,874	705,415	(459)
Cash basis reserve	620,505	-	(620,505)
Special assessments	72,398	-	(72,398)
Total expenditures	\$ 2,263,777	1,570,415	\$ (693,362)
Receipts and transfers over expenditures		286,081	
Unencumbered cash, beginning		556,523	
Unencumbered cash, ending		\$ 842,604	

(Continued)

CITY OF DE SOTO, KANSAS

CAPITAL PROJECTS FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts:	
Intergovernmental	<u>\$ 137,825</u>
Expenditures and transfers:	
Miscellaneous	263
Transfers out	<u>20,000</u>
Total expenditures and transfers	<u>20,263</u>
Receipts over expenditures and transfers	117,562
Unencumbered cash, beginning	<u>59,870</u>
Unencumbered cash, ending	<u><u>\$ 177,432</u></u>

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

CAPITAL IMPROVEMENTS FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts and transfers:	
Intergovernmental	\$ 155,932
Transfers in	<u>1,304,281</u>
Total receipts and transfers	<u>1,460,213</u>
Expenditures and transfers:	
Capital outlay	2,510,250
Transfer out	<u>500,276</u>
Total expenditures and transfers	<u>3,010,526</u>
Receipts and transfers under expenditures and transfers	(1,550,313)
Unencumbered cash, beginning	<u>3,304,362</u>
Unencumbered cash, ending	<u>\$ 1,754,049</u>

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

CDBG FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts:		
Grant proceeds	\$	94,194
Transfers:		
Transfers out		<u>94,194</u>
Receipts over transfers		-
Unencumbered cash, beginning		<u>-</u>
Unencumbered cash, ending	\$	<u><u>-</u></u>

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

WATER SYSTEM FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Sales to consumers	\$ 1,417,266	\$ 1,578,031	\$ 160,765
Expenditures, encumbrances, and transfers:			
Personal services	503,876	532,679	28,803
Contractual services	404,300	276,862	(127,438)
Commodities	313,600	246,477	(67,123)
Capital outlay	11,669	11,669	-
Transfer out	190,275	190,275	-
Total expenditures, encumbrances, and transfers	\$ 1,423,720	1,257,962	\$ (165,758)
Receipts over expenditures, encumbrances, and transfers		320,069	
Unencumbered cash, beginning		615,715	
Unencumbered cash, ending		\$ 935,784	

(Continued)

CITY OF DE SOTO, KANSAS

SEWER SYSTEM FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Charges for services	\$ 480,403	\$ 466,326	\$ (14,077)
Expenditures, encumbrances, and transfers:			
Personal services	\$ 142,435	141,039	\$ (1,396)
Capital outlay	-	1,644	1,644
Contractual services	203,000	178,191	(24,809)
Commodities	83,150	51,886	(31,264)
Transfers out	70,000	70,000	-
Total expenditures, encumbrances, and transfers	\$ 498,585	442,760	\$ (55,825)
Receipts over expenditures, encumbrances, and transfers		23,566	
Unencumbered cash, beginning		245,005	
Unencumbered cash, ending		\$ 268,571	

(Continued)

CITY OF DE SOTO, KANSAS

REFUSE SYSTEM FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

	Budget	Actual	Variance Over (Under)
Receipts:			
Sales to consumers	\$ 441,794	\$ 418,924	\$ (22,870)
Expenditures:			
Contractual services	\$ 440,400	406,828	\$ (33,572)
Receipts over expenditures		12,096	
Unencumbered cash, beginning		28,812	
Unencumbered cash, ending		\$ 40,908	

(Continued)

CITY OF DE SOTO, KANSAS

SHOP FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts:	
Charges for services	<u>\$ 105,400</u>
Expenditures and encumbrances:	
Commodities	100,780
Contractual services	2,652
Capital outlay	<u>498</u>
Total expenditures and encumbrances	<u>103,930</u>
Receipts over expenditures and encumbrances	1,470
Unencumbered cash, beginning	<u>(2,561)</u>
Unencumbered cash, ending	<u><u>\$ (1,091)</u></u>

* This fund is not required to be budgeted.

(Continued)

CITY OF DE SOTO, KANSAS

SHUGHART TRUST FUND*

SCHEDULE OF RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL
REGULATORY BASIS
(Continued)

Year Ended December 31, 2016

Receipts:		
Interest income	\$	249
Unencumbered cash, beginning		<u>23,412</u>
Unencumbered cash, ending	\$	<u><u>23,661</u></u>

* This fund is not required to be budgeted.

CITY OF DE SOTO, KANSAS

AGENCY FUNDS

SUMMARY OF RECEIPTS AND DISBURSEMENTS
REGULATORY BASIS

Year Ended December 31, 2016

Fund	Beginning Cash Balance	Receipts	Disbursements	Ending Cash Balance
IRB fund	\$ 3,058	\$ 21,000	\$ 4,529	\$ 19,529
Municipal court fund	14,838	15,950	17,761	13,027
	<u>\$ 17,896</u>	<u>\$ 36,950</u>	<u>\$ 22,290</u>	<u>\$ 32,556</u>