



EL DORADO

THE FINE ART OF LIVING WELL

June 20, 2017

**Honorable City Commission and Citizens of El Dorado:**

The City of El Dorado, Kansas finished the year ended December 31, 2016 with an aggregate net position of \$38,176,062 compared to an aggregate net position of \$41,664,539 at year ended December 31, 2015. This information is meaningless unless we consider its purpose. The ultimate goal of the City's financial statements is to determine whether the City is financially healthy.

Financial health for a municipality is defined as a local government's ability to deliver the public services its residents expect, with the resources its citizens provide, both now and in the future.

You may hear the phrase "Government needs to be ran more like a business," but referring to government like a business misses the major differences between business and government. Businesses provide products and services at a price that allows the operation (and its owners and investors) to profit. Failure to earn a profit over several years may mean the business must shut its doors. The owners and investors lose their investment and another storefront becomes available for another entrepreneur.

Government, on the other hand, does not seek to profit from the provision of public services, but simply desires to collect revenues sufficient to pay for public expenditures. Government must provide services effectively and efficiently so it may meet its many obligations today and continue to provide services demanded by the public well into the future. Bankruptcy or closure of government operations is an option not available in the same sense as business since the community must continue to provide essential public services for the indefinite future.

In other words, water and sewer requires treatment, and law enforcement continues to be necessary lest anarchy ensue, and many other governmental services must be provided in order for the citizens to continue to enjoy freedom and quality of life held dear in the developed world. The services provided by the City of El Dorado are the contributions made to ensure the community's continued prosperity and well-being.

**What the City Hopes to Accomplish**

The City's financial statements must provide the general public with enough information to determine whether the municipality will continue to provide public services, at a price residents are willing to pay, in the near- and long-term time horizons. The City hopes to provide sufficient information to allow the public to confidently trust its ability to meet the public's needs.

This task is further complicated by the fact that 1) tastes and preferences change; 2) time matters; and 3) the City cannot control the uncontrollable. There are many factors that the City, and its elected and appointed officials, simply cannot affect. Even so, successful managers and staff are able to use the resources available to them to continue to provide services at a level that meets or exceeds the public's demands.

A CITY OF CHARACTER

220 E. First El Dorado, KS 67042 Phone 316.321.9100 Fax 316.321.6282

www.eldoks.com

**Headwinds and Tailwinds** (Discussion of major issues affecting local government)

As with any organization, the City of El Dorado operates in an environment that is subject to the ebb and flow of various external factors. Such factors affecting the 2016 financial statements include, but are in no way limited to the following:

**Property Tax Lid.** The Kansas Legislature passed and the Governor signed SB 2088, which established a tax lid on the City's ability to raise ad valorem property taxes. The City is now limited to increasing its mill levy, or rate of taxation for property, to the Consumer Price Index. The legislation became effective July 1, 2016, and applied to the City's 2017 budget and future budgets.

Even so, this legislation will make it more difficult for the City to generate revenue to adjust to changing or unforeseen circumstances. Most notably, inflation may erode the City's ability to provide public services if costs exceed any future increases to assessed valuation. The City will be able to increase its General Fund mill levy, with several exemptions, by 1.4% (\$35,046) for the 2018 budget.

**Rising Health Insurance Costs.** Health insurance costs industry-wide continue to increase by about 15% each year. The City experienced a 6% increase in its health insurance premiums for 2016. The City has been able to control the effect of health insurance increases due to the fact that it is self-insured and has taken proactive actions to increase wellness and health among employees. The City monitors its health insurance exposure and makes adjustments as needed to make the plan viable for employees. The plan offered to employees has changed in the last several years in an attempt to control costs and make employees more mindful of the cost of health services. In addition, the City has made changes to its drug plan to reduce the cost of expensive drugs that may have a cheaper generic offering. The City also looks at options for changing the plan that may reduce premiums while minimizing as much as possible the out-of-pocket expenses to employees.

**Deteriorating Infrastructure.** Cities throughout the United States are realizing the cost of aging and deteriorating infrastructure that is approaching or exceeding its useful life. Public infrastructure is a critical component of the economic growth of our nation, and failure to reinvest in such infrastructure will be detrimental to the nation's continued prosperity.

The City of El Dorado is no different than other communities throughout the nation. Its infrastructure is aging and needing repair and maintenance at an ever-increasing level. The City has taken a proactive approach to investing in its infrastructure by making it a priority over the last few years to invest in streets, sanitary sewer, airport runways and taxiways, and stormwater projects. Even so, the City's investment is likely not sufficient to stay ahead of deterioration that continues to silently erode the utility to the community.

