

CITY OF HESSTON, KANSAS

DECEMBER 31, 2016

CITY OF HESSTON, KANSAS

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council City of Hesston, Kansas

We have audited the accompanying regulatory basis summary statement of receipts, expenditures, and unencumbered cash of City of Hesston, 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 the financial statement in accordance with the regulatory basis of accounting provisions permitted in the Kansas Municipal Audit and Accounting Guide (KMAAG), as described in Note 1, to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for preparing the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' 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 KMAAG. 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 the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 reasonable basis for our audit opinion.

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

As described in Note 1 of the financial statement, the financial statement is prepared by the City on the basis of the financial reporting provisions permitted in KMAAG, 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 1 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

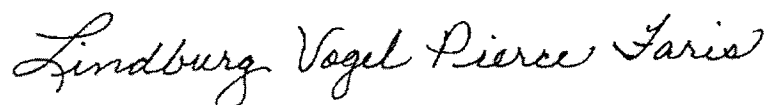
In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2016, or the respective changes in financial position or where applicable, its changes in cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to in the first paragraph 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 permitted in KMAAG described in Note 1.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of receipts, expenditures, and unencumbered cash – regulatory basis (basic financial statement) as a whole. The summary of expenditures – regulatory basis – actual and budget, the individual fund schedules of receipts and expenditures – regulatory basis – actual and budget, and the schedule of receipts and expenditures – related municipal entity (Schedules 1 through 3, as listed in the table of contents) are presented for additional analysis and are not a required part of the basic financial statement; however, they are required to be presented under the provisions in KMAAG. 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 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 1.



Certified Public Accountants

Hutchinson, Kansas
May 12, 2017

CITY OF HESSTON, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
REGULATORY BASIS
For Year Ended December 31, 2016

Page 1 of 2

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
GENERAL FUND	\$ 884,466	\$ 2,200,191	\$ 2,146,878	\$ 937,779	\$ 11,225	\$ 949,004
SPECIAL PURPOSE FUND						
Library	2,096	355,023	353,528	3,591	-	3,591
Special Highway	279,315	126,634	107,270	298,679	-	298,679
Emergency Services	99,083	406,522	390,329	115,276	947	116,223
Fire Equipment	209,036	106,244	148,456	166,824	-	166,824
Community Service Program	41,390	21,872	13,992	49,270	-	49,270
Economic Development	57,605	25,000	10,269	72,336	80	72,416
Special Parks	1,233	447	-	1,680	-	1,680
Transient Guest Tax	-	43,218	43,218	-	-	-
Special Law Enforcement	461	24,968	24,636	793	-	793
Revolving Loan	65,093	32,705	-	97,798	-	97,798
Public Building Commission	65,203	65,000	65,203	65,000	-	65,000
Library Maintenance	22,779	-	22	22,757	-	22,757
Capital Improvement	1,783,449	698,756	1,236,685	1,245,520	-	1,245,520
Equipment Reserve	676,172	230,790	122,617	784,345	6,084	790,429
BOND AND INTEREST FUND						
Bond and Interest	249,729	549,793	619,707	179,815	-	179,815
CAPITAL PROJECTS	116,151	2,870,509	2,881,188	105,472	3,230	108,702
BUSINESS FUNDS						
Utilities	2,824,736	3,078,611	3,418,232	2,485,115	75,707	2,560,822
Utility Deposits	-	-	-	-	59,991	59,991
Utility Maintenance Reserve	1,706,046	300,000	584,076	1,421,970	-	1,421,970
Golf Course	62,795	540,006	515,104	87,697	5,691	93,388
Golf Course Maintenance Reserve	104,351	239,210	273,640	69,921	-	69,921
TOTAL PRIMARY GOVERNMENT	9,251,189	11,915,499	12,955,050	8,211,638	162,955	8,374,593
RELATED MUNICIPAL ENTITY						
Hesston Public Library	76,920	285,490	280,740	81,670	-	81,670
TOTAL REPORTING ENTITY	<u>\$ 9,328,109</u>	<u>\$ 12,200,989</u>	<u>\$ 13,235,790</u>	<u>\$ 8,293,308</u>	<u>\$ 162,955</u>	<u>\$ 8,456,263</u>

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

CITY OF HESSTON, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
REGULATORY BASIS
For Year Ended December 31, 2016

