



## AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Mayor and City Council  
City of Mission Hills, Kansas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mission Hills, Kansas for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 29, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 30, 2017.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of accumulated depreciation is based on the straight-line method of depreciation. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of accrued compensated absences are based on a list of accumulated vacation and sick time through December 31, 2016 from the City's payroll system and calculations per the City's policy to permit employees to accumulate certain amounts of vacation and sick leave, which are discussed in Note 1.D.4. We evaluated the key factors and assumptions used to calculate the accrued compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

The City operates a single employer defined benefit healthcare plan administered by the City to provide medical and pharmacy benefits to eligible retirees and their dependents. The City's estimates for the annual other postemployment benefit (OPEB) costs and liabilities related to this plan are based on the reports issued by an external actuary hired by the City. See Note IV, E. We reviewed these reports and obtained an understanding of the methods and assumptions used by the actuary, as well as evaluating the model used by the actuary for appropriateness and compliance with generally accepted accounting principles.

The City participates in a cost-sharing multiple-employer pension plan administered by the Kansas Public Employees Retirement System (KPERs). The City's estimates for costs, deferred outflows and inflows of resources, and liabilities related to this plan are based on reports issued by an external actuary hired by the State of Kansas. See Note IV, C. We reviewed these reports and obtained an understanding of the methods and assumptions used by the actuary, as well as evaluating the model used by the actuary for appropriateness and compliance with generally accepted accounting principles.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 26, 2017.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Mission Hills, Kansas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Other Matters

We applied certain limited procedures to required supplementary information (RSI), which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction of Use

This information is intended solely for the use of the mayor, city council and management of the City of Mission Hills, Kansas, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Mike Houser: Company PA*

Certified Public Accountants

May 26, 2017  
Lawrence, KS

**CITY OF MISSION HILLS, KANSAS**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2016**

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CITY OF MISSION HILL, KANSAS  
 FINANCIAL STATEMENTS  
 Year ending December 31, 2016

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CITY OF MISSION HILL, KANSAS  
FINANCIAL STATEMENTS  
Year ending December 31, 2016

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MIZE & HOUSER  
COMPANY P.A.

## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Mission Hills, Kansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mission Hills, Kansas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements 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 Accounting and Audit Guide." These 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mission Hills, Kansas, as of December 31, 2016, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund and the stormwater utility fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedules of funding progress on page 36, the schedule of the City's proportionate share of the net pension liability of page 37, and the schedule of City contributions on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

*Mike Houser: Company PA*

Certified Public Accountants  
Lawrence, Kansas

May 26, 2017

CITY OF MISSION HILLS, KANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016  
Unaudited

Our discussion and analysis of the City of Mission Hills, Kansas financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2016.

**Financial Highlights**

- The Government-wide net position totaled \$21.8 million at the end of the current fiscal year.
- Total capital assets, net of accumulated depreciation at December 31, 2016 totaled \$19.7 million.
- During the year ended December 31, 2016, the City's total revenue on the full accrual basis of accounting (which includes charges for services, local taxes and state and federal aid) exceeded total expenses by \$2.7 million.
- The City's total indebtedness decreased by \$.5 million, due to continued pay off of debt.
- The City's net capital assets increased \$2.1 million in the current fiscal year.

**Using This Financial Report**

This annual report consists of two distinct series of financial statements: government-wide and funds. In addition, the annual report includes budgetary-basis financial statement comparisons, in accordance with the State of Kansas cash basis and budget laws.

The government-wide statements are designed to provide information about the City's activities as a whole and provide a longer-term view of the City's finances. The fund financial statements tell how the City's services for the governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in greater detail than the government-wide statements by providing information about the City's most significant funds. In addition, combining statements included in the supplemental information show detail of all other governmental funds.

**Reporting on the City as a Whole (Government Wide)**

**Statement of Net Position and the Statement of Activities**

The view of the City as a whole looks at all financial transactions and asks the question, "Are we in a better financial position as a result of the current year's financial activities?" The Statement of Net Position and the Statement of Activities provide the basis for answering this question. The statements include all assets and all liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the City's net position and current year change in the net position. The change in net position is important because it tells the reader whether the City, as a whole, has improved or diminished its financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Causes of these changes may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, state mandates, and the financial condition of the State of Kansas general fund.

In the Statement of Net Position and the Statement of Activities, the City has one kind of activity:

**Governmental Activities** - Most of the City's programs and services are reported here including general government, public safety, public works and culture and recreation.

CITY OF MISSION HILLS, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016  
Unaudited

**Reporting the City's Most Significant Funds (Fund Financial Statements)**

Fund financial statements provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. The main fund financial statements focus on the City's most significant funds. Combining fund balance sheets and statements of revenues, expenditures and changes in fund balances provide detailed information about all of the City's non-major governmental funds.

Governmental Funds - Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of the funds and how balances left over at fiscal year-end are available to be spent in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps the reader to decide whether there are more or fewer financial resources that can be spent in the near term to finance the City's programs. Major differences between the City's governmental activities as reported in the Statement of Net Position and the Statement of Activities and its governmental funds are reconciled in the Governmental Funds financial statements.

**The City as a Whole**

Government-Wide Assets

The Statement of Net Position provides the financial position of the City as a whole. The overall financial position of the City was slightly better in 2016. The following is a summary of the City's Statement of Net Position as of December 31, 2015 and 2016:

City of Mission Hills  
Condensed Statement of Net Position

	Governmental Activities	
	<u>2015</u>	<u>2016</u>
Current assets	\$ 9,618,564	\$ 9,858,784
Net capital assets	<u>17,590,153</u>	<u>19,737,319</u>
Total assets	<u>27,208,717</u>	<u>29,596,103</u>
Deferred outflows of resources	<u>60,376</u>	<u>138,335</u>
Total assets and deferred outflows of resources	<u>\$ 27,269,093</u>	<u>\$ 29,734,438</u>
Current liabilities	\$ 589,173	\$ 487,169
Noncurrent liabilities	<u>3,515,324</u>	<u>3,212,055</u>
Total liabilities	<u>4,104,497</u>	<u>3,699,224</u>
Deferred inflows of resources	<u>4,072,894</u>	<u>4,259,848</u>
Total liabilities and deferred inflows of resources	<u>\$ 8,177,391</u>	<u>\$ 7,959,072</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 14,690,153	\$ 17,252,319
Restricted for:		
Debt Service	7,938	17,295
Transportation	376,849	473,366
Recreation	56,536	85,046
Unrestricted	<u>3,960,226</u>	<u>3,947,340</u>
Total net position	<u>\$ 19,091,702</u>	<u>\$ 21,775,366</u>

CITY OF MISSION HILLS, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2016

Unaudited

The assets of the City are classified as current assets and capital assets. Cash and investments and accounts receivable are the largest current assets. These are assets that are available to provide resources for the near-term operations of the City. Capital assets are used in the operations of the City. These assets include land, buildings, equipment and vehicles, and infrastructure.

Current and non-current liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued liabilities, interest payable and current portion of long-term obligations.