**Underfunded Public Pensions.** The City of El Dorado participates in the Kansas Public Employees Retirement System (KPERs) for its post-employment retirement benefits. Employees of the City are required to participate in KPERs, and the City is required to contribute to KPERs on employees' behalf. Recent changes to state law require the City to publish in its financial statements the current and future liability associated with the unfunded portion of KPERs attributed to the City. The City's unfunded pension liability as December 31, 2016 totaled \$7,980,756, and may be further divided as follows: KPERs at \$3,918,688, Kansas Police & Fire (KP&F) at \$3,852,167, and Library's participation in KPERs at \$209,901.

### **Restructurings and/or Major Organization Changes**

In the short time that I have been employed by the City of El Dorado as City Manager, I have observed the organization and feel that there are several opportunities that would allow it to operate more efficiently and effectively. While restructuring events are often lipstick for management's lack of willingness to address more problematic issues within an organization, careful consideration has brought the conclusion that restructuring in certain instances will benefit the organization and the general public the City is charged with serving. Ideally, the general public will not even notice any changes in the service delivery.

The Prairie Trails Golf Course will be placed under the management of the Parks and Recreation Department. Golf is a form of recreation that some prefer over other forms of recreation, and therefore it made sense to move the golf course under the direct supervision of the Parks and Recreation Department instead of reporting directly to the City Manager. Prairie Trails still receives some financial assistance from the General Fund and is attempting to develop a business plan that will allow the golf course operations to break-even in the next few years.

The human resources function will be managed by committee moving forward. While not ideal, this method of administering the human resources of the organization allows a brain trust to review and discuss options before making decisions that affect personnel within the organization with the goal of minimizing the opportunity for missteps. The change is primarily the result of financial circumstances the City continues to negotiate. The City's ultimate goal is to hire a full-time Human Resources Director when sustainable resources allow.

### **Good News, Bad News**

There is always good and bad news that may be discovered when looking at a municipality's financial statements. Many local governments, however, will require readers to do the work of searching for the bad news while disclosing the greatness of the organization. In the interest of full disclosure, current management is of the opinion that citizens (and investors of the City's bonds) are entitled to a transparent discussion of the City's financial condition without requiring a degree in accounting or public finance.

To that end, the City has been operating a structural deficit in several of its operating funds for the last several years. The good news is that the City is in the process of developing a plan to remedy the situation and "right the ship." Changing a government's spending habits can be a challenging task, and one that should not be taken lightly or without much thought. Throwing darts at a dart board with your eyes closed may allow you to hit a target, but you may not hit the target you were intending to hit.

The City has revised its operational budget for 2017 by decreasing proposed expenditures by approximately \$1.3 million. An additional \$0.5 million has been reduced from the proposed 2018 budget. Expenditure reductions include, but are not limited to:

- Modification of legal services contracts for the City;
- Deferring major capital projects and replacement of vehicles and equipment;
- Closing unfilled, vacant positions that were included in the budget but not offset with a revenue source;
- Reduction of various transfers from various funds to other funds;
- Changing the way various positions were allocated across funds of the organization;
- Reducing hours of operation at the municipal pool and activity center and closing the operation of the Prairie Trails Golf Course pool; and

- Discontinuing the mosquito spraying program.

In addition to expenditure reductions, the City is also looking at opportunities to increase revenue to fund increases in the cost of service delivery. The City Commission is considering increasing the readiness-to-serve fees for both water and sewer utilities to increase revenues to offset debt obligations in these utilities. Court costs are being increased to recover the City's expenses in administering Municipal Court. Other sources of revenue are being reviewed and may be considered if determined to be feasible options to generate revenue. The City is also undertaking a review of all of its existing fees and making adjustments that will bring in additional dollars.

The task at hand has not been an easy one, although staff has been very cooperative and willing to consider the options.

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The City is required to provide language in its transmittal letter, included with its Comprehensive Annual Financial Report ("CAFR") that explains the policies and controls designed to ensure the City's stewardship of public assets. This next section of this letter will discuss these items.