Page 2 of 2

COMPOSITION OF CASH

Checking accounts	
Citizen State Bank, Hesston, Kansas	\$ 8,373,883
Petty cash	710
Related municipal entity	
Hesston Public Library	<u>81,670</u>
TOTAL COMPOSITION OF CASH	<u>\$ 8,456,263</u>

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

CITY OF HESSTON, KANSAS
NOTES TO THE FINANCIAL STATEMENT
December 31, 2016

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Hesston, Kansas (the City), is a municipal corporation governed by an elected mayor and five-member council. This financial statement presents the City of Hesston (the municipality) and its related municipal entity, the Hesston Public Library. The related municipal entity discussed below is included in the City's reporting entity because of its operational or financial relationship with the City:

Related Municipal Entity

The Hesston Public 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.

Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Kansas Municipal Audit and Accounting Guide Regulatory Basis of Presentation Fund Definitions

The following types of funds comprise the financial activities of the City for the year of 2016:

General Fund – to account for all unrestricted resources except those required to be accounted for in another fund.

Special Purpose 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.

Bond and Interest Funds – to account for the accumulation of resources for and the payment of, interest and principal on general long-term debt.

Business 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.

Regulatory Basis of Accounting and Departures from Generally Accepted Accounting Principles

The regulatory basis of accounting as prescribed in the Kansas Municipal Audit and Accounting Guide (KMAAG) 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 reporting the changes in unencumbered cash and investments of a fund resulting from the regulatory basis receipts 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 municipality to use the regulatory basis of accounting.

Interest Income

Unless otherwise designated, all investment income is credited to the General Fund.

Use of Estimates

The process of preparing the financial statement 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 statement. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reimbursed Expenditures

The City 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.

Related Party Transactions

A Council member is an owner of an insurance agency that provides insurance to the City for property, liability, and workers' compensation. Premiums for this insurance coverage are on terms equivalent to those that prevail in arm's-length transactions.

Budgets

Kansas statutes require that an annual operating budget be legally adopted for all funds (including Bond and Interest and Business Funds) unless exempted by specific statute. Although directory rather than mandatory, the statutes provide 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 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts 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. There were no such amended budgets prepared 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.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts 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 Reserve Fund, Capital Improvement Fund, Building and Maintenance Reserve Funds, Revolving Loan Fund, Special Law Enforcement Fund, Public Building Commission Fund, and Capital Projects Funds.

Spending in funds which are not subject to the legal annual operating budget requirement, is 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. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20 and May 10. These taxes are made available to the City after January 1 and are distributed by the County Treasurer generally in the months of January and June. Delinquent tax collections are distributed throughout the year.

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 statement of 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 Federal Deposit Insurance Corporation (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 FDIC 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, 2016.

Deposits

At December 31, 2016, the carrying amount of the City's deposits was \$8,373,883. The bank balance was \$8,383,880. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$8,133,880 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

At December 31, 2016, the carrying amount of the related municipal entity's deposits, including certificates of deposit, was \$81,670. The bank balance was \$84,123, which was covered by FDIC insurance. The bank balance was held by one bank resulting in a concentration of credit risk.

NOTE 3—LONG-TERM DEBT

Terms for long-term debt for the City at December 31, 2016, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity
General Obligation Bonds and Public Building Commission Revenue Bonds				
Series 2009	3.000% to 4.850%	11/15/09	\$ 1,621,000	08/01/30
Series 2013	1.600% to 2.350%	02/15/13	1,875,000	08/01/26
Series 2014A	2.000% to 3.000%	07/01/14	2,180,000	09/01/26
Series 2016	2.000% to 3.000%	01/26/16	1,745,000	10/01/36
Public Building Commission				
Series 2010	1.500% to 4.750%	03/01/10	855,000	09/01/30
Series 2016	2.000% to 3.000%	06/30/16	5,555,000	09/01/36
Capital Leases				
Land	5.150%	09/01/14	158,000	09/01/24
Golf carts	2.950%	02/12/16	239,200	02/15/21
Golf turf maintenance equipment	3.400%	12/01/16	197,100	12/01/22
KDHE Loan				
KWPCRF project #C20 1960 01	2.160%	03/05/13	3,327,705	03/01/34

On June 30, 2016, the City's Public Building Commission issued \$5,555,000 bonds on behalf of the Hesston Recreation Commission for construction of a sports complex and swimming pool. The Hesston Recreation Commission will make rental payments to the City's Public Building Commission sufficient to pay the principal and interest on this debt.