The City has \$3.1 million in long-term debt, consisting of general obligation bonds and capital leases payable, of which \$.4 million is due within the next fiscal year.

The City had total assets at December 31, 2016, totaling \$29.6 million. The total assets and deferred outflows of the City exceeded the total liabilities and deferred inflows of resources by \$21.8 million. Net position invested in capital assets; net of related debt, totaled \$17.3 million, restricted net position totaled \$.6 million and unrestricted net position totaled \$3.9 million.

Government-Wide Activities

The following is a condensed statement of the City's change in net position for the year ended December 31, 2016. Major items of program revenues, grants and general revenues are detailed. Government-wide activities increased the net position of the City by \$2.7 million for the year ended December 31, 2016. A reconciliation of the total change in fund balances for the governmental funds to the Statement of Activities is located at page 14 of the basic financial statements. Major differences in the Statement of Activities and changes in the fund balances of governmental funds as expenditures in the funds statements include the repayment of long-term debt of \$.5 million which is treated as expenditures in the funds statements, but is treated as a reduction of long term debt in the Government-wide financial statements.

CITY OF MISSION HILLS, KANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016  
Unaudited

In addition, the capital outlays of \$3.1 million are treated as expenditures in the fund statements, but are treated as an increase in capital assets in the Government wide financial statements.

City of Mission Hills  
Condensed Statement of Changes in Net Position  
For the Year Ended December 31, 2016 and 2015

	Governmental Activities	
	<u>2015</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 680,859	\$ 535,577
Operating grants	150,654	1,665,424
General revenues:		
Property taxes	4,177,122	4,382,529
Sales tax	1,654,114	1,705,267
Motor vehicle tax	254,784	256,603
Franchise tax	448,968	425,533
Investment earnings	6,760	5,944
Reimbursements	30,979	7,000
Miscellaneous	93,200	25,973
Total revenues	<u>7,497,440</u>	<u>9,009,850</u>
Program expenses:		
General government	1,049,890	1,060,546
Public safety	1,394,253	1,332,126
Public works	2,385,124	2,167,427
Culture and recreation	850,044	809,593
Depreciation on infrastructure	1,040,126	906,621
Interest on long term debt	55,058	49,873
Total expenses	<u>6,774,495</u>	<u>6,326,186</u>
Increase [decrease] in net position	<u>\$ 722,945</u>	<u>\$ 2,683,664</u>

**Financial Analysis of the City's Funds**

The City uses fund accounting to ensure and demonstrate compliance with state and federal finance related legal requirements. These funds are accounted for on the modified accrual basis of accounting.

The governmental funds of the City provide information on near-term inflows, outflows and balances of spendable resources. Unreserved fund balances, in particular, measures the City's net resources available for spending at the end of the City's fiscal year.

Total fund balances at December 31, 2016 for the governmental funds totaled \$5.6 million. Total unassigned fund balances at December 31, 2016 also totaled \$2.6 million, of which \$2.6 million was attributable to the General Fund.

CITY OF MISSION HILLS, KANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016  
Unaudited

The General Fund is the chief operating fund of the City. The audited fund balance on December 31, 2016 was \$3,462,173. This figure is shown in the GAAP basis column of the enclosed financial statements. The budgetary basis column includes encumbrances of \$901,164.

The Stormwater Utility Fund is used to account for the collection of assessments and grant revenue related to county assisted improvement project expenditures. Expenditures are for capital improvements related to the City's stormwater infrastructure. The ending fund balance for 2016 was \$589,643. The budgetary basis column includes encumbrances of \$145,200.

**General Fund Budgeting Highlights**

The City's budgets are prepared in accordance with Kansas law and are based primarily on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The City's 2016 final General Fund budget reflected budgeted revenues of \$8,721,666. Actual General Fund revenues received were \$236,561 less than the estimated revenues budgeted in the 2016 General Fund budget.

The City's 2016 final General Fund budget reflected budgeted expenditures of \$8,875,735. Actual General Fund expenditures were \$457,911 less than the estimated expenditures budgeted in the 2016 General Fund budget. The end result being that the General Fund budgetary balance increased \$67,281.

**Capital Assets and Debt Administration**

The City's investment in capital assets for its governmental activities totaled \$19.7 million (net of accumulated depreciation) as of December 31, 2016.

CITY OF MISSION HILLS, KANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016  
Unaudited

The major capital improvements in 2016 included:

Streets

- 63<sup>rd</sup> Street

Stormwater

- 63<sup>rd</sup> Street Bridge replacement
- Indian Lane Stormwater System
- Hiawasee Park – Flume and Tributary
- Brookwood Storm Sewer

Additional information on the City's capital assets can be found in Notes I and III of the financial statements.

At December 31, 2016, the City had total debt outstanding of \$3.1 million, backed by the full faith and credit of the City. Total long-term debt decreased in net for the fiscal year ended December 31, 2016, in the amount of \$.5 million. This was a result of continued pay off of debt.

Additional information on the City's general long term debt can be found in Note III to the financial statements.

**Contacting the City**

This financial report is designed to provide a general overview of the City's finances. If you have questions about this report or need additional financial information, contact Courtney Christensen, City Administrator, City of Mission Hills, Kansas, 6300 State Line Road, Mission Hills, Kansas 66208.

CITY OF MISSION HILLS, KANSAS

STATEMENT OF NET POSITION  
December 31, 2016

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current assets:	
Cash and cash equivalents	\$ 4,511,706
Receivables:	
Taxes	4,589,920
Intergovernmental	<u>757,158</u>
Total current assets	<u>9,858,784</u>
Capital assets:	
Capital assets not being depreciated:	
Land	245,530
Statuary	2,159,942
Construction in process	1,992,032
Capital assets being depreciated	24,403,662
Less: accumulated depreciation	<u>9,063,847</u>
Total net capital assets	<u>19,737,319</u>
Total assets	<u>29,596,103</u>
Deferred outflows of resources	
Pension - contributions subsequent to the measurement date	23,404
Pension - differences between expected and actual experience	3,092
Pension - net difference between projected and actual earnings on pension plan investments	62,939
Pension - changes in proportion	<u>48,900</u>
Total deferred outflows of resources	<u>138,335</u>
Total assets and deferred outflows of resources	<u>\$ 29,734,438</u>
Liabilities and Deferred Inflows of Resources	
Current liabilities:	
Accrued liabilities	\$ 12,397
Accrued interest payable	15,334
Compensated absences payable	49,144
Current portion of capital lease payable	60,294
Current portion of general obligation bonds payable	<u>350,000</u>
Total current liabilities (payable from current assets)	<u>487,169</u>
Noncurrent liabilities:	
Net other post employment benefits obligation	17,375
Net pension liability	532,797
Capital lease payable	526,883
General obligation bonds payable	<u>2,135,000</u>
Total noncurrent liabilities	<u>3,212,055</u>
Total liabilities	<u>3,699,224</u>
Deferred inflows of resources:	
Unavailable revenue - property taxes	4,245,248
Pension - difference between expected and actual experience	9,616
Pension - changes of assumptions	<u>4,984</u>
Total deferred inflows of resources	<u>4,259,848</u>
Total liabilities and deferred inflows of resources	<u>\$ 7,959,072</u>
Net Position	
Invested in capital assets, net of related debt	\$ 17,252,319
Restricted for:	
Debt service	17,295
Transportation	473,366
Recreation	85,046
Unrestricted	<u>3,947,340</u>
Total net position	<u>\$ 21,775,366</u>

