

Independent Auditor's Report

Board of County Commissioners
Sedgwick County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sedgwick County, Kansas (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County'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, the Kansas Municipal Audit and Accounting Guide, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension, and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 County's basic financial statements. The accompanying combining and individual fund financial statements and schedules, introductory and statistical sections 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 fund financial statements and schedules of supplementary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
March 30, 2018

Management's Discussion and Analysis

As management of Sedgwick County, Kansas, we offer you this discussion and analysis of the financial activities of Sedgwick County for the fiscal year ended December 31, 2017. This information is designed to identify and explain significant financial issues, changes in Sedgwick County's financial position and deviations from budget. We encourage you to consider this information in conjunction with the letter of transmittal that precedes this narrative, the financial statements, and the notes to the financial statements.

Financial Highlights

- Total net position of Sedgwick County decreased \$6.7 million to \$498.2 million. The governmental funds decreased \$2.4 million, and the Arena fund, our only enterprise fund, decreased \$4.3 million.
- Of this total, (\$34.1) million is reported as unrestricted net position, a decrease from the prior year of \$4.5 million.
- 2017 expenses were \$332.6 million, an increase of \$13.1 million.
- Program revenues were \$119.8 million, an increase of \$3.5 million, primarily due to an increase in Metropolitan Area Building and Construction department revenues. The County is now the managing partner and is receiving all of the revenue rather than the City of Wichita. The increase is offset some by a decrease of \$1.9 million, due to the Sedgwick County Zoo completing the Elephant Barn exhibit at the end of 2016. Per the operating agreement between The Sedgwick County Zoological Society and Sedgwick County, the County will provide monies for the acquisition and construction of the initial physical facilities located at the Zoo.
- Investment earnings increased \$1.5 million to \$8.0 million.

Overview of the Financial Statements

Management's discussion and analysis serves as an introduction to Sedgwick County's basic financial statements. The basic financial statements consist of three components: [1] government-wide financial statements, [2] fund financial statements, and [3] notes to the financial statements. This report also contains other information in addition to the basic financial statements.

The government-wide financial statements provide financial information about the County as a whole, including its component units.

The fund financial statements focus on the County's operations in more detail than government-wide financial statements. The financial statements presented for governmental funds report on the County's general government services and proprietary funds report on the activities the County operates like private-sector businesses.

The basic financial section also includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages A-31 through A-70 of this report.

Government-wide Financial Statements

The *government-wide financial statements* provide readers with a broad overview of Sedgwick County's finances. All current year revenues and expenses are included, regardless of whether related cash has been received or paid. This reporting method produces a view of financial activities and position similar to that presented by most private-sector businesses.

The *statement of net position* presents information on all of Sedgwick County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*, which is one method to measure the County's financial condition. An increase or decrease in the County's net position from one year to the next indicates whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report functions of the County that are principally supported by taxes and intergovernmental revenue (governmental activities) separately from other functions that are intended to recover all or a significant portion of costs through user fees and charges (business-type activities). Governmental activities of the County include general government, public safety, public works, health and welfare, culture and recreation, and economic development. The County has a single business-type activity, the Arena Fund, which is used to account for the assets, liabilities, revenues and expenses associated with INTRUST Bank Arena.

The government-wide financial statements include not only the primary government but also two blended component units, Sedgwick County Fire District 1 and Public Building Commission.

The government-wide financial statements can be found on pages A-15 through A-17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Sedgwick County, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements focus on individual parts of the County, reporting the operations in more detail than the government-wide statements. Fund financial statements focus on the most significant funds within the County. The County's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds include most of the basic services provided by the County and account for essentially the same functions as reported in the governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, the fund financial statements focus on how money flows in and out of the funds during the fiscal year and spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Sedgwick County maintains thirty-two individual governmental funds. Information is presented separately in the governmental funds *balance sheet* and in the governmental funds *statement of revenues, expenditures, and changes in fund balances* for the General Fund, Federal/State Assistance Fund, Public Building Commission Fund, Debt Service Fund, and Debt Proceeds Fund, all of which are reported as major funds. Information on the remaining nonmajor governmental funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Governmental Funds subsection.

The County adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental funds financial statements and reconciliations to the government-wide financial statements can be found on pages A-18 through A-24 of this report.

Proprietary Funds

Sedgwick County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County reports a single enterprise fund to account for the Arena complex. Additional information regarding the INTRUST Bank Arena is provided in the combining schedule in the Enterprise Fund subsection.

Internal service funds are used to accumulate and allocate costs internally among Sedgwick County's various functions. The County utilizes internal service funds to account for its fleet of vehicles, employee health, dental and life insurance, worker's compensation activity, and risk management. The four internal service funds are combined into a single, aggregated column in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* in the Internal Service Funds subsection. Because activity of the internal service funds predominately benefit governmental rather than business-type functions, they are included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages A-26 through A-28 of this report.

Fiduciary Funds

Fiduciary funds are used to report activities whereby the County acts as a trustee or fiduciary to hold resources for the benefit of parties outside the government. The accrual basis of accounting is used for fiduciary funds and is similar to the accounting used for proprietary funds. The government-wide statements exclude fiduciary fund activities and balances, because these assets are restricted in purpose and cannot be used by the County to finance its operations. The County must ensure that assets reported in fiduciary funds are used for their intended purpose.

The County's fiduciary funds are classified as agency funds. These four funds account for tax collection and distribution, and for other clearing and fee collections. Individual fund detail is included in the form of *combining statements* in the Agency Funds subsection.

The basic fiduciary fund financial statement can be found on page A-29 of this report.

Notes to the Financial Statements

The notes provide additional narrative and financial information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the financial statements begin on page A-31 of this report.

Other Required Supplementary Information

This section is found on pages A-71 through A-74 and shows a comparison of the original and final General Fund budget to actual results and reconciliation between budgetary fund balance and GAAP. Information on the County's defined benefit pensions and funding for postemployment benefits other than pensions is also shown.

Other Information

Other information includes combining financial statements for nonmajor governmental, enterprise, internal service, and fiduciary funds. Combining and individual fund statements and schedules can be found on pages B-1 through D-4 of this report.

Government-wide Financial Analysis

Net Position

Net position may serve over time as a useful indicator of a government's financial position. Assets of the primary government exceeded liabilities by \$498.2 million at the end of 2017.

Sedgwick County, Kansas
Net Position
As of December 31, 2017
With Comparatives as of December 31, 2016
(Millions of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$442.0	\$450.3	\$ 10.4	\$ 12.5	\$452.4	\$462.8
Capital assets	440.2	446.3	146.0	148.2	586.2	594.5
Total assets	<u>882.2</u>	<u>896.6</u>	<u>156.4</u>	<u>160.7</u>	<u>1,038.6</u>	<u>1,057.3</u>
Deferred Outflows:						
Deferred refunding	0.3	0.4	-	-	0.3	0.4
Deferred outflows – pensions	26.4	31.1	-	-	26.4	31.1
Total deferred outflows	<u>26.7</u>	<u>31.5</u>	<u>-</u>	<u>-</u>	<u>26.7</u>	<u>31.5</u>
Liabilities:						
Long-term liabilities	354.2	374.2	-	-	354.2	374.2
Other liabilities	56.3	58.1	.1	-	56.4	58.1
Total liabilities	<u>410.5</u>	<u>432.3</u>	<u>.1</u>	<u>-</u>	<u>410.6</u>	<u>432.3</u>
Deferred Inflows:						
Deferred revenues	149.2	144.6	-	-	149.2	144.6
Deferred inflows -pensions	7.3	6.9	-	-	7.3	6.9
Total deferred inflows	<u>156.5</u>	<u>151.5</u>	<u>-</u>	<u>-</u>	<u>156.5</u>	<u>151.5</u>
Net position:						
Net investment in capital assets	309.4	329.3	146.0	148.2	455.4	477.5
Restricted	73.8	50.5	3.1	6.6	76.9	57.1
Unrestricted (deficit)	(41.3)	(35.5)	7.2	5.9	(34.1)	(29.6)
Total net position	<u>\$341.9</u>	<u>\$344.3</u>	<u>\$156.3</u>	<u>\$160.7</u>	<u>\$498.2</u>	<u>\$505.0</u>

The largest portion of the County's net position (91.4 percent) is invested in capital assets (e.g. land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. Sedgwick County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position represents 15.4 percent of net position and is resources that are subject to external restrictions on how they may be used. The remaining balance of (\$34.1) million is *unrestricted (deficit) net position*.

GASB Statements Nos. 68 and 71 were implemented during 2015, requiring the County to record its proportionate share of the Kansas Public Employees Retirement System (KPERS) collective net pension

liability. For 2017, this accounts for the majority of the changes in long-term liabilities due in more than one year and unrestricted net position, as well as a decrease to \$26.4 million to deferred outflows – pensions and an increase to \$7.3 million in deferred inflows – pension. For additional information, please refer to Note IV.F. Beginning on page A-62.