Conduit Debt

The City has issued Industrial Revenue Bonds not directly obligated by the City. The total amount outstanding at December 31, 2016, was \$194,196,283 for the Industrial Revenue Bonds. These bonds do not constitute an indebtedness or pledge of the faith and credit of the City.

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

Issue	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General Obligation and Revenue Bonds					
Series 2009	\$ 1,395,000	\$ -	\$ 65,000	\$ 1,330,000	\$ 92,404
Series 2013	1,470,000	-	195,000	1,275,000	41,891
Series 2014A	2,150,000	-	175,000	1,975,000	50,413
Series 2016	-	1,745,000	-	1,745,000	-
Public Building Commission					
Series 2010	715,000	-	35,000	680,000	30,203
Series 2016	-	5,555,000	-	5,555,000	-
Temporary Improvement Notes					
Series 2014	1,353,000	-	1,353,000	-	3,721
Capital Leases					
Land	146,221	-	13,126	133,095	7,382
Golf carts	-	239,200	37,411	201,789	5,528
Golf turf maintenance equipment	-	197,100	-	197,100	-
KDHE Loan					
KWPCRF project #C20 1960 01	2,876,021	-	123,897	2,752,124	61,457
Total Bonded Indebtedness	\$ 10,105,242	\$ 7,736,300	\$ 1,997,434	\$ 15,844,108	\$ 292,999

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 and Interest
	G.O. and PBC Bonds	Capital Leases	KDHE Loan	G.O. and PBC Bonds	Capital Leases	KDHE Loan	
2017	\$ 570,000	\$ 90,172	\$ 126,588	\$ 391,440	\$ 18,455	\$ 58,766	\$ 1,255,421
2018	720,000	93,308	129,337	349,980	15,319	56,017	1,363,961
2019	750,000	96,559	132,146	333,570	12,068	53,208	1,377,551
2020	765,000	99,916	135,015	316,163	8,711	50,338	1,375,143
2021	785,000	60,005	137,948	298,482	5,684	47,406	1,334,525
2022-2026	4,150,000	92,024	735,996	1,160,462	6,094	190,773	6,335,349
2027-2031	2,715,000	-	819,460	586,258	-	107,309	4,228,027
2032-2036	2,105,000	-	535,634	193,200	-	20,428	2,854,262
	\$ 12,560,000	\$ 531,984	\$ 2,752,124	\$ 3,629,555	\$ 66,331	\$ 584,245	\$ 20,124,239

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 12/31/16
2009	Panda Kitchen	\$ 25,000	3.00%	10 Years	\$ 2,571
2013	Weaver Grocers, LLC	120,000	3.00%	10 Years	97,875
2012	Skoops, LLC	56,800	3.00%	10 Years	32,867
2012	Hesston Hospitality, L.L.C.	35,000	3.00%	10 Years	178,375
					<u>\$ 311,688</u>

NOTE 5—INTERFUND TRANSFERS

Operating transfers were as follows:

From Fund	To Fund	Statutory Authority	Amount
Utilities	Utility Maintenance Reserve	K.S.A. 12-825d	\$ 300,000
Utilities	Capital Improvement	K.S.A. 12-825d	450,000
Utilities	Golf	K.S.A. 12-825d	115,000
Utilities	Economic Development	K.S.A. 12-825d	25,000
Utilities	Emergency Services	K.S.A. 12-825d	25,000
Utilities	Bond and Interest	City ordinance	75,000
Special Highway	Bond and Interest	Bond payment	25,000
Utility Maintenance Reserve	Capital Projects	K.S.A. 12-825d	250,000
Capital Improvement	Capital Projects	K.S.A. 12-1,118	801,000
General	Equipment Reserve	K.S.A. 12-1,117	160,000
General	Capital Improvement	K.S.A. 12-1,118	50,000
General	Public Building Commission	K.S.A. 12-1,118	65,000
Emergency Services	Equipment Reserve	K.S.A. 12-1,117	50,000
Capital Projects	Bond and Interest	Bond ordinance	21,466

NOTE 6—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. City contributions to the plan for 2016 were \$18,924.