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



CITY OF MISSION HILLS, KANSAS

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2016

	Expenses	Program Revenues		Net [Expenses]
		Charges for Services	Operating Grants and Contributions	Revenue and Changes In Net Position
				Total Governmental Activities
<b>Governmental activities:</b>				
General government	\$ 1,060,546	\$ 310,468	\$ -	\$ [750,078]
Public safety	1,332,126	225,109	-	[1,107,017]
Public works	2,167,427	-	1,599,513	[567,914]
Culture and recreation	809,593	-	65,911	[743,682]
Depreciation for infrastructure assets	906,621	-	-	[906,621]
Interest on long-term debt	49,873	-	-	[49,873]
Total governmental activities	<u>\$ 6,326,186</u>	<u>\$ 535,577</u>	<u>\$ 1,665,424</u>	<u>[4,125,185]</u>

**General Revenues:**

Property taxes levied for	
General purposes	3,937,526
Debt service	445,003
Franchise tax	425,533
Sales tax	1,705,267
Motor vehicle tax	256,603
Investments earnings	5,944
Reimbursements	7,000
Miscellaneous	25,973
Total general revenues	<u>6,808,849</u>
Change in net position	2,683,664
Net position - beginning	<u>19,091,702</u>
Net position - ending	<u>\$ 21,775,366</u>

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

CITY OF MISSION HILLS, KANSAS

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016

	<u>General</u>	<u>Stormwater Utility Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,389,300	\$ 589,643	\$ 17,295	\$ 661,209	\$ 854,259	\$ 4,511,706
Receivables						
Taxes	4,589,920	-	-	-	-	4,589,920
Intergovernmental	732,850	-	-	-	24,308	757,158
Total assets	<u>\$ 7,712,070</u>	<u>\$ 589,643</u>	<u>\$ 17,295</u>	<u>\$ 661,209</u>	<u>\$ 878,567</u>	<u>\$ 9,858,784</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
Liabilities:						
Accrued liabilities	\$ 4,649	\$ -	\$ -	\$ -	\$ 7,748	\$ 12,397
Total liabilities	<u>4,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,748</u>	<u>12,397</u>
Deferred inflows of resources:						
Unavailable revenue - property taxes	4,245,248	-	-	-	-	4,245,248
Total deferred inflows of resources	<u>4,245,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,245,248</u>
Fund balance:						
Assigned	901,164	145,200	-	-	21,231	1,067,595
Restricted	-	-	17,295	-	558,412	575,707
Committed	-	444,443	-	661,209	291,176	1,396,828
Unassigned	2,561,009	-	-	-	-	2,561,009
Total fund balance [deficit]	<u>3,462,173</u>	<u>589,643</u>	<u>17,295</u>	<u>661,209</u>	<u>870,819</u>	<u>5,601,139</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,712,070</u>	<u>\$ 589,643</u>	<u>\$ 17,295</u>	<u>\$ 661,209</u>	<u>\$ 878,567</u>	<u>\$ 9,858,784</u>

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

CITY OF MISSION HILLS, KANSAS

RECONCILIATION OF THE TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES

December 31, 2016

Total Governmental Fund Balances		\$ 5,601,139
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
The cost of capital assets is	28,801,166	
Accumulated depreciation is	<u>[9,063,847]</u>	19,737,319
Pension contributions are reported as an expense in the funds and as a deferred outflow of resources in the governmental activities in the statement of net position.		
		138,335
Pension fundings are reported as a revenue in the funds and as a deferred inflow of resources in the governmental activities in the statement of net position.		
		[547,397]
The City's costs for post employment benefits other than pensions are not reported as expenditures in the governmental funds		
Net other post employment benefits obligation		[17,375]
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of:		
General obligation bonds payable	2,485,000	
Capital lease payable	587,177	
Interest payable	15,334	
Compensated absences payable	<u>49,144</u>	<u>[3,136,655]</u>
Net Position of Governmental Activities		<u>\$ 21,775,366</u>

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

CITY OF MISSION HILLS, KANSAS

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	General	Stormwater Utility Fund	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes	\$ 5,771,942	\$ 521,825	\$ 476,165	\$ -	\$ -	\$ 6,769,932
Intergovernmental	1,503,358	-	-	-	162,066	1,665,424
Licenses, permits and fees	535,577	-	-	-	-	535,577
Use of money and property	33,455	363	-	509	617	34,944
Reimbursement	-	-	-	-	7,000	7,000
Miscellaneous	25,973	-	-	-	-	25,973
<b>Total revenues</b>	<b>7,870,305</b>	<b>522,188</b>	<b>476,165</b>	<b>509</b>	<b>169,683</b>	<b>9,038,850</b>
<b>EXPENDITURES:</b>						
Current						
General government	1,022,959	-	-	-	-	1,022,959
Public works	5,209,055	100,000	-	-	-	5,309,055
Culture and recreation	764,361	-	-	-	44,683	809,044
Public safety	1,334,865	-	-	-	-	1,334,865
Special projects	18,200	-	-	-	-	18,200
Debt service						
Principal	-	-	415,000	-	-	415,000
Interest and other charges	-	-	51,808	-	-	51,808
<b>Total expenditures</b>	<b>8,349,440</b>	<b>100,000</b>	<b>466,808</b>	<b>-</b>	<b>44,683</b>	<b>8,960,931</b>
Excess [deficiency] of revenues over [under] expenditures	[479,135]	422,188	9,357	509	125,000	77,919
<b>OTHER FINANCING SOURCES [USES]</b>						
Transfers in	614,800	-	-	[260,000]	-	354,800
Transfers [out]	-	[354,800]	-	-	-	[354,800]
<b>Total other financing sources [uses]</b>	<b>614,800</b>	<b>[354,800]</b>	<b>-</b>	<b>[260,000]</b>	<b>-</b>	<b>-</b>
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	135,665	67,388	9,357	[259,491]	125,000	77,919
Fund balance - Beginning of year	3,326,508	522,255	7,938	920,700	745,819	5,523,220
Fund balance - End of year	\$ 3,462,173	\$ 589,643	\$ 17,295	\$ 661,209	\$ 870,819	\$ 5,601,139

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

CITY OF MISSION HILLS, KANSAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2016

Total Net Change In Fund Balances - Governmental Funds		\$ 77,919
Amounts reported for governmental activities in the statement of activities are different because		
Capital outlays to purchase or build assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	3,108,038	
Depreciation expense	<u>[960,872]</u>	2,147,166
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount by which interest decreased.		
		1,935
Expenditures for post employment benefits other than pensions are not considered expenditures in government funds		
		[1,795]
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		[4,236]
Pension payments are reported as expenditures in the governmental funds and do not affect the statement of net activities.		
		[7,148]
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		
		54,823
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		
		<u>415,000</u>
Changes In Net Position of Governmental Activities		<u>\$ 2,683,664</u>