Change in Net Position

The County's net position for governmental activities decreased \$2.4 million or 0.69 percent. Net position of the County's business-type activities decreased \$4.3 million representing a decrease of 2.8 percent during 2017. Overall, net position decreased \$6.7 million. Changes in net position were as follows:

Sedgwick County, Kansas Change in Net Position Fiscal Year Ended December 31, 2017 With Comparatives for the Year Ended December 31, 2016 (Millions of dollars)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 73.1	\$ 65.5	\$ 1.2	\$ 0.6	\$ 74.3	\$ 66.1
Operating grants and contributions	42.3	44.9	-	-	42.3	44.9
Capital grants and contributions	3.1	5.3	-	-	3.1	5.3
General revenues:						
Property taxes	166.8	162.8	-	-	166.8	162.8
Sales taxes	28.1	28.9	-	-	28.1	28.9
Other taxes	3.3	3.4	-	-	3.3	3.4
Investment earnings	8.0	6.4	-	-	8.0	6.4
Extraordinary item	-	(0.5)	-	-	-	(0.5)
Gain on sale of capital assets	-	-	-	-	-	-
Total revenues	<u>324.7</u>	<u>316.7</u>	<u>1.2</u>	<u>0.6</u>	<u>325.9</u>	<u>317.3</u>
Expenses						
General government	52.5	47.5	-	-	52.5	47.5
Public safety	149.5	144.4	-	-	149.5	144.4
Public works	36.2	35.2	-	-	36.2	35.2
Health and welfare	52.9	53.3	-	-	52.9	53.3
Culture and recreation	12.7	12.4	-	-	12.7	12.4
Economic development	16.3	14.2	-	-	16.3	14.2
Interest on long-term debt	7.0	7.2	-	-	7.0	7.2
Arena	-	-	5.5	5.2	5.5	5.2
Total expenses	<u>327.1</u>	<u>314.2</u>	<u>5.5</u>	<u>5.2</u>	<u>332.6</u>	<u>319.4</u>
Increase (decrease) in net position	(2.4)	2.5	(4.3)	(4.6)	(6.7)	(2.1)
Net position, beginning	344.3	341.8	160.6	165.3	504.9	507.1
Net position, ending	<u>\$341.9</u>	<u>\$344.3</u>	<u>\$156.3</u>	<u>\$160.7</u>	<u>\$498.2</u>	<u>\$505.0</u>

Charges for services in governmental activities increased \$7.6 million in 2017. This increase is primarily because the County is now the managing partner for the Metropolitan Area Building and Construction Department and the County now receives all of the revenues, rather than the City of Wichita. Capital grants and contributions decreased \$2.2 million. In 2016, the Sedgwick County Zoo contributed \$2.3 million in capital assets as compared to \$0.4 million in 2017, due to the new elephant barn exhibit. Operating grants and contributions decreased \$2.6 million from 2016 to 2017. This can be attributed to COMCARE DCF revenue was down approx. \$1.0 million and Aging Title III and KDADS revenue was

reduced by approx. \$0.9 million. Property tax collections increased \$4.0 million, due to an increase in ad valorem tax collections.

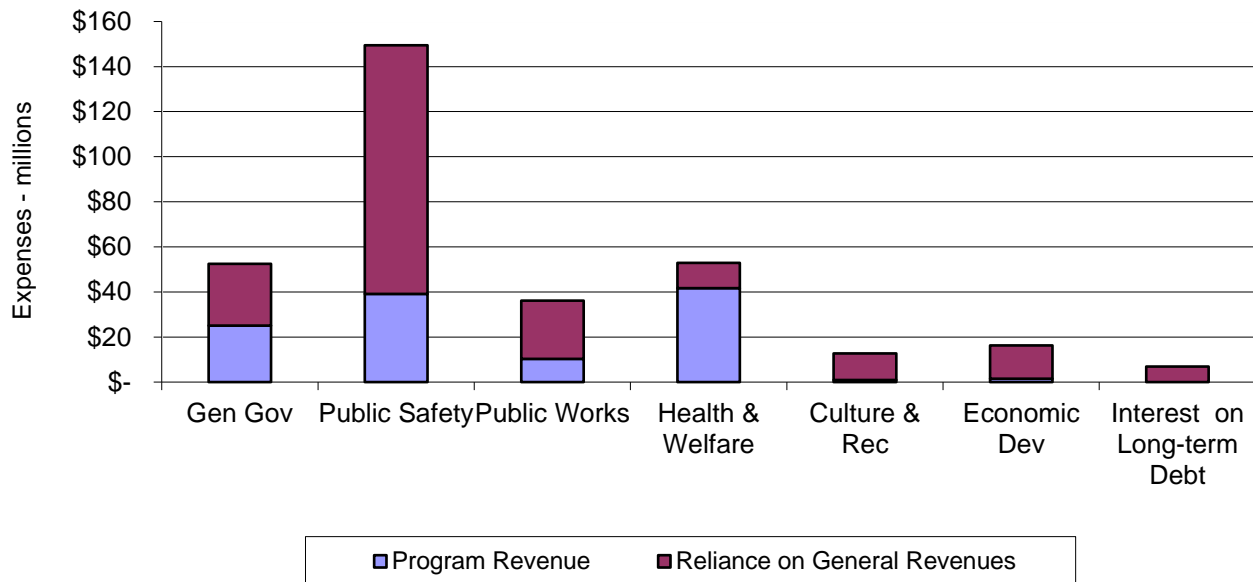
Expenses of governmental activities increased \$12.9 million. General government expenses increased \$5.0 million, 10.5%. Health and welfare expenses decreased \$0.4 million or 0.8%. Culture and recreation expenses increased \$0.3 million or 2.4%. Economic development expenses increased \$2.1 million or 14.8%. Public safety expenses increased \$5.1 million, 3.5%.

Governmental Activities

Governmental activities incurred \$327,089,817 in expenses during 2017. The following list breaks this expense down into percentage by function with the corresponding dollar amount:

○ Public safety	45.7%	\$149,481,681
○ Health and welfare	16.2%	52,924,647
○ General government	16.1%	52,508,805
○ Public works	11.1%	36,196,087
○ Economic development	5.0%	16,269,689
○ Culture and recreation	3.9%	12,752,767
○ Interest on long-term debt	2.0%	6,956,141
Total governmental activities expenses		<u>\$327,089,817</u>

The following chart shows total expenses for each function of governmental activities. The chart also shows total program revenue for each function along with total reliance on general revenues. General revenues are principally taxes and investment earnings.



As reflected in the chart, no function of government is self-supporting. For that reason, there is need for taxes to be levied and collected in order to provide services to the community. The following list shows each function of government, the percentage of reliance on general revenues of the county to fund the function, and the corresponding dollar amount of general revenue and program revenues used to fund the function:

		General Revenues	Program Revenues
o Interest on long-term debt	100.0%	\$ 6,956,141	\$ -
o Economic development	90.6%	14,737,411	1,532,278
o Culture and recreation	93.1%	11,873,236	879,531
o Public works	71.6%	25,926,764	10,269,323
o Public safety	73.7%	110,331,333	39,150,348
o General government	52.1%	27,460,509	25,048,296
o Health and welfare	20.9%	11,184,542	41,740,105
Total reliance on general revenues		<u>\$208,469,936</u>	<u>\$118,619,881</u>

Business-type Activity

Sedgwick County has one business-type activity, the Arena fund. Net position for fiscal year 2017 decreased by \$4.3 million to \$156.3 million. Of that \$156.3 million, \$146.0 million is invested in capital assets. The decrease can be attributed to depreciation, which was \$4.5 million.

County Funds Financial Analysis

As noted earlier, Sedgwick County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term cash inflows and outflows during the fiscal year and balances of spendable resources at year-end. This information is useful in assessing the County's financing requirements. Unassigned fund balance may serve as a useful measure of the County's net resources available for future spending.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$165.0 million, a decrease of \$13.8 million since the beginning of the year. The following table shows how fund balance changed in the major and other governmental funds.

Fund	Beginning Fund Balance	Ending Fund Balance	Change in Fund Balance
General	\$ 63,008,119	\$ 66,172,422	\$ 3,164,303
Federal/State Assistance	23,117,749	22,987,128	(130,621)
Public Building Commission	9,718,608	2,355,876	(7,362,732)
Debt Service	3,271,361	2,864,538	(406,823)
Debt Proceeds	33,545,832	31,668,650	(1,877,182)
Other Governmental	46,191,693	39,003,922	(7,187,771)
Total Governmental Funds	<u>\$ 178,853,362</u>	<u>\$ 165,052,536</u>	<u>\$(13,800,826)</u>

The General Fund is the chief operating fund of Sedgwick County. Ending fund balance in the General Fund increased \$3.2 million, compared to a decrease of \$2.0 million a year ago.

Revenues of the General Fund increased \$8.5 million, to \$164.9 million, in 2017. A variety of miscellaneous revenues categorized as "other revenues" had an increase of \$0.9 million. Property tax increased \$5.3 million from 2016. Intergovernmental revenues decreased \$2.9 million from 2016. Licenses and permits increased 7.1 million from 2016.

General Fund expenditures increased \$5.8 million, to \$150.8 million. The increase primarily can be attributed to an increase in employee pay and increased workers' compensation changes due to an increase in rates. General government expenditures increased \$3.3 million, attributable to the increases in employee pay and new voting machine equipment purchased for the Elections Office. Health and welfare, and cultural and recreation increased \$0.1 million and \$0.2 million respectively. Public safety expenses increased \$2.5 million from 2016.

As a measure of the General Fund's financial position, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.4% of total General Fund expenditures, while total fund balance represents 43.9%. In other words, readily available resources as of December 31 were sufficient to pay for services for three months.

The Federal/State Assistance Fund is a special revenue fund that accounts for programs that receive grant funding. The Federal/State Assistance Fund ended the year with a fund balance of \$23.0 million which is \$0.1 million less than 2016. Revenues decreased \$5.1 million over the prior year, to \$51.2 million. The category of 'other revenues' decreased \$4.8 million. The decrease can be attributed to the ending Affordable Airfares program. Charges for service decreased \$1.0 million from 2016 to 2017. Within this category, Medicaid fees decreased \$0.8 million. Federal/State Assistance Fund expenditures decreased \$2.6 million. Economic development expenditures decreased \$2.0 million, due to the Affordable Airfares program ending. Public safety expenses decreased \$0.3 million from 2016.

The Public Building Commission (PBC) fund is a special revenue fund to account for revenues and expenditures derived from direct financing leases. The PBC fund ended the year with a fund balance of \$2.4 million, which is a decrease of \$7.4 million from 2016. During the year, the County paid \$6.4 million to Wichita State University (WSU) for construction of an Experiential Engineering facility. The facility was financed with lease-revenue bonds sold by the PBC in 2014; the fund balance primarily consists of money that will be spent on principal and interest payments, which began in 2017. The PBC and WSU have entered into a lease for the facility.