NOTE 7—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. These 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 8—CONCENTRATIONS

One customer accounts for approximately 30.00% of the City's Utilities Fund revenue.

NOTE 9—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. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution 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 establishes the KPERS member-employee contribution rate at 6.00% of covered salary for KPERS 1, KPERS 2, or 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.

Kansas law provides that employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined annually based on the results of an annual actuarial valuation. The actuarially determined employer contribution rate (excluding the contribution rate for the Death and Disability program) and the statutory contribution rate for KPERS was 9.18% for the year ended December 31, 2016. Contributions to the pension plan from the City for KPERS were \$158,805 for the year ended December 31, 2016.

Net Pension Liability

At December 31, 2016, KPERS has determined the City's proportionate share of the collective net pension liability for KPERS was \$1,519,198. The net pension liability was measured as of June 30, 2016 and the total pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The City's share of the allocation is based on the ratio of the City's employer contributions, relative to the total employer and non-employer contributions for the plan groups the City participates in. Because the regulatory basis of accounting under Kansas Municipal Audit and Accounting Guide (KMAAG) does not recognize long-term debt, this liability is not reported in the 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 publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

NOTE 10—OTHER LONG-TERM LIABILITIES

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 of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Compensated Absences

The City's policies regarding vacation and sick leave permit employees to accumulate a maximum of 20 day's 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.

NOTE 11—COMMITMENTS

Neighborhood Revitalization Program

The City participates in a neighborhood revitalization program as allowed by K.S.A. 12-17,114 et seq. Under the program, participants are provided a rebate of ad valorem taxes paid based on the increase in assessed valuation attributable to improvements made by the taxpayer after being approved for participation in the neighborhood revitalization program. For the year ended December 31, 2016, the City's share of tax rebates totaled \$6,529.

CITY OF HESSTON, KANSAS

SUMMARY OF EXPENDITURES - REGULATORY BASIS (ACTUAL AND BUDGET)
 (BUDGETED FUNDS ONLY)
 For Year Ended December 31, 2016

Schedule 1

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General	\$ 3,528,621	\$ -	\$ 3,528,621	\$ 2,146,878	\$ (1,381,743)
Library	204,270	149,291	353,561	353,528	(33)
Special Highway	288,375	-	288,375	107,270	(181,105)
Emergency Services	541,523	-	541,523	390,329	(151,194)
Fire Equipment	314,487	-	314,487	148,456	(166,031)
Community Service Program	59,230	-	59,230	13,992	(45,238)
Economic Development	83,513	-	83,513	10,269	(73,244)
Special Parks	486	-	486	-	(486)
Transient Guest Tax	81,366	-	81,366	43,218	(38,148)
Bond and Interest	1,094,505	-	1,094,505	619,707	(474,798)
Utilities	8,492,883	15,458	8,508,341	3,418,232	(5,090,109)
Golf Course	569,117	5,545	574,662	515,104	(59,558)

CITY OF HESSTON, KANSAS

GENERAL FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Taxes			
Ad valorem property tax	\$ 704,336	\$ 701,604	\$ 2,732
Delinquent tax	3,870	5,000	(1,130)
Motor vehicle tax	107,261	91,918	15,343
Recreational vehicle tax	1,162	756	406
16/20M vehicle tax	255	349	(94)
Commercial vehicle registration fees	-	6,022	(6,022)
Sales tax	648,889	650,000	(1,111)
Alcohol tax	447	352	95
Total taxes	<u>1,466,220</u>	<u>1,456,001</u>	<u>10,219</u>
Licenses, fees, and permits			
Utility franchise tax	412,480	425,000	(12,520)
Miscellaneous permits and licenses	23,851	19,500	4,351
Total licenses, fees, and permits	<u>436,331</u>	<u>444,500</u>	<u>(8,169)</u>
Other receipts			
Fines, forfeitures, and penalties	47,112	49,300	(2,188)
Lease revenues	58,000	53,250	4,750
In lieu of taxes	14,075	12,000	2,075
Interest on idle funds	26,226	3,000	23,226
Reimbursements	140,144	75,000	65,144
Grants	578	-	578
Miscellaneous	11,505	16,250	(4,745)
Operating transfers in	-	50,000	(50,000)
Total other receipts	<u>297,640</u>	<u>258,800</u>	<u>38,840</u>
TOTAL RECEIPTS	<u>2,200,191</u>	<u>\$ 2,159,301</u>	<u>\$ 40,890</u>
EXPENDITURES			
General government			
General administration	185,426	\$ 133,748	\$ 51,678
Legal service and engineering	36,660	50,000	(13,340)
Audit	16,258	16,260	(2)
Total general government	<u>238,344</u>	<u>200,008</u>	<u>38,336</u>
Public safety			
Police	670,718	706,544	(35,826)
Fire	153,052	162,205	(9,153)
Municipal Court	49,403	38,900	10,503
Total public safety	<u>873,173</u>	<u>907,649</u>	<u>(34,476)</u>