CITY OF MISSION HILLS, KANSAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
<b>Revenues:</b>						
Taxes	\$ 5,771,942	\$ -	\$ 5,771,942	\$ 5,683,669	\$ 5,727,076	\$ 44,866
Intergovernmental	1,503,358	-	1,503,358	1,667,000	1,833,000	[329,642]
Use of money and property	33,455	-	33,455	5,000	33,500	[45]
Licenses, permits and fees	535,577	-	535,577	522,260	503,290	32,287
Miscellaneous	25,973	-	25,973	3,000	10,000	15,973
<b>Total Revenues</b>	<b>7,870,305</b>	<b>-</b>	<b>7,870,305</b>	<b>7,880,929</b>	<b>8,106,866</b>	<b>[236,561]</b>
<b>Expenditures:</b>						
<b>General Administration:</b>						
Personal services	493,511	-	493,511	489,353	489,966	[3,545]
Contractual services	518,567	14,852	533,419	554,600	555,091	21,672
Commodities	6,264	-	6,264	10,875	10,393	4,129
Capital outlay	4,617	26,000	30,617	32,622	32,000	1,383
	1,022,959	40,852	1,063,811	1,087,450	1,087,450	23,639
<b>Public Safety</b>						
Contractual services	1,287,105	-	1,287,105	1,345,728	1,353,981	66,876
Commodities	12,503	-	12,503	43,411	40,500	27,997
Capital outlay	35,257	-	35,257	57,880	55,000	19,743
	1,334,865	-	1,334,865	1,447,019	1,449,481	114,616
<b>Highways and Streets</b>						
Personal services	307,360	[401]	306,959	295,479	306,534	[425]
Contractual services	1,482,531	[346,400]	1,136,131	1,176,640	1,227,323	91,192
Commodities	17,108	[12,075]	5,033	10,553	11,145	6,112
Capital outlay	3,402,056	366,878	3,768,934	3,793,741	3,957,016	188,082
	5,209,055	8,002	5,217,057	5,276,413	5,502,018	284,961
<b>Culture and recreation</b>						
Contractual services	760,626	4,530	765,156	790,786	790,786	25,630
Commodities	855	-	855	2,000	2,000	1,145
Capital outlay	2,880	-	2,880	3,000	3,000	120
	764,361	4,530	768,891	795,786	795,786	26,895
<b>Special Projects</b>						
Capital outlay	18,200	15,000	33,200	40,000	41,000	7,800
	18,200	15,000	33,200	40,000	41,000	7,800

CITY OF MISSION HILLS, KANSAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Expenditures (Continued):						
Total Expenditures	\$ 8,349,440	\$ 68,384	\$ 8,417,824	\$ 8,646,668	\$ 8,875,735	\$ 457,911
Excess [Deficiency] of Revenues Over [Under] Expenditures	[479,135]	[68,384]	[547,519]	[765,739]	[768,869]	221,350
Other Financing Sources [Uses]:						
Transfers in	614,800	-	614,800	614,800	614,800	-
Total Other Financing Sources [Uses]	614,800	-	614,800	614,800	614,800	-
Excess [Deficiency] of Revenues and Other Sources Over [Under] Expenditures and Other [Uses]	135,665	[68,384]	67,281	\$ [150,939]	\$ [154,069]	\$ 221,350
Fund Balance, January 1	3,326,508	[832,780]	2,493,728			
Fund Balance, December 31	\$ 3,462,173	\$ [901,164]	\$ 2,561,009			

CITY OF MISSION HILLS, KANSAS

STORMWATER UTILITY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Taxes	\$ 521,825	\$ -	\$ 521,825	\$ 516,000	\$ 516,000	\$ 5,825
Use of money and property	<u>363</u>	<u>-</u>	<u>363</u>	<u>250</u>	<u>250</u>	<u>113</u>
Total Revenues	<u>522,188</u>	<u>-</u>	<u>522,188</u>	<u>516,250</u>	<u>516,250</u>	<u>5,938</u>
Expenditures:						
Capital outlay	<u>100,000</u>	<u>145,200</u>	<u>245,200</u>	<u>600,000</u>	<u>600,000</u>	<u>354,800</u>
Total Expenditures	<u>100,000</u>	<u>145,200</u>	<u>245,200</u>	<u>600,000</u>	<u>600,000</u>	<u>354,800</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	<u>422,188</u>	<u>[145,200]</u>	<u>276,988</u>	<u>[83,750]</u>	<u>[83,750]</u>	<u>360,738</u>
Other Financing Sources [Uses]:						
Transfers [out]	<u>[354,800]</u>	<u>-</u>	<u>[354,800]</u>	<u>-</u>	<u>-</u>	<u>[354,800]</u>
Total Other Financing Sources [Uses]	<u>[354,800]</u>	<u>-</u>	<u>[354,800]</u>	<u>-</u>	<u>-</u>	<u>[354,800]</u>
Excess [Deficiency] of Revenues and Other Sources Over [Under] Expenditures and Other [Uses]	<u>67,388</u>	<u>[145,200]</u>	<u>[77,812]</u>	<u>\$ [83,750]</u>	<u>\$ [83,750]</u>	<u>\$ 5,938</u>
Fund Balance, January 1	<u>522,255</u>	<u>-</u>	<u>522,255</u>			
Fund Balance, December 31	<u>\$ 589,643</u>	<u>\$ [145,200]</u>	<u>\$ 444,443</u>			



CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Mission Hills, Kansas (the City), is a municipal corporation governed by an elected five-member council. Under governmental accounting standards for defining the financial reporting entity and identifying entities to be included in basic financial statements, these financial statements include only the City. There are no other entities for which the City is financially accountable.

B. Government-wide and Fund Financial Statements

The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. All activities of the City are governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Taxes and other items which are not classified as program revenues are presented as general revenues of the City.

Financial statements are provided for governmental funds. Major individual funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column in the fund financial statements. The City has no fiduciary or proprietary funds.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to certain compensated are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The City reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The stormwater utility fund is used to account for the collection of assessments and grant revenue related to county assisted improvement project expenditures. Expenditures are for capital improvements related to the City's stormwater infrastructure.

The debt service fund is used to account for the payment of principal and interest on all general obligation debt.

The capital project fund is used to account for reservations designed for the City's capital improvements.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the governmental funds balance sheet as cash and investments under each fund's caption. Interest earned is distributed to the various funds based upon the proportionate share of cash. Investments are reported at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles, if any.