Debt Service fund balance decreased by \$0.4 million due mostly to a \$0.3 million decrease in special assessments.

The Debt Proceeds Fund is a capital projects fund that receives proceeds from general obligation bond issues and other long-term financing sources. During 2017, the County did not issue any new debt. \$1.2 million was transferred to capital projects funds to pay for current projects. A portion of transfers out to capital projects funds included \$0.5 million for the acquisition and renovation of a building that will house Metropolitan Area Building and Construction Department, along with other various departments. Another \$0.7 million was used unspent bond proceeds that were transferred out to make debt service payments.

Proprietary Funds

Sedgwick County's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

The Arena Fund represents the activity of the INTRUST Bank Arena. The facility is operated by a private company; the County incurs expenses only for certain capital improvements or major repairs and depreciation, and receives as revenue only a share of profits earned by the operator, if any, and naming rights fees. The Arena Fund had an operating loss of \$4.3 million. The loss can be attributed to \$4.5 million in depreciation expense.

Internal service funds account for the County's fleet operation as well as insurance, including workers compensation, health, life, dental, property, and liability. Fleet operations show a decrease in 2017 of \$0.6 million, to \$23.2 million. The workers' compensation expenses exceeded charges and the fund ended the year with a fund balance of \$3.9 million. In the Risk Management Fund, Sedgwick County expended \$580,463 for property and liability insurance during 2017 and also paid \$317,429 in claims for various items including, but not limited to, storm damage to County property and vehicle damages. The Health, Dental and Life Insurance Reserve Fund accounts for employee benefits. The County uses a self-funded insurance model for health insurance and dental insurance. The fund had a loss of \$1.0 million during 2017 decreasing net position to \$5.7 million at the end of the year.

General Fund Budgetary Highlights

The County did not amend the budget during fiscal year 2017, although appropriations were shifted between line items in the General Fund.

Actual revenue was \$2,513,076, or 1.4%, above both the original and final budgets. Seven of ten major revenue sources ended the year above budget. Licenses and permits were \$2,712,752 above budget; this is primarily due to the Metropolitan Area Building and Construction Department moving from a City of Wichita department to a Sedgwick County department. Other revenue was \$1,431,637 above budget.

Combined the other three major revenues were below budget \$2.7 million. Charges for services were under budget by \$1,306,642. Sales tax revenue was \$1,378,129 below budget. Property tax collections were \$3,279 below budget.

General Fund expenditures totaled \$155.8 million, and were 13.3% less than the final budget. Expenditures for personnel services were less than the final budgets by \$5.4 million and \$4.7 million, respectively. Contractual services ended the year \$18.4 million lower than the final budget. The County budgets a contingency for disaster recovery each year, which is included in contractual services. Much of the discrepancy between budgeted and actual contractual expenditures is due to the fact that the county was not required to use the disaster contingency account. Overall budgetary fund balance in the General Fund increased \$4.8 million in 2017.

Capital Asset and Debt Administration

Sedgwick County's investment in capital assets for its governmental and business-type activities as of December 31, 2017, totaled \$586,250,214 (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, bridges, improvements, machinery and equipment, software, and the INTRUST Bank Arena.

Major capital asset events during the 2017 fiscal year included the following:

- Construction in progress decreased from \$35.0 million at the end of 2016 to \$21.1 million at the end of 2017. \$10.6 million of the decrease comes from the completion of the Sedgwick County Zoo elephant exhibit.

Capital Assets December 31, 2017 (Net of Depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 23,813,066	\$ 13,038,358	\$ 36,851,424
Buildings and improvements	204,486,210	132,218,918	336,705,128
Improvements other than buildings	14,308,167	-	14,308,167
Machinery and equipment	21,281,979	790,486	22,072,465
Infrastructure	155,215,381	-	155,215,381
Construction in progress	21,097,649	-	21,097,649
Total	<u>\$ 440,202,452</u>	<u>\$ 146,047,762</u>	<u>\$ 586,250,214</u>

Additional information regarding capital assets can be found in Note III. C, beginning on page A-49.

Long-term Debt

At the end of 2017, Sedgwick County had total general obligation bonds outstanding of \$48.4 million. This amount includes \$2.0 million of special assessment bonds. The County's long-term obligations also include revenue bonds totaling \$126.3 million. All outstanding debt at the end of the year was associated with governmental activities and is backed by the full faith and taxing power of Sedgwick County with the exception of the Public Building Commission 2014-3 and 2014-4 issuance, which is backed by lease revenue from Wichita State University.

During 2017, Sedgwick County did not issue debt. In 2018, the County issued \$3,682,621 of General Obligation Bonds, Series A, 2018. The proceeds of the 2018A General Obligation Bonds will be used for the purpose of providing permanent financing for the acquisition and improvement of the Ronald Reagan building. The 2018A bonds will be paid over twenty years with the final maturity of August 1, 2038.

Outstanding general obligation bonds of the County and lease revenue bonds of the PBC are rated “AA+” by Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. (“S&P”) and “Aaa” by Moody’s Investors Service (“Moody’s”).

Additional information about the County’s long-term debt can be found in Note III. E, beginning on page A-51 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate in the Wichita MSA stood at 3.4% at the end of 2017, as compared to 4.4% at the end of 2016.
- The 2017 County property tax levy funds the 2018 budget. The 2017 property tax (mill levy) rate is 29.393.
- Wichita is known as the “air capital of the world” because it houses major facilities of three leading aircraft manufacturers: Textron Aviation (which produces Cessna and Beechcraft airplanes), Spirit AeroSystems, and Bombardier Learjet, as well as many other aviation parts suppliers.
- The cost of living index in Wichita is a moderate 91.8, almost 8.2% below the national urban area average of 100.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the funds it receives.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Sedgwick County Division of Finance, 525 N. Main, Suite 823, Wichita, Kansas 67203.

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SEDGWICK COUNTY, KANSAS

Statement of Net Position

December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash, including investments	\$ 153,221,307	\$ 6,588,113	\$ 159,809,420
Receivables, net	254,078,277	595,414	254,673,691
Due from other agencies	2,691,627	-	2,691,627
Inventories, at cost	698,846	-	698,846
Prepaid items	2,329,793	-	2,329,793
Restricted assets:			
Cash, including investments	28,947,264	3,243,556	32,190,820
Capital assets:			
Land and construction in progress	44,910,715	13,038,358	57,949,073
Other capital assets, net of depreciation	395,291,737	133,009,404	528,301,141
Total assets	882,169,566	156,474,845	1,038,644,411
Deferred Outflows of Resources			
Deferred refunding	277,119	-	277,119
Deferred outflows-pensions	26,391,376	-	26,391,376
Total deferred outflows of resources	26,668,495	-	26,668,495
Liabilities			
Accounts payable and other current liabilities	1,790,627	129,527	1,920,154
Accrued wages	4,048,980	-	4,048,980
Accrued interest payable	2,931,099	-	2,931,099
Unearned revenue	45,681,759	-	45,681,759
Due from other entities	960,702	-	960,702
Advance - grants	836,695	-	836,695
Noncurrent liabilities:			
Due within one year	22,624,679	-	22,624,679
Due in more than one year	331,545,540	-	331,545,540
Total liabilities	410,420,081	129,527	410,549,608
Deferred Inflows of Resources			
Deferred property tax revenue	149,226,824	-	149,226,824
Deferred inflows-pensions	7,282,031	-	7,282,031
Total deferred inflows of resources	156,508,855	-	156,508,855
Net Position			
Net investment in capital assets	309,371,709	-	309,371,709
Invested in capital assets	-	146,047,762	146,047,762
Restricted for:			
Capital improvements	9,231,752	-	9,231,752
Capital improvements and operations	-	3,114,029	3,114,029
Debt service	31,385,447	-	31,385,447
Federal/State assistance	11,101,403	-	11,101,403
Economic development	4,013,952	-	4,013,952
Equipment and technology improvements	1,164,115	-	1,164,115
Fire protection	5,337,897	-	5,337,897
Court operations	3,095,444	-	3,095,444
Other purposes	8,463,323	-	8,463,323
Unrestricted (Deficit)	(41,255,917)	7,183,527	(34,072,390)
Total net position	\$ 341,909,125	\$ 156,345,318	\$ 498,254,443

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

SEDGWICK COUNTY, KANSAS

Statement of Activities

For the Year Ended December 31, 2017

	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 52,508,805	\$ 24,879,696	\$ 168,600	\$ -
Public safety	149,481,681	25,057,768	14,092,580	-
Public works	36,196,087	2,037,175	5,519,877	2,712,271
Health and welfare	52,924,647	20,301,262	21,438,843	-
Cultural and recreation	12,752,767	463,752	-	415,779
Economic development	16,269,689	376,000	1,156,278	-
Interest on long-term debt	6,956,141	-	-	-
Total governmental activities	<u>327,089,817</u>	<u>73,115,653</u>	<u>42,376,178</u>	<u>3,128,050</u>
Business-type activities:				
Arena	5,472,682	1,150,086	-	-
Total business-type activities	<u>5,472,682</u>	<u>1,150,086</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 332,562,499</u>	<u>\$ 74,265,739</u>	<u>\$ 42,376,178</u>	<u>\$ 3,128,050</u>

General revenues:

Property taxes
Sales taxes
Other taxes
Investment earnings

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of period

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (27,460,509)	\$ -	\$ (27,460,509)
(110,331,333)	-	(110,331,333)
(25,926,764)	-	(25,926,764)
(11,184,542)	-	(11,184,542)
(11,873,236)	-	(11,873,236)
(14,737,411)	-	(14,737,411)
(6,956,141)	-	(6,956,141)
<u>(208,469,936)</u>	<u>-</u>	<u>(208,469,936)</u>
-	(4,322,596)	(4,322,596)
-	<u>(4,322,596)</u>	<u>(4,322,596)</u>
\$ (208,469,936)	\$ (4,322,596)	\$ (212,792,532)
166,801,051	-	166,801,051
28,073,924	-	28,073,924
3,279,473	-	3,279,473
<u>7,972,100</u>	<u>-</u>	<u>7,972,100</u>
206,126,548	-	206,126,548
(2,343,388)	(4,322,596)	(6,665,984)
<u>344,252,513</u>	<u>160,667,914</u>	<u>504,920,427</u>
<u>\$ 341,909,125</u>	<u>\$ 156,345,318</u>	<u>\$ 498,254,443</u>

SEDGWICK COUNTY, KANSAS

Balance Sheet **Governmental Funds** **December 31, 2017**

	General Fund	Federal/State Assistance Fund	Public Building Commission
Assets:			
Cash, including investments	\$ 57,434,783	\$ 21,822,943	\$ 18,184
Restricted investment	-	-	2,337,692
Advance receivable	5,410,167	-	-
Due from other funds	-	-	-
Due from other agencies	421,061	1,628,529	-
Accounts receivable	364,572	1,086,981	-
Property tax receivable	102,268,251	-	-
Sales tax receivable	2,593,712	-	-
Interest receivable	694,730	-	-
Prepaid items	2,329,793	-	-
Lease receivable	-	-	90,108,843
Notes receivable	936,044	-	-
Special assessments receivable:			
Noncurrent	-	-	-
Delinquent (including interest)	-	-	-
Inventories, at cost	-	77,846	-
Total assets	\$ 172,453,113	\$ 24,616,299	\$ 92,464,719
Liabilities:			
Accounts payable	\$ 609,261	\$ 184,601	\$ -
Accrued wages	2,356,242	700,610	-
Advance - grants	92,805	743,890	-
Due to other funds	-	-	-
Advance payable	-	-	-
Due to other entities	954,132	70	-
Total liabilities	4,012,440	1,629,171	-
Deferred Inflows of Resources:			
Deferred property tax revenue	102,268,251	-	-
Unavailable revenue - accounts receivable	-	-	-
Deferred lease receivable	-	-	90,108,843
Unavailable revenue - special assessments	-	-	-
Total deferred inflows of resources	102,268,251	-	90,108,843
Fund balances:			
Nonspendable:			
Inventories	-	77,846	-
Advance receivable	5,410,167	-	-
Notes receivable	936,044	-	-
Prepaid items	2,329,793	-	-
Restricted:			
General Government	2,071,538	-	-
Debt Service	-	-	18,184
Public Safety	220,137	2,485,690	-
Public Works	-	-	-
Health and Welfare	-	8,342,022	-
Culture and Recreation	-	-	-
Economic Development	-	4,368,461	2,337,692
Capital Outlay	-	-	-
Committed:			
Capital Outlay	-	-	-
Health and Welfare	-	741,876	-
Assigned:			
General Government	15,250,691	-	-
Public Safety	121,416	818,097	-
Public Works	400	-	-
Health and Welfare	1,555	6,153,136	-
Culture and Recreation	2,556	-	-
Capital Outlay	-	-	-
Unassigned	39,828,125	-	-
Total fund balance	66,172,422	22,987,128	2,355,876
Total liabilities, deferred inflows of resources and fund balances	\$ 172,453,113	\$ 24,616,299	\$ 92,464,719

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

Debt Service Fund	Debt Proceeds Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,833,724	\$ 4,563,218	\$ 41,835,587	\$ 128,508,439
-	26,609,572	-	28,947,264
-	-	-	5,410,167
-	495,860	-	495,860
-	-	642,037	2,691,627
30,814	-	1,643,582	3,125,949
11,917,131	-	35,041,442	149,226,824
-	-	2,593,713	5,187,425
-	-	-	694,730
-	-	-	2,329,793
-	-	-	90,108,843
-	-	-	936,044
2,931,343	-	-	2,931,343
1,867,119	-	-	1,867,119
-	-	440,557	518,403
<u>\$ 19,580,131</u>	<u>\$ 31,668,650</u>	<u>\$ 82,196,918</u>	<u>\$ 422,979,830</u>
\$ -	\$ -	\$ 805,291	\$ 1,599,153
-	-	948,172	4,005,024
-	-	-	836,695
-	-	495,860	495,860
-	-	5,410,167	5,410,167
-	-	6,500	960,702
<u>-</u>	<u>-</u>	<u>7,665,990</u>	<u>13,307,601</u>
11,917,131	-	35,041,442	149,226,824
-	-	485,564	485,564
-	-	-	90,108,843
<u>4,798,462</u>	<u>-</u>	<u>-</u>	<u>4,798,462</u>
<u>16,715,593</u>	<u>-</u>	<u>35,527,006</u>	<u>244,619,693</u>
-	-	440,557	518,403
-	-	-	5,410,167
-	-	-	936,044
-	-	-	2,329,793
-	-	2,040,299	4,111,837
2,864,538	26,609,572	25,790	29,518,084
-	-	11,112,418	13,818,245
-	-	3,093,696	3,093,696
-	-	1,306,256	9,648,278
-	-	58,053	58,053
-	-	9,500	6,715,653
-	5,059,078	9,231,752	14,290,830
-	-	6,243,159	6,243,159
-	-	-	741,876
-	-	-	15,250,691
-	-	826,865	1,766,378
-	-	439,400	439,800
-	-	-	6,154,691
-	-	-	2,556
-	-	4,831,905	4,831,905
-	-	(655,728)	39,172,397
<u>2,864,538</u>	<u>31,668,650</u>	<u>39,003,922</u>	<u>165,052,536</u>
<u>\$ 19,580,131</u>	<u>\$ 31,668,650</u>	<u>\$ 82,196,918</u>	<u>\$ 422,979,830</u>

SEDGWICK COUNTY, KANSAS

Reconciliation of the Statement of Net Position to the Balance Sheet for Governmental Funds December 31, 2017

Total fund balances of governmental funds	\$	165,052,536
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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 the assets is \$775,475,955 and the accumulated depreciation is \$348,065,057, excluding internal service fund capital assets.		427,410,898
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		34,309,135
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Certain accounts receivable resulting from charges for services are not considered available to liquidate liabilities of the current period, and are therefore deferred in the funds. However, they are recognized as revenue in the entity-wide statements as soon as the related improvement has been completed or the related service has been provided.

Special assessments	\$ 4,798,462	
Principal portion of lease receivable	44,427,084	
Miscellaneous other	485,564	49,711,110

Other deferred outflows of resources are not due and payable in the current period and therefore are not reported in the funds

Deferred refunding	\$ 277,119	
Deferred outflows - pensions	26,391,376	26,668,495

Long-term liabilities are not due and payable in the current period and are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Long-term liabilities at year-end consist of:

Bonds payable	\$ (48,415,000)	
Bond premium	(7,260,566)	
Revenue bonds payable	(126,290,000)	
Capital lease payable	(1,124,819)	
Compensated absences	(6,150,000)	
Net pension liability	(141,282,887)	
Other postemployment benefits other than pensions	(20,506,647)	
Accrued interest payable	(2,931,099)	(353,961,018)

Other deferred inflows of resources do not increase net position until a future period and therefore are not reported in the funds

Deferred inflows - pensions		(7,282,031)
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Net position of governmental activities	\$	341,909,125
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The notes to the financial statements are an integral part of this statement

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SEDGWICK COUNTY, KANSAS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2017

	General Fund	Federal/State Assistance Fund	Public Building Commission
Revenues			
Property taxes	\$ 115,452,832	\$ -	\$ -
Emergency telephone services taxes	-	-	-
Sales taxes	15,634,528	-	-
Special assessments	-	-	-
Other taxes	324,026	11,234	-
Intergovernmental	1,048,298	30,858,804	-
Charges for services	14,967,846	19,888,210	637,917
Uses of money and property	4,802,882	12,722	1,819,000
Fines and forfeits	89,765	77,579	-
Licenses and permits	7,918,393	-	-
Other	4,631,145	324,452	-
Total revenues	<u>164,869,715</u>	<u>51,173,001</u>	<u>2,456,917</u>
Expenditures			
Current:			
General government	37,588,652	-	-
Public safety	90,961,533	10,172,348	-
Public works	1,839,230	-	-
Health and welfare	8,597,730	40,843,884	-
Cultural and recreation	9,427,758	-	-
Economic development	2,428,563	1,188,225	6,409,828
Debt service:			
Principal	-	-	1,440,000
Interest and fiscal charges	-	-	1,969,821
Capital outlay	-	-	-
Total expenditures	<u>150,843,466</u>	<u>52,204,457</u>	<u>9,819,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,026,249</u>	<u>(1,031,456)</u>	<u>(7,362,732)</u>
Other financing sources (uses)			
Transfers from other funds	477,058	900,835	-
Transfers to other funds	(11,339,004)	-	-
Total other financing sources (uses)	<u>(10,861,946)</u>	<u>900,835</u>	<u>-</u>
Net change in fund balance	3,164,303	(130,621)	(7,362,732)
Fund balances, beginning of year	<u>63,008,119</u>	<u>23,117,749</u>	<u>9,718,608</u>
Fund balances, end of period	<u>\$ 66,172,422</u>	<u>\$ 22,987,128</u>	<u>\$ 2,355,876</u>