CITY OF HESSTON, KANSAS

GENERAL FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
EXPENDITURES (CONTINUED)			
Highways and streets			
Streets	\$ 341,087	\$ 348,401	\$ (7,314)
Street lighting	58,427	54,615	3,812
Total highways and streets	<u>399,514</u>	<u>403,016</u>	<u>(3,502)</u>
Culture and recreation			
Park	212,853	234,215	(21,362)
Cemetery	916	1,000	(84)
Tree board	3,125	3,250	(125)
Employee functions	3,870	7,500	(3,630)
Total culture and recreation	<u>220,764</u>	<u>245,965</u>	<u>(25,201)</u>
Economic development			
Harvey County EDC	36,000	36,000	-
Community development	26,453	25,000	1,453
Chamber of Commerce	48,474	40,000	8,474
Lease/purchase industrial park	29,156	25,500	3,656
Total economic development	<u>140,083</u>	<u>126,500</u>	<u>13,583</u>
Capital improvements	-	1,480,280	(1,480,280)
Operating transfers out	275,000	165,203	109,797
TOTAL EXPENDITURES	<u>2,146,878</u>	<u>\$ 3,528,621</u>	<u>\$ (1,381,743)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	53,313		
UNENCUMBERED CASH, BEGINNING	<u>884,466</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 937,779</u>		

CITY OF HESSTON, KANSAS

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

For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Ad valorem property tax	\$ 177,387	\$ 176,681	\$ 706
Delinquent tax	976	1,200	(224)
Motor vehicle tax	27,012	23,148	3,864
Recreation vehicle tax	293	191	102
16/20M vehicle tax	64	88	(24)
Commercial vehicle registration fees	-	1,517	(1,517)
Reimbursements	149,291	-	149,291
TOTAL RECEIPTS	<u>355,023</u>	<u>\$ 202,825</u>	<u>\$ 152,198</u>
EXPENDITURES			
Appropriations to library board	204,270	\$ 204,270	\$ -
Payroll and insurance	149,258	-	149,258
	353,528	204,270	149,258
Adjustment for qualifying budget credit	-	149,291	(149,291)
TOTAL EXPENDITURES	<u>353,528</u>	<u>\$ 353,561</u>	<u>\$ (33)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	1,495		
UNENCUMBERED CASH, BEGINNING	<u>2,096</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 3,591</u>		

CITY OF HESSTON, KANSAS
SPECIAL HIGHWAY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
(ACTUAL AND BUDGET)
For Year Ended December 31, 2016

	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
State payments	\$ 100,159	\$ 97,170	\$ 2,989
Reimbursements	26,475	-	26,475
TOTAL RECEIPTS	126,634	\$ 97,170	\$ 29,464
EXPENDITURES			
Service contracts	6,700	\$ -	\$ 6,700
Paving and materials	31,186	15,000	16,186
Street improvements	24,917	260,375	(235,458)
Sidewalk improvements	19,467	13,000	6,467
Operating transfers out	25,000	-	25,000
TOTAL EXPENDITURES	107,270	\$ 288,375	\$ (181,105)
RECEIPTS OVER (UNDER) EXPENDITURES	19,364		
UNENCUMBERED CASH, BEGINNING	279,315		
UNENCUMBERED CASH, ENDING	\$ 298,679		