The Comprehensive Annual Financial Report of the City of El Dorado, Kansas, for the year ended December 31, 2016, has been prepared for the review of the governing body, citizens, and other interested in the financial condition of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. Staff believes the data as presented is accurate in all material respects and that it is presented in a manner designed to fairly represent the financial position and results of operations of the City measured by the financial activity of its various funds. Disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to warrant that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. Management believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

### **Independent Audit**

State statutes require an annual audit of the books of accounts, financial records and transactions of all administrative departments of the City by independent certified public accountants selected by the Finance Director. The goal of the independent audit is to provide reasonable assurance to the governing body, citizens, and other interested parties that the financial statements for the year

ended December 31, 2016, are free of material misstatement. The opinion of Berberich Trahan & Co., P.A. is included with this letter for review.

### **Relevant Financial Policies**

**Budgeting:** The City Commission is required by State Statute to adopt a final budget, including revenues and expenditures, for the upcoming year by August 25<sup>th</sup>. The annual budget is the foundation for the City's financial planning and control. The budget is prepared by fund and department (i.e., General Fund and Police Department). The City's budget is prepared on a modified accrual basis further modified by an encumbrance system of accounting as required by applicable state statutes.

The city manager presents recommendations for the budget to the governing body for review. The governing body holds a series of public meetings to review alternative spending proposals. After soliciting public input, the City Commission adopts the budget that becomes effective January 1<sup>st</sup> of the upcoming year. The budget is controlled through an accounting system to ensure effective fiscal management and accountability.

Following approval of the budget, the Finance Department continually monitors and approves all significant deviations from budget authorizations. The cash basis and budget laws of the State of Kansas require cash be on hand before an expenditure is authorized, that all expenditures be budgeted (unless specifically exempted by statute), and that the budget not exceed anticipated revenues, including carry forward balances. Budget-to-actual comparisons are provided in this report for each individual governmental fund in which an adopted annual operating budget is required by Kansas statute.

**Capital Spending:** The City prepares a five-year plan for the replacement of its vehicles and equipment (ERP). The City also maintains a six-year capital improvement plan (CIP) for maintaining and making investments to public infrastructure. Both plans are updated annually and approved by the governing body. Equipment replacements are funded by transfers from other funds, primarily the General Fund, in addition to long-term leases or cash payments for major equipment purchases.

Capital improvements are funded through transfers from other funds, intergovernmental grants and revenues, and from the issuance of general obligation (G.O.) bonds. The funding of equipment replacement and infrastructure maintenance can be designed to provide a stable and sustainable program that minimizes future cost, or the funding of these capital expenses can be deferred in the short term in order to minimize current expenses.

**Debt Service:** The City's debt service is funded primarily by property taxes, although certain issues may be funded with revenue from enterprise funds (i.e., water or sewer rates), development-related assessments, or other identified revenue sources not otherwise obligated. In addition, the City is limited to issuing an amount of general obligation (G.O.) bonds equal to 30% of its assessed valuation as of January 1<sup>st</sup> of any year. As of January 1, 2016, the City's so-called statutory debt limit was \$29,059,208, and the City has outstanding debt \$7,870,979, or 27%, against the aforementioned debt limit. The City's assessed valuation as of January 1, 2016 was \$86,645,015.

**Internal Controls:** Management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control established for such a purpose. Because the cost of internal control should not exceed anticipated

benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from any material misstatement.

Investing: The City determines idle cash available for investing for selected time frames, and solicits bids from local banks for certificates of deposit. Local banks are required to at least match the rate established by the State Municipal Investment Pool, or the City invests its funds in the State Pool. As of December 31, 2016, the City had \$10,327,833 in invested idle cash with an average return on investment of 0.05%.

Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. All potential claims, and/or liabilities are reported immediately when it becomes evident that a loss has occurred or a claim has been made.

The City has addressed the potential risk by purchasing various commercial insurance policies for certain insurable causes of loss. These policies cover liability, employee dishonesty, public official's liability, property damage to buildings, contents, and other personal property. Losses due to earthquakes and terrorism have been excluded from the City's insurance coverage.

Spending Limits: The State of Kansas limits annual spending in each fund to the amount budgeted for the fund through the budgetary process described above. Prior to spending an amount in excess of the budgeted amount, the City must hold a public hearing with notice to citizens published a minimum of ten days in advance of the hearing.

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### **Profile of the Municipal Corporation**

The City of El Dorado, Kansas, is a municipal corporation of the second class chartered by the State of Kansas. The City operates under the Commission-Manager form of government which resembles the chief executive officer/board of director relationship found in business corporations. The governing body is comprised of five members who are elected at-large by the registered voters of El Dorado. Members of the governing body are responsible for approving policy which govern the City and its operations.