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

Debt Service Fund	Debt Proceeds Fund	Other Governmental Funds	Total Governmental Funds
\$ 13,310,693	\$ -	\$ 38,037,526	\$ 166,801,051
-	-	2,886,438	2,886,438
-	-	12,439,396	28,073,924
629,541	-	-	629,541
-	-	57,775	393,035
150,456	-	13,176,548	45,234,106
633,811	-	23,298,692	59,426,476
-	296,589	96,578	7,027,771
-	-	-	167,344
-	-	56,434	7,974,827
-	-	772,229	5,727,826
<u>14,724,501</u>	<u>296,589</u>	<u>90,821,616</u>	<u>324,342,339</u>
-	-	5,201,946	42,790,598
-	-	42,785,691	143,919,572
-	-	11,629,436	13,468,666
-	-	5,217,022	54,658,636
-	-	17,974	9,445,732
-	-	7,624,392	17,651,008
13,620,000	-	589,143	15,649,143
4,678,814	943,350	34,641	7,626,626
-	-	32,806,639	32,806,639
<u>18,298,814</u>	<u>943,350</u>	<u>105,906,884</u>	<u>338,016,620</u>
<u>(3,574,313)</u>	<u>(646,761)</u>	<u>(15,085,268)</u>	<u>(13,674,281)</u>
3,167,490	-	13,761,049	18,306,432
-	(1,230,421)	(5,863,552)	(18,432,977)
<u>3,167,490</u>	<u>(1,230,421)</u>	<u>7,897,497</u>	<u>(126,545)</u>
(406,823)	(1,877,182)	(7,187,771)	(13,800,826)
<u>3,271,361</u>	<u>33,545,832</u>	<u>46,191,693</u>	<u>178,853,362</u>
<u>\$ 2,864,538</u>	<u>\$ 31,668,650</u>	<u>\$ 39,003,922</u>	<u>\$ 165,052,536</u>

SEDGWICK COUNTY, KANSAS

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2017

Net change in fund balances - total governmental funds	\$	(13,800,826)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those capitalized assets is allocated over estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlays capitalized	\$ 18,172,094	
Loss on disposal of assets	(718,282)	
Depreciation expense	<u>(22,146,873)</u>	(4,693,061)

Contributed capital assets are recognized as revenues on the statement of activities		415,779
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Payments received on certain receivables are recognized as revenue when received in the fund. However, in the statement of net position, revenue is recognized as earned.		1,545,149
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Repayment of bond principal and other long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds payable	\$ 8,325,000	
Revenue bond payable	6,735,000	
Capital lease payable	<u>589,143</u>	15,649,143

Bond costs - governmental funds report the effect of premiums, discounts and similar items when the debt is issued, whereas these amounts are deferred and amortized in the statement of activities		1,139,901
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are not reported until due.		346,342
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In the statement of activities, compensated absences are measured by the amounts earned during the year, instead of by the amount paid.		250,000
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In the statement of activities, other postemployment benefits is measured by the annual required contribution, as adjusted, instead of by the amount paid.		(1,048,531)
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Payment of pension contributions is an expenditure in the governmental funds, but reduces the net pension liability in the statement of net position. Additionally, the effect of changes in deferred inflows and deferred outflows for pensions are only recorded in the statement of activities.		(1,163,040)
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Internal service funds are used by management to charge the costs of fleet management and insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>(984,244)</u>
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Change in net position of governmental activities	\$	<u>(2,343,388)</u>
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The notes to the financial statements are an integral part of this statement

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SEDGWICK COUNTY, KANSAS

Statement of Net Position Proprietary Funds December 31, 2017

	Business-type Activity - Enterprise Fund Arena Fund	Governmental Activities - Internal Service Funds
<u>Assets</u>		
Current assets:		
Cash, including investments	\$ 6,588,113	\$ 24,712,868
Accounts receivable	595,414	-
Inventories, at cost	-	180,443
Restricted assets:		
Cash, including investments	3,243,556	-
Total current assets	10,427,083	24,893,311
Noncurrent assets:		
Capital assets:		
Land	13,038,358	40,580
Buildings and improvements	165,830,314	8,319,354
Machinery and equipment	6,828,643	30,045,867
Less accumulated depreciation	(39,649,553)	(25,614,247)
Total capital assets (net of accumulated depreciation)	146,047,762	12,791,554
Total assets	\$ 156,474,845	\$ 37,684,865
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 129,527	\$ 191,474
Accrued wages	-	43,956
Estimated claims costs payable	-	2,755,000
Total current liabilities	129,527	2,990,430
Noncurrent liabilities:		
Estimated claims costs payable	-	385,300
Total liabilities	129,527	3,375,730
<u>Net position</u>		
Investment in capital assets	146,047,762	12,791,554
Restricted for capital improvements and operations	3,114,029	-
Unrestricted	7,183,527	21,517,581
Total net position	156,345,318	34,309,135
Total liabilities and net position	\$ 156,474,845	\$ 37,684,865

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

SEDGWICK COUNTY, KANSAS

Statement of Revenues, Expenses, and Changes in Net Position Proprietary Funds For the Year Ended December 31, 2017

	Business-type Activity - Enterprise Fund Arena Fund	Governmental Activities - Internal Service Funds
Operating revenues:		
Charges for services	\$ 1,030,548	\$ 41,490,910
Other revenue	119,538	193,947
Total operating revenues	<u>1,150,086</u>	<u>41,684,857</u>
Operating expenses:		
Salaries and benefits	-	1,700,576
Contractual services	486,021	2,658,070
Utilities	-	76,320
Supplies and fuel	-	2,620,693
Administrative charges	-	173,460
Depreciation expense	4,522,596	2,870,925
Claims expense	-	32,431,186
Other expense	464,065	3,556
Total operating expenses	<u>5,472,682</u>	<u>42,534,786</u>
Operating income (loss)	<u>(4,322,596)</u>	<u>(849,929)</u>
Nonoperating revenues:		
Investment income	-	128,571
Gain (loss) on sale of assets	-	(389,431)
Total nonoperating revenues	<u>-</u>	<u>(260,860)</u>
Income (loss) before transfers	(4,322,596)	(1,110,789)
Transfers:		
Transfers from other funds	-	771,455
Transfers to other funds	<u>-</u>	<u>(644,910)</u>
Change in net position	(4,322,596)	(984,244)
Net position, beginning of year	<u>160,667,914</u>	<u>35,293,379</u>
Net position, end of period	<u>\$ 156,345,318</u>	<u>\$ 34,309,135</u>

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

SEDGWICK COUNTY, KANSAS

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	Business-type Activity - Enterprise Fund Arena Fund	Governmental Activities - Internal Service Funds
Cash flows from operating activities		
Receipts from customers	\$ 729,672	\$ 55,870
Receipts from interfund services provided	-	41,491,438
Other operating revenues	-	138,077
Payments to suppliers for goods and services	(820,559)	(38,483,699)
Payments to employees for services	-	(1,692,432)
Net cash provided by (used in) operating activities	<u>(90,887)</u>	<u>1,509,254</u>
Cash flows from noncapital financing activities		
Transfers from other funds	-	771,455
Transfers to other funds	-	(644,910)
Net cash provided by noncapital financing activities	<u>-</u>	<u>126,545</u>
Cash flows from capital and related financing activities		
Proceeds from sale of capital assets	-	134,549
Purchases and construction of capital assets	<u>(2,422,591)</u>	<u>(1,530,750)</u>
Net cash used in capital and related financing activities	<u>(2,422,591)</u>	<u>(1,396,201)</u>
Cash flows from investing activities		
Interest on investments	-	128,571
Net cash provided by investing activities	<u>-</u>	<u>128,571</u>
Net increase (decrease) in cash and cash equivalents	(2,513,478)	368,169
Cash and cash equivalents, beginning of the year	<u>12,345,147</u>	<u>24,344,699</u>
Cash and cash equivalents, end of the year	<u>\$ 9,831,669</u>	<u>\$ 24,712,868</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (4,322,596)	\$ (849,929)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	4,522,596	2,870,925
Decrease in prepaid expenses	-	8,144
Decrease (increase) in accounts receivable	(420,414)	528
Increase in inventories	-	(26,948)
Increase (decrease) in accounts payable	129,527	(502,266)
Increase in estimated claims payable	-	8,800
Net cash provided by (used in) operating activities	<u>\$ (90,887)</u>	<u>\$ 1,509,254</u>

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

SEDGWICK COUNTY, KANSAS

Statement of Fiduciary Net Position *Agency Funds* *December 31, 2017*

	Agency Funds
Assets	
Cash, including investments	\$ 345,440,980
Property tax levied	231,634,715
Total assets	<u>\$ 577,075,695</u>
Liabilities	
Accrued liabilities	\$ 17,401,917
Due to other governmental units	559,673,778
Total liabilities	<u>\$ 577,075,695</u>

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

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SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

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SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

I. Summary of Significant Accounting Policies

A. Reporting Entity

Sedgwick County (County) is organized under the laws of the State of Kansas (Kansas or State) and is governed by an elected five-member board. As required by generally accepted accounting principles (GAAP), these financial statements present the primary government and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Units - Sedgwick County Fire District 1 (Fire District) is governed by the Sedgwick County Board of County Commissioners, acting as a separate governing body. The Fire District is a separate taxing entity by applicable Kansas statutes, providing fire protection services to certain areas of the County. The costs of providing such service, including retirement of long-term debt, are provided from property taxes assessed to property owners in the benefit district. The Fire District general obligation bonds payable are general obligation debt of the Fire District and are secured by the full faith and credit of the Fire District. For financial reporting, the financial activities of the Fire District are accounted for within the special revenue funds, debt service funds, and capital projects funds within the County's financial statements. The blending method is used because the Fire District's governing body is identical to the County's governing board and because the County's finance staff and resources will be used to create and oversee the Fire District's lease purchase agreements.