CITY OF HESSTON, KANSAS
 EMERGENCY SERVICES FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Intergovernmental	\$ 124,888	\$ 116,000	\$ 8,888
Charges for services	241,210	205,000	36,210
Reimbursements	10,549	-	10,549
Grants	3,000	-	3,000
Miscellaneous	1,875	1,625	250
Operating transfers in	25,000	100,000	(75,000)
TOTAL RECEIPTS	<u>406,522</u>	<u>\$ 422,625</u>	<u>\$ (16,103)</u>
EXPENDITURES			
Personal services	251,639	\$ 295,141	\$ (43,502)
Contractual services	53,119	44,200	8,919
Commodities	32,546	31,600	946
Capital outlay	3,000	130,582	(127,582)
Reimbursed expense	25	-	25
Operating transfers out	50,000	40,000	10,000
TOTAL EXPENDITURES	<u>390,329</u>	<u>\$ 541,523</u>	<u>\$ (151,194)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	16,193		
UNENCUMBERED CASH, BEGINNING	<u>99,083</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 115,276</u>		

CITY OF HESSTON, KANSAS

FIRE EQUIPMENT FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Ad valorem property tax	\$ 42,245	\$ 42,081	\$ 164
Delinquent tax	233	350	(117)
Motor vehicle tax	6,431	5,512	919
Recreational vehicle tax	70	45	25
16/20M vehicle tax	15	21	(6)
Commercial vehicle registration fees	-	361	(361)
Service agreements	57,250	57,246	4
TOTAL RECEIPTS	<u>106,244</u>	<u>\$ 105,616</u>	<u>\$ 628</u>
EXPENDITURES			
Equipment purchases	148,456	\$ 140,662	\$ 7,794
Capital expenditures	-	173,825	(173,825)
TOTAL EXPENDITURES	<u>148,456</u>	<u>\$ 314,487</u>	<u>\$ (166,031)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(42,212)		
UNENCUMBERED CASH, BEGINNING	<u>209,036</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 166,824</u>		

CITY OF HESSTON, KANSAS

COMMUNITY SERVICE PROGRAM FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	<u>Actual</u>	<u>Budget</u>	
RECEIPTS			
Ad valorem property tax	\$ 18,858	\$ 18,794	\$ 64
Delinquent tax	104	150	(46)
Motor vehicle tax	2,872	2,460	412
Recreational vehicle tax	31	20	11
16/20M vehicle tax	7	9	(2)
Commercial vehicle registration fees	-	161	(161)
	<u>21,872</u>	<u>\$ 21,594</u>	<u>\$ 278</u>
TOTAL RECEIPTS			
EXPENDITURES			
Community service grants	<u>13,992</u>	<u>\$ 59,230</u>	<u>\$ (45,238)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	7,880		
UNENCUMBERED CASH, BEGINNING	<u>41,390</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 49,270</u>		

CITY OF HESSTON, KANSAS
 ECONOMIC DEVELOPMENT FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

	2016		Schedule 2 Page 8 of 16
	Actual	Budget	Variance Over (Under)
RECEIPTS			
Operating transfers in	\$ 25,000	\$ 25,000	\$ -
EXPENDITURES			
Contractual services	7,829	\$ 19,800	\$ (11,971)
Commodities	2,440	1,750	690
Capital outlay	-	61,963	(61,963)
TOTAL EXPENDITURES	10,269	\$ 83,513	\$ (73,244)
RECEIPTS OVER (UNDER) EXPENDITURES	14,731		
UNENCUMBERED CASH, BEGINNING	57,605		
UNENCUMBERED CASH, ENDING	\$ 72,336		

CITY OF HESSTON, KANSAS

SPECIAL PARKS FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Alcohol tax	\$ 447	<u>\$ 352</u>	<u>\$ 95</u>
EXPENDITURES			
Capital outlay	<u>-</u>	<u>\$ 486</u>	<u>\$ (486)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	447		
UNENCUMBERED CASH, BEGINNING	<u>1,233</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 1,680</u>		

CITY OF HESSTON, KANSAS
 TRANSIENT GUEST TAX FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

	2016		Schedule 2 Page 10 of 16
	Actual	Budget	Variance Over (Under)
RECEIPTS			
Transient guest tax	\$ 43,218	\$ <u>42,500</u>	\$ <u>718</u>
EXPENDITURES			
Transient guest tax appropriations	<u>43,218</u>	\$ <u>81,366</u>	\$ <u>(38,148)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	-		
UNENCUMBERED CASH, BEGINNING	<u>-</u>		
UNENCUMBERED CASH, ENDING	<u>\$ -</u>		