The governing body appoints a city manager to serve as chief executive for the municipal corporation. The city manager oversees the daily operations of the local government and supervises the implementation of governing body policies. The city manager is also responsible for the equitable and efficient provision of public services to the citizens of El Dorado.

Such public services provided by the City of El Dorado include: law enforcement, fire protection, street maintenance, building and zoning regulation, water and wastewater treatment, recycling and solid waste collection, cemetery and airport operations. The financial reporting entity consists of the primary government, the City of El Dorado, and a component unit, the Bradford Memorial Library, which is located within the corporate limits of El Dorado.

El Dorado is located in south central Kansas, approximately thirty miles northeast of Wichita, Kansas. The city serves a population of 12,931 residents and is also the county seat for Butler County, Kansas.

## **Economic Condition and Outlook**

### Private Sector Investment:

In 2016, the City experienced private development activity that contributed \$10.2 million in valuation. Five building permits were issued for new commercial development with an aggregate valuation of \$5.7 million, compared to six new commercial developments in 2015 with a valuation of \$3.2 million. In 2016, the City issued twenty-three building permits for commercial additions, remodels, and repairs with a valuation of \$1.7 million. Comparatively, the City issued twenty-eight building permits for similar activity with a valuation of \$3.5 million in 2015.

The City issued nine residential building permits for new construction with a valuation of \$1.9 million. The City issued twelve building permits for new residential construction in 2015 with a valuation of \$2.2 million. Ninety-four building permits were issued in 2016 for residential additions, remodels, and repairs, with a valuation of \$0.84 million. In 2015, ninety building permits were issued for the same activity with a valuation of \$0.65 million.

The City continues to see an interest in private investment opportunities. Several hotels are investing considerable funds into their operations to begin or renew franchises. In addition, several prominent businesses with considerable employment within El Dorado are considering significant investments with the potential of adding millions of dollars to the City's assessed valuation and additional jobs.

### Public Sector Investment:

The City has invested considerable funds into its public infrastructure. In 2016, the City invested \$4.2 million in various public infrastructure projects to include: sanitary sewer cure-in-place-pipe project at Constant Creek (\$41,888), paving of Griffith Street from Central Avenue to Locust Street (\$648,868), construction of sidewalk on 12<sup>th</sup> Street in the Vintage area (\$21,517), asphalt rehabilitation of Country Club Road from 12<sup>th</sup> Street to McCollum and Post Road from Main Street to Country Club Road (\$86,000), resurfacing of Summit from Olive Street to Towanda Street and Central Avenue to 3<sup>rd</sup> Street and Country Club Lane and Skyview Street (\$188,082), and the widening of N. Haverhill Road for Valmont Industries (\$41,982), rebuilt front nine greens at Prairie Trails Golf Course (\$171,205), implemented a \$1.2 million CDBG Project to improve sanitary sewers in southwest El Dorado, purchased a new automated residential refuse truck (\$350,000), purchased a new aerial ladder truck for Fire Department (\$1.3 million), and completed multiple maintenance projects throughout the community. The City invested approximately \$1.1 million in public infrastructure projects in 2015.

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### Recognition

The year-end results allow the City to communicate its financial condition to the general public, as well as demonstrate that public resources were allocated prudently and with the results desired by the public. Recognition should be given to City employees who continue to serve the citizens of El Dorado with a dedication unsurpassed in local government. The operating managers responsible for overseeing the daily activities of the municipal government should be commended for their continued dedication to the citizens of El Dorado and the work done by each of their respective departments for the betterment of the community. Without the stewardship of staff, the City of El Dorado would not be a great place to live, work, and play.

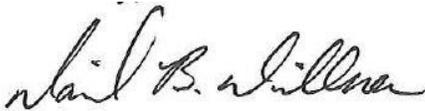
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of El Dorado, Kansas for its comprehensive annual financial report for the fiscal year ended December 31, 2015. This was the thirty-ninth consecutive year that the municipal government has achieved this

prestigious award. The Government Finance Officers Association of the United States and Canada (GFOA) also awarded the Distinguished Budget Presentation Award to the City of El Dorado, Kansas for its annual operating budget and capital improvement plan for the fiscal year ended December 31, 2015. This was the fourth consecutive year that the municipal government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a municipal government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year period only. The City believes that its current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and will submit it to the GFOA to determine its eligibility for another certificate.

Respectfully Submitted,



David B. Dillner  
City Manager



Tammy Schaffer  
Finance Director