The Sedgwick County Public Building Commission (SCPBC) was established to benefit the County and other governmental entities and is governed by a separate five-member board. The Sedgwick County Board of County Commissioners appoints all five members of the SCPBC Board and is able to impose its will on the SCPBC. The SCPBC has the authority to issue revenue bonds to finance the cost of acquiring and/or constructing land and facilities operated for a public purpose by a governmental entity. The SCPBC finances the debt service of the revenue bonds by leasing the land and facilities to the governmental entity that operates it. The operating governmental entity guarantees the rentals under the SCPBC lease. The SCPBC has no power to levy taxes, and revenue bonds issued by the SCPBC are not included in any legal debt limitations of the operating governmental entity. The SCPBC is considered a blended component unit due to a majority of the total debt outstanding for SCPBC being expected to be repaid entirely with the resources of the County. For financial reporting, the financial activities of the SCPBC are accounted for within the special revenue funds within the County's financial statements.

Separate audited financial statements are not prepared for the Sedgwick County Fire District or the SCPBC.

Related Organizations - The County Manager and Board of County Commissioners are also responsible for appointing ten of the eleven members of the board of the Sedgwick County Technical Education and Training Authority. However, the County's accountability for this organization does not extend beyond making the appointments. The Sedgwick County Technical Education and Training Authority is the official governing body of the Wichita Area Technical College.

The Sedgwick County Zoological Society, Inc. (Society) and Sedgwick County Board of County commissioners entered into an agreement on August 18, 1967, which employs the Society as an agent of the County to plan, establish, manage, operate, and develop zoological gardens and exhibits. Sedgwick County provides monies annually for the maintenance and operation of the facility. Such expenditures are financed within the general fund, the capital reserve fund, and the park and recreation fund of Sedgwick County.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

I. Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report financial information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. However, interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include [1] charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and [2] grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are presented for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Fund Financial Statement Presentation

Government-Wide Financial Statements - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements, except for agency funds, which have no measurement focus. 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. Special assessments are recognized as revenue when levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - 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 government considers revenues collected within 60 days of the end of the current fiscal period as available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and pension and OPEB liabilities are only recognized to the extent the liability is normally expected to be liquidated with expendable available resources.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Fund Financial Statement Presentation (continued)

Property taxes are budgeted to finance the subsequent year's operations and, consequently, are not susceptible to accrual. Sales taxes collected and held by merchants and/or the State at year-end on behalf of the County are recognized as revenue. Licenses, fees, fines, forfeitures, charges for services, and other revenues are generally not susceptible to accrual and are recorded when received in cash.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Unrestricted aid is reported as revenue in the fiscal year during which the entitlement is received.

The County's fiduciary funds consist of agency funds. Agency funds, unlike all other types of funds, report only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables.

The County 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 *Federal/State Assistance Fund* is a special revenue fund established to account for revenues and expenditures derived from Federal and State grant sources.
- ❑ The *Public Building Commission Fund* is a blended component unit (special revenue fund) established to account for revenues and expenditures derived from direct financing leases.
- ❑ The *Debt Service Fund* accounts for the servicing of general long-term debt, including special assessment debt that is secured by the full faith and credit of the County, not being financed by proprietary funds.
- ❑ The *Debt Proceeds Fund* accounts for the receipt of proceeds from general obligation bonds and transfers to capital projects for financing the costs of improvements.

The County reports the following major proprietary fund:

The *Arena Fund* is a major fund and the only enterprise fund of the County, accounting for activities of the County-owned downtown arena.

Additionally, the County reports the following fund types:

- ❑ *Nonmajor special revenue funds* account for the proceeds of specific revenue sources (other than for debt service or capital projects) that are restricted or committed for specified purposes.
- ❑ *Nonmajor capital projects funds* account for financial resources to be used for the acquisition or construction of major capital facilities or improvements (other than those financed by proprietary funds).

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Fund Financial Statement Presentation (continued)

- ❑ *Internal service funds* account for fleet management, health, dental and life insurance reserves, workers' compensation reserves, and risk management reserves that provide services to other departments on a cost-reimbursement basis.
- ❑ *Agency funds* are used to report resources held by the County in a custodial capacity for tax collections and related distributions to other governments, as well as amounts held as fiduciary resources for remittance to individuals, private organizations or other governments through established clearing/other fee collection accounts.

Expenditures are grouped by function. The following are descriptions of the County's functions:

- ❑ *General government* includes legislative, executive, financial administration, law, personnel administration, elections, facility operations, information technology, and planning & zoning functions.
- ❑ *Public safety* includes public safety administration, law enforcement, corrections, protective inspection, fire protection, EMS, emergency communications, civil preparedness and judicial functions.
- ❑ *Public works* includes road & bridges, storm drainage, waste disposal, weed control, and environmental resources functions.
- ❑ *Health and welfare* includes mental health, public health, aging assistance, general assistance, and animal control functions.
- ❑ *Cultural and recreation* includes parks, fairs & livestock, museums, and zoo functions.
- ❑ *Economic development* includes education, economic development, economic opportunity, and urban redevelopment & housing functions.
- ❑ *Debt service* includes payment of principal, interest and debt issuance cost.
- ❑ *Capital Outlay* includes construction of buildings, roads and major asset purchase.

Amounts reported as *program revenues* include: [1] charges to customers or applicants for goods, services, or privileges provided, [2] operating grants and contributions, and [3] capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. For internal service funds, operating revenues and expenses relate to goods or services provided to other funds. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources, as they are needed.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS **December 31, 2017**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

1. Deposits and Investments

The County maintains a cash and investment pool that is available for use by all funds of the primary government. The pool has the general characteristics of demand deposit accounts, in that each fund may deposit additional cash at any time and also, effectively, may withdraw cash at any time without prior notice or penalty. The pooled cash is invested to the extent available in authorized investments. Each fund type's portion of the pool is displayed on the financial statements as "cash, including investments."

For purposes of the statement of cash flows, the County considers investments of the proprietary fund types to be cash equivalents if such investments have original maturities of three months or less.

The County's investment policy and Kansas law (K.S.A. 12-1675 – 12-1677) allow monies not otherwise regulated by statute to be invested in:

- Temporary notes of Sedgwick County;
- Time deposits, open accounts, or certificates of deposits with maturities of not more than four years;
- Repurchase agreements with commercial banks, or State or federally chartered savings and loan associations that have offices in Sedgwick County;
- United States treasury bills or notes with maturities not exceeding four years;
- U.S. government agency securities with a maturity of not more than four years;
- The municipal investment pool fund operated by the Kansas State Treasurer. This pool is not an SEC registered pool. The Pooled Money Investment Board (PMIB) provides the regulatory oversight for this pool. The fair value of the PMIB investments approximates the value of pool shares; and,
- A municipal investment pool established through the trust department of commercial banks that have offices in Sedgwick County.

In addition to the preceding authorized investments, the County's investment policy and Kansas law (K.S.A. 10-131) allow investment of proceeds of bonds and temporary notes in the following:

- U.S. government and agency obligations;
- Time deposits with banks and trust companies in Sedgwick County;
- FNMA, FHLB, and FHLMC obligations;
- Collateralized repurchase agreements;
- Investment agreements with financial institutions, including broker/dealers whose obligations are rated in one of the three highest rating categories by either Moody's or Standard & Poor's;
- Mutual funds whose portfolio consists entirely of obligations of the U.S. government, U.S. government agencies, FNMA, FHLB, and FHLMC; and
- Certain Kansas municipal bonds.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

1. Deposits and Investments (continued)

During 2017, the County invested in certificates of deposit, repurchase agreements, the Kansas Municipal Investment Pool, U.S. government and agency obligations, and mutual funds whose portfolio consists entirely of obligations of the U.S. government.

Unless specifically required under applicable Kansas statutes or other restrictions, earnings from investments are allocated based on average available cash balances, and the remaining earnings are allocated to the General Fund. Investments are carried at fair value.

2. Receivables

Interfund receivables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property tax receivables – In accordance with Kansas statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and are levied and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied, with the balance to be paid on or before May 10 of the ensuing year. Kansas statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year.

Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred inflows of resources in both the government-wide and fund financial statements. It is not practicable to apportion delinquent taxes at the end of the year, and further, those amounts are not material in relationship to the basic financial statements.

Special assessments receivable – As required by Kansas statutes, projects financed in part by special assessments are financed through the issuance of general obligation bonds that are secured by the full faith and credit of the County and are retired from the Debt Service Fund. Further, Kansas statutes permit levying additional general ad valorem property taxes in the Debt Service Fund to finance delinquent special assessments receivable. Consequently, special assessments receivable are accounted for within the Debt Service Fund.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

2. Receivables (continued)

Special assessment taxes are levied over a 10 or 15-year period, and the County may foreclose on liens against property benefited by special assessments when delinquent assessments are two years in arrears. In the fund financial statements, the special assessment taxes levied are a lien on the property and are recorded as special assessments receivable in the Debt Service Fund, with a corresponding amount recorded as deferred inflows of resources in the fund financial statements at December 31.

Note receivable – Sedgwick County agreed to loan the Sedgwick County Zoological Society, Inc. up to \$2,400,000 for a 10-year term beginning April 1, 2007. The loan funds capital improvements for the Zoo at an initial rate of 5.23%, adjusted annually. At December 31, 2017 the note balance was \$936,044. Starting in 2014, there is a moratorium for five years. During that time, the Zoo, will not be required to make payments on the loan. The rate will reset April 1, 2018.

3. Inventories

Inventories of the governmental funds are valued at cost as determined by the first-in, first-out (FIFO) method. The consumption method is used to account for these inventories. Under the consumption method, inventories purchased are recorded as an asset and expenditure recognition is deferred until the inventories are actually consumed. Reported inventories in governmental funds are equally offset by a nonspendable fund balance, which indicates they are unavailable for appropriation, even though they are a component of reported assets. Inventories of proprietary funds are valued at cost determined on the moving weighted average method.