CITY OF HESSTON, KANSAS
 BOND AND INTEREST FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Ad valorem property tax	\$ 59,326	\$ 59,103	\$ 223
Delinquent tax	335	1,500	(1,165)
Motor vehicle tax	9,037	7,745	1,292
Recreational vehicle tax	98	64	34
16/20M vehicle tax	21	29	(8)
Commercial vehicle registration fees	-	507	(507)
Special assessments	359,510	365,065	(5,555)
Operating transfers in	121,466	118,485	2,981
	<u>549,793</u>	<u>\$ 552,498</u>	<u>\$ (2,705)</u>
EXPENDITURES			
Bond principal	435,000	\$ 370,000	\$ 65,000
Interest coupons	184,707	141,405	43,302
Cash basis reserve	-	583,100	(583,100)
	<u>619,707</u>	<u>\$ 1,094,505</u>	<u>\$ (474,798)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(69,914)		
UNENCUMBERED CASH, BEGINNING	<u>249,729</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 179,815</u>		

CITY OF HESSTON, KANSAS

UTILITIES FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Charges for service	\$ 3,043,124	\$ 4,190,391	\$ (1,147,267)
Connection fees	4,471	-	4,471
Reimbursements	15,458	-	15,458
Miscellaneous	15,558	-	15,558
TOTAL RECEIPTS	3,078,611	\$ 4,190,391	\$ (1,111,780)
EXPENDITURES			
Personal services	750,298	\$ 769,054	\$ (18,756)
Contractual services	483,785	459,265	24,520
Commodities	970,092	1,804,000	(833,908)
Capital outlay	209,334	4,227,079	(4,017,745)
Reimbursed expense	14,723	-	14,723
Operating transfers out	990,000	1,233,485	(243,485)
	3,418,232	8,492,883	(5,074,651)
Adjustment for qualifying budget credit	-	15,458	(15,458)
TOTAL EXPENDITURES	3,418,232	\$ 8,508,341	\$ (5,090,109)
RECEIPTS OVER (UNDER) EXPENDITURES	(339,621)		
UNENCUMBERED CASH, BEGINNING	2,824,736		
UNENCUMBERED CASH, ENDING	\$ 2,485,115		

CITY OF HESSTON, KANSAS

GOLF COURSE FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2016

Schedule 2
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	2016		Variance Over (Under)
	Actual	Budget	
RECEIPTS			
Golf fees	\$ 316,599	\$ 362,701	\$ (46,102)
Concessions and shop sales	98,563	113,912	(15,349)
Reimbursements	5,545	-	5,545
Miscellaneous	4,299	774	3,525
Transfers from other funds	115,000	40,000	75,000
TOTAL RECEIPTS	540,006	\$ 517,387	\$ 22,619
EXPENDITURES			
Personal services	250,291	\$ 268,678	\$ (18,387)
Contractual services	83,567	99,425	(15,858)
Commodities	136,544	149,160	(12,616)
Capital outlay	44,136	51,854	(7,718)
Reimbursed expense	566	-	566
	515,104	569,117	(54,013)
Adjustment for qualifying budget credit	-	5,545	(5,545)
TOTAL EXPENDITURES	515,104	\$ 574,662	\$ (59,558)
RECEIPTS OVER (UNDER) EXPENDITURES	24,902		
UNENCUMBERED CASH, BEGINNING	62,795		
UNENCUMBERED CASH, ENDING	\$ 87,697		

CITY OF HESSTON, KANSAS
SPECIAL PURPOSE NONBUDGETED FUNDS
SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
For Year Ended December 31, 2016