Property taxes receivable - The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The office of the County Appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Property taxes are levied and liens against property are placed on November 1 of the year prior to the fiscal year for which they are budgeted. Payments are due November 1, becoming delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year. This procedure eliminates the need to issue tax anticipation notes since funds will be on hand prior to the beginning of each fiscal year. The City Treasurer draws down all available funds from the County Treasurer's office in two-month intervals. Taxes remaining due and unpaid at February 15 and July 1 are subject to collection procedures prescribed in state statutes.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

2. Receivables and Payables (Continued)

Collection of current year property tax by the County Treasurer is not completed, apportioned or distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Consequently, current year property taxes receivable are not available as a resource that can be used to finance the current year operations of the City and therefore are not susceptible to accrual. Accruals of uncollected current year property taxes are offset by deferred revenue and are identical to the adopted budget for 2017.

3. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for buildings and maintenance and office equipment and \$250,000 for infrastructure with an initial useful life of one year or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation has been provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives for each capital asset type are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	50
Machinery and equipment	6 – 15
Office equipment	3 – 5
Infrastructure	20

The statuary is considered inexhaustible and, therefore, no depreciation has been calculated for this collection. The City's collection of works of art, other than statuary and other similar assets are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to City policy that requires proceeds from the sale of these items to be used to acquire other collection items.

4. Compensated Absences

The City's policy is to grant each full time employee one day of sick leave per month, cumulative to a maximum of 90 days. In the event of termination, 20 percent of unused sick leave is paid to the former employee. Additionally, full-time employees earn vacation leave at varying rates based on years of service for each calendar year. Employees are allowed to accumulate unused vacation at varying rates based on years of service.

For governmental fund types, the amount of accumulated unpaid vacation and sick leave, which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report fund balance in the following classifications: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance indicates that constraints have been placed on the use of resources either by being externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city council. Assigned fund balances include amounts that are constrained by the City management's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available restricted amounts is considered to be spent first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the following is the order in which resources will be expended: committed, assigned and unassigned.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

6. Fund Equity (Continued)

The following is the detail for fund balance classifications in the financial statements:

	Major Governmental Funds				Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Stormwater Utility Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project</u>		
Fund Balances:						
Assigned for:						
General administration	\$ 44,552	\$ -	\$ -	\$ -	\$ -	\$ 44,552
Public works	781,665	145,200	-	-	-	926,865
Culture and recreation	74,947	-	-	-	21,231	96,178
Restricted for:						
Public works	-	-	-	-	473,366	473,366
Debt payments	-	-	17,295	-	-	17,295
Culture and recreation	-	-	-	-	85,046	85,046
Committed for:						
Culture and recreation	-	-	-	-	338	338
Capital improvements	-	444,443	-	661,209	290,838	1,396,490
Unassigned:	<u>2,561,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,561,009</u>
 Total Fund Balances	 <u>\$ 3,462,173</u>	 <u>\$ 589,643</u>	 <u>\$ 17,295</u>	 <u>\$ 661,209</u>	 <u>\$ 870,819</u>	 <u>\$ 5,601,139</u>

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports changes in the pension liability proportion, contributions made subsequent to the measurement date, differences between expected and actual experience, and net the difference between projected and actual earnings on pension plan investments are reported as deferred outflows of resources in the government activities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government funds report unavailable revenues from one source: property taxes. Differences between expected and actual experience and changes in assumptions all for the pension liability are reported as deferred inflows for governmental activities.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

9. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute) and debt service funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of the 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 budget was amended for the General Fund for the year ended December 31, 2016.

The statutes permit management to transfer 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. In supplementary schedules to this report, budget comparisons are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds and certain special revenue funds. Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

The actual data presented in the budgetary comparison statements differs from the data presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The following is a summary of the effects on the ending fund balances caused by the difference in accounting between the budgetary basis and GAAP.

	Major Governmental Funds				Other	Total Governmental Funds
	General Fund	Stormwater Utility Fund	Debt Service Fund	Capital Project Fund	Nonmajor Governmental Funds	
GAAP FUND BALANCE						
December 31, 2016	\$ 3,462,173	\$ 589,643	\$ 17,295	\$ 661,209	\$ 870,819	\$ 5,601,139
Adjustments:						
Unreserved fund balances not subject to the Kansas Budget Law:						
Statuary Reward	-	-	-	-	[338]	[338]
Reserve for encumbrances	[901,164]	[145,200]	-	-	[21,231]	[1,067,595]
Total deductions	[901,164]	[145,200]	-	-	[21,569]	[1,067,933]
BUDGETARY FUND BALANCE						
December 31, 2016	\$ 2,561,009	\$ 444,443	\$ 17,295	\$ 661,209	\$ 849,250	\$ 4,533,206

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

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

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF MISSION HILLS, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

The City had the following investments at December 31, 2016:

<u>Investment Type</u>	<u>Level 1</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Kansas Municipal Investment Pool	\$ 60,148	S&P AAf/S1+	1 Day

The above investments are measured at the net asset value, have an ongoing redemption frequency and liquidity fees or redemption gates are not imposed on any of the investments.

The Kansas 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 10 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. The fair value of the City's position in the municipal investment pool is substantially the same as the value of the pool shares.

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

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402. All deposits were legally secured at December 31, 2016.

B. Receivables

Receivables at year end are as follows:

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Receivables:			
Taxes	\$ 4,589,920	\$ -	\$ 4,589,920
Intergovernmental	<u>732,850</u>	<u>24,308</u>	<u>757,158</u>
Total	<u>\$ 5,322,770</u>	<u>\$ 24,308</u>	<u>\$ 5,347,078</u>



CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance at <u>12/31/15</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>12/31/16</u>
City governmental activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 185,002	\$ 1,807,030	\$ -	\$ 1,992,032
Land	245,530	-	-	245,530
Statuary	2,159,942	-	-	2,159,942
Capital assets, being depreciated				
Building	902,065	-	-	902,065
Equipment and vehicles	518,608	22,278	183,307	357,579
Infrastructure	<u>21,865,287</u>	<u>1,278,731</u>	<u>-</u>	<u>23,144,018</u>
Total capital assets	<u>25,876,434</u>	<u>3,108,039</u>	<u>183,307</u>	<u>28,801,166</u>
Less accumulated depreciation for:				
Building	325,614	15,857	-	341,471
Equipment and vehicles	380,329	23,160	183,307	220,182
Infrastructure	<u>7,528,283</u>	<u>973,911</u>	<u>-</u>	<u>8,502,194</u>
Total accumulated depreciation	<u>8,234,226</u>	<u>1,012,928</u>	<u>183,307</u>	<u>9,063,847</u>
Governmental activities capital assets, net	<u>\$ 17,642,208</u>	<u>\$ 2,095,111</u>	<u>\$ -</u>	<u>\$ 19,737,319</u>

The City's depreciation expense was charged to governmental functions as follows:

Governmental Activities:

General government	\$ 27,441
Public safety	549
Public works	958,676
Culture and recreation	<u>26,262</u>
Total depreciation	<u>\$ 1,012,928</u>