4. Prepaid Items – Land Lease

Effective January 1, 2007, the County, through the SCPBC, entered into a 50-year lease as lessee with the Wichita Airport Authority of the City of Wichita, Kansas for land at Jabara Airport for construction of the National Center for Aviation Training. The cost of the prepaid item is recorded as expenditures/expenses when consumed rather than when purchased. The County originally paid \$3,263,206 in advance rental payments, of which \$2,329,793 remains at December 31, 2017. At the end of the 50-year term, title to the facilities contracted by the County reverts to the lessor, unless sooner transferred under provisions of the lease.

5. Capital Assets

Capital assets, including property, plant, equipment, software, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Property, plant, and infrastructure assets with initial individual costs that exceed \$50,000 and estimated useful lives extending beyond a single reporting period are recorded as capital assets. Equipment and software is capitalized when the initial cost exceeds \$10,000 and its useful life extends beyond a single reporting period.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

5. Capital Assets (continued)

Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, software, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Bridges	40
Drainage systems	30
Roads	30
Building improvements	20
Heavy equipment	10
Improvements other than buildings	10
Leasehold improvements	10
Office furniture and equipment	5
Operating equipment	3-5
Software	5
Vehicles	3

6. Compensated Absences

It is the County's policy to permit employees to accumulate a maximum of 160 hours of vacation. Upon termination or resignation from service to the County, employees are entitled to payment for all accrued vacation earned prior to termination or resignation.

All employees on permanent status earn sick leave at the rate of one calendar day per month with no maximum accumulation. Upon retirement, any employee who has accumulated 800 hours of sick leave is entitled to 240 hours of pay at the employee's current rate of salary. No allowance for unused sick leave is paid upon termination or resignation.

All leave pay is accrued when incurred in the government-wide statements and a liability for these amounts is reported.

7. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the government-wide financial statements, bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

7. Long-Term Obligations (continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the 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, are reported as debt service expenditures.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Net Position/Fund Balance Classifications

In the government-wide statements, net position is classified into three components:

- Net investment in capital assets – consisting of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisitions, construction, or improvements of those assets. If no debt is attributable to the capital assets, net position is reported as “invested in capital assets.”
- Restricted net position – consisting of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The County first utilizes restricted resources to finance qualifying activities.
- Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

As prescribed by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental fund balance classifications are based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

In the fund financial statements, governmental funds report fund balance in five different classifications:

- Nonspendable - Amounts legally or contractually required to be maintained or are not in spendable form. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

I. **Summary of Significant Accounting Policies (continued)**

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

9. Net Position/Fund Balance Classifications (continued)

- Restricted - Amounts with externally imposed constraints, such as those mandated by creditors, grantors, and contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, laws, or regulations.
- Committed - Amounts with a purpose formally imposed by resolution by the Board of County Commissioners, binding unless modified or rescinded by the Board of County Commissioners.
- Assigned - Comprises of amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the County's Board or (2) a body or official to whom the County's Board has delegated the authority to. The Board has delegated authority to the County Manager or Department Heads to assign amounts to be used for specific purposes as prescribed by the County's Fund Balance and Cash policy.
- Unassigned - All amounts not included in the other fund balance classifications. The general fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

In circumstances when expenditure is made for a purpose which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

The County's fund balance policy states that the General Fund will be managed in such a way as to maintain a minimum unrestricted fund balance on the last calendar quarter equal to twenty percent of budgeted annual expenditures and transfers out.

10. Deferred Inflows of Resources/Deferred Outflows of Resources

In addition to assets, the statement of financial position and fund balance sheet 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 reporting period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The County has two items that qualify for reporting in this category in the government-wide statement of net position, deferred charge on refunding and deferred outflows for pensions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note IV. F. for more information on the deferred outflows for pensions.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

I. Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

10. Deferred Inflows of Resources/Deferred Outflows of Resources (continued)

In addition to liabilities, the statement of financial position and fund balance sheet 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 reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of items: unavailable revenue, deferred revenue, and deferred inflows for pensions that qualify for reporting in this category. Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: accounts receivable and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred revenues are reported in both the government-wide statement of net position and the governmental funds balance sheet for property tax receivable and in the governmental funds balance sheet for lease receivable. Property taxes are not recognized as revenue until the period for which they are levied. Principal on the lease receivable is not available until future periods, so is deferred in the funds. The third item, deferred inflows for pensions, is reported on the government-wide statement of net position. See Note IV. F. for more information on this deferred inflow.

11. Estimates

Preparation of financial statements in conformity with GAAP requires making estimates and assumptions that affect [1] the reported amounts of assets and liabilities, deferred outflows and deferred inflows of resources, [2] disclosures, such as contingencies, and [3] the reported amounts of revenues and expenditures or expenses included in the financial statements. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

Kansas statutes require an annual operating budget be legally adopted for the general fund and debt service funds. Legally adopted budgets are also required for special revenue funds, internal service funds and enterprise funds, unless specifically exempted by statute. The statutes provide for the following sequence and timetable of the legal annual operating budget:

- Preparation of the budget for the succeeding calendar year on or before August 1.
- Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5.
- Public hearing on or before August 15, but at least 10 days after publication of notice of hearing.
- Adoption of the final budget on or before August 25.

The County has the following levels of budget control:

- The legal level of control is established at the fund level by Kansas statutes.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

II. Stewardship, Compliance and Accountability (continued)

A. Budgetary Information (continued)

- County resolution places level of control at the object class (i.e., personnel services, contractual, commodities, etc.). This allows management to transfer amounts between object classes within a fund, subject to County policy.
- As allowed by Kansas statute, the governing body can increase the fund level expenditures by amending the budget. An amendment may only be made for previously unbudgeted increases in revenue other than ad valorem taxes. A notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after the publication, the hearing may be held and the governing body may amend the budget at that time.

There were no budget amendments in 2017.

All unencumbered appropriations (legal budget expenditure authority) lapse at year-end, except for capital projects fund appropriations, which are carried forward until such time as the project is completed or terminated. Encumbered appropriations are not appropriated in the ensuing year's budget, but are carried forward until liquidated or cancelled.

A legal operating budget is not required for capital projects funds, the debt proceeds fund, the County's single enterprise fund, or the following special revenue funds and internal service funds:

Non-Budgeted Special Revenue Funds

Federal and State Assistance Programs
Public Building Commission
Fire District Research and Development
Auto License
Prosecuting Attorney Training
Technology
Court Alcohol/Drug Safety Action Program
District Court Trustee Operations
Township Dissolution

Non-Budgeted Internal Service Funds

Fleet Management
Health/Dental/Life Insurance Reserve
Workers' Compensation Reserve
Risk Management Reserve

B. Deficit Fund Equity

The Building and Equipment Fund and the Street, Bridge and Other Fund had a fund balance deficit of \$243,835 and \$411,893, respectively, as of December 31, 2017. These deficits will be recovered through transfers from the Debt Proceeds Fund.

III. Detailed Notes on All Funds

A. Deposits and Investments

Sedgwick County has adopted a formal investment policy. Primary objectives of investment activities are, in order of priority: safety, liquidity and yield. The standard of care to be used by investment officials is the "prudent person" investment rule and is applied to management of the entire portfolio. This rule states "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well the probable income to be derived."

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2017, the County had the following investments:

Investment Type	Fair Value	Modified Duration (in years)	Percent of Total Pooled Funds ²
U.S. Treasury coupon securities	\$ 47,919,511	0.608	9.32
U.S. Agency coupon securities	166,406,051	2.084	32.35
Repurchase agreements	86,473,108	-	16.81
Kansas Municipal Investment Pool ¹	51,032,456	-	9.92
Mutual funds	1,079,322	-	0.21
Subtotal general operating portfolio	352,910,448		
Assets held by trustee:			
U.S. Treasury coupon securities	26,609,572	-	5.17
State & Local Govt. securities	2,337,692	-	0.45
Subtotal assets held by trustee	28,947,264		74.23
Total Investments	\$ 381,857,712		

Portfolio modified duration .809

¹Interest rate risk for the Kansas Municipal Investment Pool is based on the weighted average maturity of the pool. As of December 31, 2017 the weighted average maturity of the pool was 26 days.

²Percentage is based off of pooled funds including certificates of deposit. Certificates of deposit is 25.77%

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure or failure of the investment counterparty, the County's deposits may not be returned to the County, or the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County has \$14,804,882 of treasury and agency coupons securities that are held by the investment counterparty.

The County requires that all investment transactions be settled delivery versus payment with an independent third party safekeeping agent under contract with the County. The County's investment policy requires compliance within the provisions of state law for the collateralization of all deposits and allowable securities are further limited to:

- Direct obligations of, or obligations insured by, the U.S. government or any agency thereof.
- Obligations and securities of U.S. government-sponsored corporations that, under federal law, may be accepted as security for public funds.
- Bonds of any Kansas municipality that have been refunded and are secured by U.S. obligations.
- Bonds of the State of Kansas.
- General obligation bonds of any Kansas municipality.
- Temporary notes of Sedgwick County, Kansas.
- Surety bond of a surety corporation authorized to do business in Kansas in an amount equal to the amount on deposit.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Peak period collateral agreements are not accepted by the County. Kansas law requires the fair value of collateral pledged to be equal to or greater than the entity's deposits. The County's investment policy requires the fair value of collateral to be at least 102% of the total deposits. As of December 31, 2017, the market value of assets pledged to the County as collateral complied with the investment policy.

Interest rate risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by requiring that maturities be staggered in a way that avoids undue concentration of assets in a specific maturity sector, and that the investment portfolio remain sufficiently liquid to meet all operating requirements which might reasonably be anticipated. Additionally, Kansas law and the investment policy limits investments to a maximum stated maturity of four years.