Schedule 2
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	Special Law Enforcement	Revolving Loan	Public Building Commission	Library Maintenance	Capital Improvement	Equipment Reserve
RECEIPTS						
Grants	\$ 24,261	\$ -	\$ -	\$ -	\$ -	\$ -
Forfeitures	707	-	-	-	-	-
Reimbursements	-	-	-	-	198,756	-
Miscellaneous	-	-	-	-	-	20,790
Loan payments	-	32,705	-	-	-	-
Operating transfers in	-	-	65,000	-	500,000	210,000
TOTAL RECEIPTS	<u>24,968</u>	<u>32,705</u>	<u>65,000</u>	<u>-</u>	<u>698,756</u>	<u>230,790</u>
EXPENDITURES						
Contractual services	364	-	-	22	-	-
Capital outlay	24,272	-	-	-	239,575	122,617
Reimbursed expense	-	-	-	-	196,110	-
Loan advances	-	-	-	-	-	-
Debt service	-	-	65,203	-	-	-
Operating transfers out	-	-	-	-	801,000	-
TOTAL EXPENDITURES	<u>24,636</u>	<u>-</u>	<u>65,203</u>	<u>22</u>	<u>1,236,685</u>	<u>122,617</u>
RECEIPTS OVER (UNDER) EXPENDITURES	332	32,705	(203)	(22)	(537,929)	108,173
UNENCUMBERED CASH, BEGINNING	<u>461</u>	<u>65,093</u>	<u>65,203</u>	<u>22,779</u>	<u>1,783,449</u>	<u>676,172</u>
UNENCUMBERED CASH, ENDING	<u>\$ 793</u>	<u>\$ 97,798</u>	<u>\$ 65,000</u>	<u>\$ 22,757</u>	<u>\$ 1,245,520</u>	<u>\$ 784,345</u>

CITY OF HESSTON, KANSAS
 CAPITAL PROJECTS NONBUDGETED FUNDS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2016

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	<u>Weaver Street</u>	<u>West Embers IV</u>	<u>Prairie Lakes I</u>	<u>Windover II</u>	<u>Mobile Home Park</u>	<u>Total</u>
RECEIPTS	\$ 914,576	\$ 218,851	\$ 1,047,253	\$ -	\$ 689,829	\$ 2,870,509
EXPENDITURES	<u>914,576</u>	<u>293,527</u>	<u>1,090,148</u>	<u>-</u>	<u>582,937</u>	<u>2,881,188</u>
RECEIPTS OVER (UNDER) EXPENDITURES	-	(74,676)	(42,895)	-	106,892	(10,679)
UNENCUMBERED CASH, BEGINNING	<u>-</u>	<u>74,676</u>	<u>42,895</u>	<u>(1,420)</u>	<u>-</u>	<u>116,151</u>
UNENCUMBERED CASH, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,420)</u>	<u>\$ 106,892</u>	<u>\$ 105,472</u>

CITY OF HESSTON, KANSAS

BUSINESS NONBUDGETED FUNDS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2016

	Utility Maintenance Reserve	Golf Course Maintenance Reserve
Schedule 2 Page 16 of 16		
RECEIPTS		
Lease purchase proceeds	\$ -	\$ 239,200
Miscellaneous	-	10
Operating transfers in	300,000	-
TOTAL RECEIPTS	300,000	239,210
EXPENDITURES		
Maintenance	142,542	8,613
Equipment	38,693	265,027
Water refund	152,841	-
Operating transfers out	250,000	-
TOTAL EXPENDITURES	584,076	273,640
RECEIPTS OVER (UNDER) EXPENDITURES	(284,076)	(34,430)
UNENCUMBERED CASH, BEGINNING	1,706,046	104,351
UNENCUMBERED CASH, ENDING	\$ 1,421,970	\$ 69,921

CITY OF HESSTON, KANSAS

HESSTON PUBLIC LIBRARY - RELATED MUNICIPAL ENTITY
 SCHEDULE OF RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2016

	Schedule 3
	<u>Actual</u>
RECEIPTS	
City appropriations	\$ 204,270
SCKLS	22,009
Fines and donations	7,835
Grants	44,582
Miscellaneous	6,706
Interest	88
	<hr/>
TOTAL RECEIPTS	285,490
	<hr/>
EXPENDITURES	
Buildings	42,935
Books and collection	38,008
Operations	14,877
Payroll	143,840
Program	12,159
Technology	13,681
Utilities	11,417
Miscellaneous	3,823
	<hr/>
TOTAL EXPENDITURES	280,740
	<hr/>
RECEIPTS OVER (UNDER) EXPENDITURES	4,750
UNENCUMBERED CASH, BEGINNING	<hr/> 76,920
UNENCUMBERED CASH, ENDING	<u><u>\$ 81,670</u></u>