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-term Debt

During the year ended December 31, 2016, the following changes occurred in long term liabilities:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
General obligation bonds	\$ 2,900,000	\$ -	\$ 415,000	\$ 2,485,000	\$ 350,000
Capital leases	642,000	-	54,823	587,177	60,294
Compensated absences	44,908	43,878	39,642	49,144	49,144
<b>Total</b>	<b>\$ 3,586,908</b>	<b>\$ 43,878</b>	<b>\$ 509,465</b>	<b>\$ 3,121,321</b>	<b>\$ 459,438</b>

*General Obligation Bonds.* The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	Date of Issuance	Date of Final Maturity	Interest Rate	Original Amount	Outstanding Amount
Series 2005A	10/15/2005	9/1/2020	3.10-4.50%	\$ 1,375,000	\$ 445,000
Series 2012A	5/15/2012	9/1/2024	0.35-2.00%	3,275,000	2,040,000
				<u>\$ 4,650,000</u>	<u>\$ 2,485,000</u>

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

Year Ending	Principal	Interest	Total
2017	\$ 350,000	\$ 46,003	\$ 396,003
2018	355,000	40,035	395,035
2019	365,000	33,460	398,460
2020	365,000	26,215	391,215
2021	255,000	18,413	273,413
2022 - 2024	795,000	30,029	825,029
<b>Total</b>	<b>\$ 2,485,000</b>	<b>\$ 194,155</b>	<b>\$ 2,679,155</b>

E. Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

	Governmental Activities Assets
Other Equipment	\$ 629,462

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

III. DETAILED NOTES ON ALL FUNDS (Continued)

E. Capital Leases (Continued)

During 2015, the City entered into a lease agreement to finance the purchase of street lights in the amount of \$642,000. The lease has an interest rate of 1.95% and a final maturity of September 1, 2025.

Minimum future lease payments under capital leases as of December 31, 2016 are:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 60,294	\$ 11,157	\$ 71,451
2018	61,475	9,976	71,451
2019	62,680	8,771	71,451
2020	63,908	7,543	71,451
2021	65,160	6,291	71,451
2022 - 2025	<u>273,660</u>	<u>12,143</u>	<u>285,803</u>
 Total	 <u>\$ 587,177</u>	 <u>\$ 55,881</u>	 <u>\$ 643,058</u>

IV. OTHER INFORMATION

A. 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; and natural disasters. The City carries commercial insurance for these risks of loss including related lost revenue. Settlements have not exceeded insurance coverage for each of the last three years.

B. Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of additional expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. The City is a party in various pending claims. Although the outcome of these pending claims is not presently determinable, it is the opinion of management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City has contracts for police services and refuse collection and recycling. The contracts for police services and refuse and recycling collection obligate the City for a total of \$1,261,386 and \$213,962, respectively for 2016 services. The City also enters into contracts for improvements and maintenance of parks and public areas as deemed necessary.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

IV. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan

*Description of Pension Plan.* The City participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

Public employees, which includes:

- State/School employees
- Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the City are included in the Local employees group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at [www.kpers.org](http://www.kpers.org).

*Benefits.* Benefits are established by statute and may only be changed by the State Legislature. Members (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

CITY OF MISSION HILLS, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

IV. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

*Contributions.* Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows:

	<u>Actuarial Employer Rate</u>	<u>Statutory Employer Capped Rate</u>
Local government employees	9.18%	9.18%

Member contribution rates as a percentage of eligible compensation for the KPERS fiscal year June 30, 2016 are 6.00% for Local employees.

*Employer Allocations.* Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

The allocation percentages for the City's share of the collective pension amounts as of December 31, 2016, are based on the ratio of its contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended December 31, 2016.

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

IV. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016, the City's proportion for the Local employees group was 0.034%, which was an increase of .001% from its proportion measured at June 30, 2015.

*Net Pension Liability.* At December 31, 2016 and 2015, the City reported a liability of \$532,797 and \$427,567, respectively, for its total proportionate share of the net pension liability for the Local group.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016, using the following actuarial assumptions:

<u>Assumption</u>	<u>Rate</u>
Price inflation	3.00%
Wage inflation	4.00%
Salary increases, including wage increases	4.00 to 16.00%, including inflation
Long-term rate of return, net of investment expense, and including price inflation	8.00%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted for three years ending December 31, 2012.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset</u>	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47.00%	6.80%
Fixed income	13.00%	1.25%
Yield driven	8.00%	6.55%
Real return	11.00%	1.71%
Real estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-term investments	<u>2.00%</u>	[0.25]%
Total	<u>100.00%</u>	

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

IV. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

*Discount Rate.* The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERs employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen, and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate.* The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.00%) or 1-percentage point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Discount rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Local	\$ 730,284	\$ 532,797	\$ 365,343

*Pension Expense.* For the year ended December 31, 2016, the City recognized Local pension expense of \$61,578, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for Local group from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between actual and expected experience	\$ 3,092	\$ 9,616
Net differences between projected and actual earnings on investments	62,939	-
Changes of assumptions	-	4,984
Changes in proportion	48,900	-
Total	<u>\$ 114,931</u>	<u>\$ 14,600</u>

CITY OF MISSION HILLS, KANSAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

IV. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

\$23,404 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended <u>June 30,</u>	Deferred [Inflows] Outflows <u>Amount</u>
2017	\$ 18,711
2018	18,711
2019	36,828
2020	23,066
2021	<u>3,015</u>
Total	<u>\$ 100,331</u>

D. Interfund Transfers

A reconciliation of all operating transfers by fund type for 2016 follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Regulatory Authority</u>
Capital Project	General	\$ 260,000	K.S.A. 12-1,118
Stormwater Utility	General	<u>354,800</u>	Ordinance #1315
		<u>\$ 614,800</u>	

E. Postemployment Healthcare Plan

Plan Description. The City operates a single employer defined benefit healthcare plan administered by the City. The Employee Benefit Plan (the Plan) provides medical benefits to eligible early retirees and their spouses. K.S.A. 12-5040 requires all local governmental entities in the state that provide a group health care plan to make participation available to all retirees and dependents until the retiree reaches the age of 65 years. No separate financial report is issued for the Plan.



CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

IV. OTHER INFORMATION (Continued)

E. Postemployment Healthcare Plan (Continued)

Funding Policy. The contribution requirements of plan participants and the City are established and amended by the City. The required contribution is based on projected pay-as-you-go financing requirements. The contribution requirement for retirees is equal to 100% of the full active premium. Annual premium amounts are as follows:

	<u>Retiree</u>		<u>Spousal</u>
Coverage	<u>Contributions</u>		<u>Contributions</u>
Medical - CF \$1,500	\$ 6,177	\$	8,154
Medical - HMO Base	8,091		11,061
Medical - HMO Buy Up	8,936		12,196
Medical - OAP \$750	9,030		11,740

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the Plan for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation to the Plan:

Annual required contribution (ARC)	\$ 1,968
Interest on Net OPEB Obligation	746
Adjustment to the ARC	<u>[919]</u>
Annual OPEB cost (expense)	1,795
Benefit payments	<u>-</u>
Change in net OPEB obligation	1,795
Net OPEB obligation - beginning of year	<u>15,580</u>
Net OPEB obligation - end of year	<u>\$ 17,375</u>

CITY OF MISSION HILLS, KANSAS  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

IV. OTHER INFORMATION (Continued)

E. Postemployment Healthcare Plan (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended December 31, 2016 was as follows:

Fiscal Year <u>Ended</u>	Annual OPEB Cost	Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>	Percentage of Annual OPEB Cost <u>Contributed</u>
December 31, 2014	\$ 2,502	\$ -	\$ 13,155	0.00%
December 31, 2015	2,426	-	15,580	0.00%
December 31, 2016	1,795	-	17,375	0.00%

Funding Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$12,583 and the actuarial value of asset was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,583. The covered payroll (annual payroll of active employees covered by the plan) was \$404,649, and the ratio of the UAAL to the covered payroll was 3.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statement, presents multiyear trend information about whether the actuarial value of plan assets (if any) are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual healthcare cost trend of 7.00% initially, reduced by decrements to an ultimate rate of 5.00% after six years. The UAAL is being amortized as a level dollar over an open thirty-year period.

CITY OF MISSION HILLS, KANSAS  
 OTHER POST-EMPLOYMENT BENEFITS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 December 31, 2016

Schedule of Funding Progress:

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability <u>(b)</u>	Unfund AAL <u>(b) - (a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as Percent of Payroll <u>(b-a)/(c)</u>
7/1/2007	\$ -	\$ 5,913	\$ 5,913	0.00%	\$ 367,936	1.60%
7/1/2009	-	6,472	6,472	0.00%	429,297	1.50%
7/1/2011	-	13,189	13,189	0.00%	437,351	3.00%
7/1/2013	-	13,965	13,965	0.00%	392,657	3.60%
7/1/2015	-	12,583	12,583	0.00%	404,649	3.10%

CITY OF MISSION HILLS, KANSAS

KPERS PENSION PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
 December 31, 2016

Schedule of the City's Proportionate Share of the Net Pension Liability  
 Last Ten Fiscal Years\*

	<u>Local</u> <u>12/31/2016</u>	<u>Local</u> <u>12/31/2015</u>
City's proportion of the net pension liability	0.034%	0.033%
City's proportionate share of the net pension liability	\$ 532,797	\$ 427,567
City's covered employee payroll	\$ 498,283	\$ 478,996
City's proportionate share of the net pension liability as a percentage of it's covered employee payroll	106.93%	89.26%
Plan fiduciary net position as a percentage of the total pension liability	68.55%	71.98%

\* - The amounts presented for each fiscal year were determined as of 12/31. Data became available with the inception of GASB 68 during fiscal year 2015, therefore 10 years of data is unavailable.

Schedule of the City's Contributions  
 Last Ten Fiscal Years\*

	<u>Local</u> <u>12/31/2016</u>	<u>Local</u> <u>12/31/2015</u>
Contractually required contribution	\$ 47,743	\$ 47,237
Contributions in relation to the contractually required contribution	<u>47,743</u>	<u>47,237</u>
Contribution deficiency [excess]	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	520,076	498,283
Contributions as a percentage of covered employee payroll	9.18%	9.48%

\* - The amounts presented for each fiscal year were determined as of 12/31. Data became available with the inception of GASB 68 during fiscal year 2015, therefore 10 years of data is unavailable.

CITY OF MISSION HILLS, KANSAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 December 31, 2016

	Total Nonmajor Special Revenue <u>Funds</u>	Total Nonmajor Governmental <u>Funds</u>
<b>ASSETS</b>		
Cash and investments	\$ 854,259	\$ 854,259
Receivables		
Intergovernmental	<u>24,308</u>	<u>24,308</u>
Total assets	<u>\$ 878,567</u>	<u>\$ 878,567</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accrued liabilities	<u>\$ 7,748</u>	<u>\$ 7,748</u>
Total liabilities	<u>7,748</u>	<u>7,748</u>
Fund balance:		
Assigned	21,231	21,231
Restricted	558,412	558,412
Committed	<u>291,176</u>	<u>291,176</u>
Total fund balance [deficit]	<u>870,819</u>	<u>870,819</u>
Total liabilities and fund balances	<u>\$ 878,567</u>	<u>\$ 878,567</u>

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2016

	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
Intergovernmental	\$ 162,066	\$ 162,066
Reimbursements	7,000	7,000
Use of money and property	<u>617</u>	<u>617</u>
Total revenues	<u>169,683</u>	<u>169,683</u>
EXPENDITURES:		
Current		
Culture and recreation	<u>44,683</u>	<u>44,683</u>
Total expenditures	<u>44,683</u>	<u>44,683</u>
Excess [deficiency] of revenues over [under] expenditures	125,000	125,000
Fund balance - Beginning of year	<u>745,819</u>	<u>745,819</u>
Fund balance - End of year	<u>\$ 870,819</u>	<u>\$ 870,819</u>

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 December 31, 2016

	<u>Special Highway</u>	<u>Statuary Reward</u>	<u>Alcohol Recreation</u>	<u>Stormwater Reserve</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 449,058	\$ 8,086	\$ 106,277	\$ 290,838	\$ 854,259
Receivables					
Intergovernmental	<u>24,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,308</u>
Total assets	<u>\$ 473,366</u>	<u>\$ 8,086</u>	<u>\$ 106,277</u>	<u>\$ 290,838</u>	<u>\$ 878,567</u>
 <b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accrued liabilities	<u>\$ -</u>	<u>\$ 7,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,748</u>
Total liabilities	<u>-</u>	<u>7,748</u>	<u>-</u>	<u>-</u>	<u>7,748</u>
 Fund balance:					
Assigned	-	-	21,231	-	21,231
Restricted	473,366	-	85,046	-	558,412
Committed	<u>-</u>	<u>338</u>	<u>-</u>	<u>290,838</u>	<u>291,176</u>
Total fund balance [deficit]	<u>473,366</u>	<u>338</u>	<u>106,277</u>	<u>290,838</u>	<u>870,819</u>
 Total liabilities and fund balances	 <u>\$ 473,366</u>	 <u>\$ 8,086</u>	 <u>\$ 106,277</u>	 <u>\$ 290,838</u>	 <u>\$ 878,567</u>

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For the Year Ended December 31, 2016

	Special Highway	Statuary Reward	Alcohol Recreation	Stormwater Reserve	Total
REVENUES:					
Intergovernmental	\$ 96,155	\$ -	\$ 65,911	\$ -	\$ 162,066
Reimbursements	-	-	7,000	-	7,000
Use of money and property	<u>362</u>	<u>-</u>	<u>37</u>	<u>218</u>	<u>617</u>
Total revenues	<u>96,517</u>	<u>-</u>	<u>72,948</u>	<u>218</u>	<u>169,683</u>
EXPENDITURES:					
Current					
Culture and recreation	<u>-</u>	<u>-</u>	<u>44,683</u>	<u>-</u>	<u>44,683</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>44,683</u>	<u>-</u>	<u>44,683</u>
Excess [deficiency] of revenues over [under] expenditures	96,517	-	28,265	218	125,000
Fund balance - Beginning of year	<u>376,849</u>	<u>338</u>	<u>78,012</u>	<u>290,620</u>	<u>745,819</u>
Fund balance - End of year	<u>\$ 473,366</u>	<u>\$ 338</u>	<u>\$ 106,277</u>	<u>\$ 290,838</u>	<u>\$ 870,819</u>

See independent auditor's report on the financial statements.



CITY OF MISSION HILLS, KANSAS

SPECIAL HIGHWAY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Intergovernmental	\$ 96,155	\$ -	\$ 96,155	\$ 92,550	\$ 92,550	\$ 3,605
Use of money and property	362	-	362	175	175	187
Total Revenues	<u>96,517</u>	<u>-</u>	<u>96,517</u>	<u>92,725</u>	<u>92,725</u>	<u>3,792</u>
Expenditures:						
Contractual services	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	96,517	-	96,517	<u>\$ 92,725</u>	<u>\$ 92,725</u>	<u>\$ 3,792</u>
Fund Balance, January 1	<u>376,849</u>	<u>-</u>	<u>376,849</u>			
Fund Balance, December 31	<u>\$ 473,366</u>	<u>\$ -</u>	<u>\$ 473,366</u>			

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

ALCOHOL RECREATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Intergovernmental	\$ 65,911	\$ -	\$ 65,911	\$ 56,004	\$ 56,004	\$ 9,907
Reimbursements	7,000	-	7,000	-	-	7,000
Use of money and property	<u>37</u>	<u>-</u>	<u>37</u>	<u>70</u>	<u>70</u>	<u>[33]</u>
Total Revenues	<u>72,948</u>	<u>-</u>	<u>72,948</u>	<u>56,074</u>	<u>56,074</u>	<u>16,874</u>
Expenditures:						
Contractual	<u>44,683</u>	<u>[245]</u>	<u>44,438</u>	<u>60,000</u>	<u>60,000</u>	<u>15,562</u>
Total Expenditures	<u>44,683</u>	<u>[245]</u>	<u>44,438</u>	<u>60,000</u>	<u>60,000</u>	<u>15,562</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	28,265	245	28,510	<u>\$ [3,926]</u>	<u>\$ [3,926]</u>	<u>\$ 32,436</u>
Fund Balance, January 1	<u>78,012</u>	<u>[21,476]</u>	<u>56,536</u>			
Fund Balance, December 31	<u>\$ 106,277</u>	<u>\$ [21,231]</u>	<u>\$ 85,046</u>			

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

STORMWATER RESERVE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Use of money and property	\$ 218	\$ -	\$ 218	\$ 200	\$ 200	\$ 18
Total Revenues	<u>218</u>	<u>-</u>	<u>218</u>	<u>200</u>	<u>200</u>	<u>18</u>
Expenditures:						
Capital outlay	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	218	-	218	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ 18</u>
Fund Balance, January 1	<u>290,620</u>	<u>-</u>	<u>290,620</u>			
Fund Balance, December 31	<u>\$ 290,838</u>	<u>\$ -</u>	<u>\$ 290,838</u>			

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

BOND AND INTEREST FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Taxes	\$ 476,165	\$ -	\$ 476,165	\$ 473,908	\$ 473,908	\$ 2,257
Total Revenues	<u>476,165</u>	<u>-</u>	<u>476,165</u>	<u>473,908</u>	<u>473,908</u>	<u>2,257</u>
Expenditures:						
Debt Service						
Principal	415,000	-	415,000	415,000	415,000	-
Interest and other charges	<u>51,808</u>	<u>-</u>	<u>51,808</u>	<u>51,808</u>	<u>51,808</u>	<u>-</u>
Total Expenditures	<u>466,808</u>	<u>-</u>	<u>466,808</u>	<u>466,808</u>	<u>466,808</u>	<u>-</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	9,357	-	9,357	<u>\$ 7,100</u>	<u>\$ 7,100</u>	<u>\$ 2,257</u>
Fund Balance, January 1	<u>7,938</u>	<u>-</u>	<u>7,938</u>			
Fund Balance, December 31	<u>\$ 17,295</u>	<u>\$ -</u>	<u>\$ 17,295</u>			

See independent auditor's report on the financial statements.

CITY OF MISSION HILLS, KANSAS

CAPITAL PROJECT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - ACTUAL AND BUDGET  
For the Year Ended December 31, 2016

	GAAP Basis	Adjustments to Budgetary Basis	Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive [Negative]
				Original	Final	
Revenues:						
Use of money and property	\$ 509	\$ -	\$ 509	\$ 550	\$ 550	\$ [41]
Total Revenues	<u>509</u>	<u>-</u>	<u>509</u>	<u>550</u>	<u>550</u>	<u>[41]</u>
Expenditures:						
Debt Service						
Capital outlay	-	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess [Deficiency] of Revenues Over [Under] Expenditures	<u>509</u>	<u>-</u>	<u>509</u>	<u>550</u>	<u>550</u>	<u>[41]</u>
OTHER FINANCING SOURCES [USES]						
Transfers [out]	[260,000]	-	[260,000]	[260,000]	[260,000]	-
Total other financing sources [uses]	<u>[260,000]</u>	<u>-</u>	<u>[260,000]</u>	<u>[260,000]</u>	<u>[260,000]</u>	<u>-</u>
Excess [deficiency] of revenues and other sources over [under] expenditures and other [uses]	<u>[259,491]</u>	<u>-</u>	<u>[259,491]</u>	<u>\$ [259,450]</u>	<u>\$ [259,450]</u>	<u>\$ [41]</u>
Fund Balance, January 1	<u>920,700</u>	<u>-</u>	<u>920,700</u>			
Fund Balance, December 31	<u>\$ 661,209</u>	<u>\$ -</u>	<u>\$ 661,209</u>			

See independent auditor's report on the financial statements.



MIZE & HOUSER  
COMPANY P.A.

Mayor and City Council  
City of Mission Hills, Kansas

In planning and performing our audit of the financial statements of Mission Hills, Kansas, as of and for the year ended December 31, 2016, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 26, 2017, on the financial statements of the City of Mission Hills, Kansas.

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

During the audit we extended our testing over purchasing card transactions and randomly selected charges for a sample of employees. In this testing sample of twenty-five transactions, we noted two transactions were missing receipts. We recommend that the City maintain supporting documentation for all charges. We also noted two transactions included the payment of sales tax. The City should submit appropriate tax-exempt status documentation on all purchasing card transactions to avoid the payment of sales tax.

*Management's response (unaudited):* The City Administrator reviews all purchase card transactions. If a receipt is not present when the monthly review is conducted, the City Administrator investigates the transaction to be sure it is legitimate before the monthly invoice is paid to the purchase card company. If a charge is not legitimate, appropriate action is taken.

This report is intended for the use of the Mayor, City Council and other members of management of Mission Hills, Kansas and should not be used by anyone other than these specified parties.

*Mize & Houser: Company PA*

Certified Public Accountants

May 26, 2017  
Lawrence, Kansas