Credit risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Kansas law limits the types of investments that can be made by Sedgwick County. The County's investment policy imposes limitations beyond those of the State of Kansas. In accordance with the County's investment policy, the County minimizes credit risk by pre-qualifying financial institutions, brokers/dealers, intermediaries and advisors, as well as diversifying the portfolio so that potential losses on individual securities will be minimized. On December 31, 2017, the County's securities underlying repurchase agreements and investments consisting of U.S. agency obligations not directly guaranteed by the U.S. government included only instruments rated Aaa by Moody's and AA+ by Standard & Poor's. The County also holds investments with the Kansas Municipal Investment Pool, which was not rated for 2017. Mutual funds utilized by the County were rated AAAM by Standard & Poor's at December 31, 2017.

Concentration of credit risk

The investment policy of the County limits the amount of investments that can be placed with a single financial institution to no more than 60% of the total value of time deposits in the portfolio. The following maximum limits, by instrument, are also established for the County's total investment portfolio:

Investment Type	Maximum Percentage Of Portfolio
Repurchase agreements	15
Collateralized time and demand deposits	100
U.S. Treasury notes and bills	80
U.S. government agency obligations	80
Kansas Municipal Investment Pool	25
Bank Trust Department municipal pools	15
Temporary notes	10

In addition, the limit on repurchase agreements and investments with the Kansas Municipal Investment Pool may not exceed 75% of the portfolio for a maximum of 45 days during each of the May and December tax collection seasons. Finally, investments established for bond proceeds are limited by instrument as a percentage of the County's total portfolio value. Invested amounts are not to exceed 20% for mutual funds and 10% for general obligation bonds of Kansas municipalities.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2017 the County held \$63.5 million, or 13.1%, of its portfolio in investments issued by the Federal Home Loan Bank, \$8.9 million, or 1.8%, in investments were issued by the Federal Farm Credit Bank, \$54.5 million, or 11.1%, in investments were issued by Federal Home Loan Mortgage Loan Corp., and investments totaling \$41.2 million, or 8.3%, were held with the Federal National Mortgage Association.

A reconciliation of cash and investments as shown on the basic financial statements follows:

Cash, including investments, Statement of Net Position	\$ 159,809,420
Restricted cash, including investments, Statement of Net Position	32,190,820
Cash, including investments, Statement of Fiduciary Net Position	345,440,980
Total	<u>\$ 537,441,220</u>

The above total is comprised of:

Deposits	\$ 155,583,508
Total Investments	381,857,712
Total	<u>\$ 537,441,220</u>

Fair Value Investments

Generally accepted accounting principles (GAAP) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices (unadjusted) in active markets for an identical asset or liability that a government can access at the measurement date
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of net position/balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017:

		Fair Value Measurements Using		
		Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	12/31/2017			
Investments				
U.S. treasury securities	\$ 47,919,511	\$ 47,919,511	\$ -	\$ -
U.S. agency securities	166,406,051	-	166,406,051	-
Repurchase agreements	86,473,108	86,473,108	-	-
Kansas Municipal Investment Pool	51,032,456	51,032,456	-	-
Collateralized deposits	132,500,000	132,500,000	-	-
Mutual Funds	1,079,322	1,079,322	-	-
Subtotal general operating portfolio	485,410,448	319,004,397	166,406,051	-
Assets held by trustee:				
U.S. treasury securities	26,609,572	26,609,572	-	-
State & Local Govt. securities	2,337,692	2,337,692	-	-
Subtotal assets held by trustee	28,947,264	28,947,264	-	-
Total investments	\$ 514,357,712	\$ 347,951,661	\$ 166,406,051	\$ -

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

B. Receivables

Amounts are aggregated into a single accounts receivable line for certain funds and aggregated columns. Below is the detail of receivables for the general, fed/state assistance, PBC, debt service, nonmajor governmental, internal service and Arena funds in the aggregate as of December 31, 2017:

Receivables	Accounts Receivable	Property Taxes Receivable	Sales Taxes Receivable	Interest Receivable	Lease Receivable	Notes Receivable	Special Assessment Receivable	Total
General Fund	\$ 364,572	\$ 102,268,251	\$ 2,593,712	\$ 694,730	\$ -	\$ 936,044	\$ -	\$ 106,857,309
Fed/State Assistance Fund	1,086,981	-	-	-	-	-	-	1,086,981
Public Building Commission	-	-	-	-	90,108,843	-	-	90,108,843
Debt Service Fund	30,814	11,917,131	-	-	-	-	4,798,462	16,746,407
Nonmajor Governmental Funds	1,643,582	35,041,442	2,593,713	-	-	-	-	39,278,737
Internal Service Fund	-	-	-	-	-	-	-	-
Total Governmental Activities	<u>3,125,949</u>	<u>149,226,824</u>	<u>5,187,425</u>	<u>694,730</u>	<u>90,108,843</u>	<u>936,044</u>	<u>4,798,462</u>	<u>254,078,277</u>
Arena	595,414	-	-	-	-	-	-	595,414
Total Business-Type Activities	<u>595,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>595,414</u>
Total Net Receivables	<u>\$ 3,721,363</u>	<u>\$ 149,226,824</u>	<u>\$ 5,187,425</u>	<u>\$ 694,730</u>	<u>\$ 90,108,843</u>	<u>\$ 936,044</u>	<u>\$ 4,798,462</u>	<u>\$ 254,673,691</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

C. Capital Assets

Capital assets activity of the primary government, which includes the internal service funds, for the year ended December 31, 2017, was as follows:

	December 31, 2016	Increases	Decreases	December 31, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 24,611,096	\$ 502,170	\$ (1,300,200)	\$ 23,813,066
Construction in progress	34,818,568	9,451,289	(23,172,208)	21,097,649
Total capital assets, not being depreciated	<u>59,429,664</u>	<u>9,953,459</u>	<u>(24,472,408)</u>	<u>44,910,715</u>
Capital assets, being depreciated:				
Buildings and improvements	338,731,650	4,756,258	(16,781)	343,471,127
Leasehold improvements	2,234,871	-	-	2,234,871
Improvements other than buildings	38,615,601	1,309,269	(174,567)	39,750,303
Machinery and equipment	89,653,463	8,464,494	(3,936,017)	94,181,940
Infrastructure	269,781,246	20,107,554	(556,000)	289,332,800
Total capital assets being depreciated	<u>739,016,831</u>	<u>34,637,575</u>	<u>(4,683,365)</u>	<u>768,971,041</u>
Less accumulated depreciation for:				
Buildings and improvements	(129,627,231)	(9,368,439)	10,753	(138,984,917)
Leasehold improvements	(2,234,871)	-	-	(2,234,871)
Improvements other than buildings	(23,482,646)	(2,086,341)	126,851	(25,442,136)
Machinery and equipment	(70,894,097)	(5,206,046)	3,200,182	(72,899,961)
Infrastructure	(125,863,761)	(8,356,972)	103,314	(134,117,419)
Total accumulated depreciation	<u>(352,102,606)</u>	<u>(25,017,798)</u>	<u>3,441,100</u>	<u>(373,679,304)</u>
Total capital assets being depreciated, net	<u>386,914,225</u>	<u>9,619,777</u>	<u>(1,242,265)</u>	<u>395,291,737</u>
Governmental activities capital assets, net	<u>\$ 446,343,889</u>	<u>\$ 19,573,236</u>	<u>\$ (25,714,673)</u>	<u>\$ 440,202,452</u>
	December 31, 2016	Increases	Decreases	December 31, 2017
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 13,038,358	\$ -	\$ -	\$ 13,038,358
Construction in progress	155,089	-	(155,089)	-
Total capital assets, not being depreciated	<u>13,193,447</u>	<u>-</u>	<u>(155,089)</u>	<u>13,038,358</u>
Capital assets, being depreciated:				
Buildings and improvements	163,470,697	2,359,617	-	165,830,314
Machinery and equipment	6,610,580	218,063	-	6,828,643
Total capital assets being depreciated	<u>170,081,277</u>	<u>2,577,680</u>	<u>-</u>	<u>172,658,957</u>
Less accumulated depreciation for:				
Buildings and improvements	(29,298,530)	(4,312,866)	-	(33,611,396)
Machinery and equipment	(5,828,427)	(209,730)	-	(6,038,157)
Total accumulated depreciation	<u>(35,126,957)</u>	<u>(4,522,596)</u>	<u>-</u>	<u>(39,649,553)</u>
Total capital assets being depreciated, net	<u>134,954,320</u>	<u>(1,944,916)</u>	<u>-</u>	<u>133,009,404</u>
Business-type activities capital assets, net	<u>\$ 148,147,767</u>	<u>\$ (1,944,916)</u>	<u>\$ (155,089)</u>	<u>\$ 146,047,762</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

Depreciation expense was charged to functions of the primary government, as follows:

Governmental activities:	
General government	\$ 2,770,695
Public safety	6,227,674
Public works, including depreciation of general infrastructure assets	8,620,991
Health and welfare	153,041
Cultural and recreation	3,273,301
Economic development, conserve/natural resources	1,101,171
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,870,925</u>
Total depreciation expense – governmental activities	<u>\$ 25,017,798</u>
Business-type activities:	
Arena fund	<u>\$ 4,522,596</u>

Construction Commitments

The County had outstanding construction commitments for various capital projects and improvements totaling \$7,562,188 at December 31, 2017. This amount is reflected as an encumbrance, which is a part of the fund balance in the Capital Projects Funds, including the Building and Equipment Fund, Street, Bridge and Other Fund, Sales Tax Road and Bridge Fund, Road and Bridge Equipment Fund, and the Capital Improvement Fund. These commitments will be funded through special assessments, general obligation bonds, local sales tax, intergovernmental revenue and existing local resources.

D. Operating Leases

The County has entered into a lease agreement as lessor with Wichita State University for space at the National Center for Aviation Training on the aviation technical education campus (note I.D.4). In 2018, the lease agreement changed, see page A-70, subsequent events note. The future minimum rental income on this lease at December 31, 2017 is as follows:

Year ending December 31	Governmental Activities
2018	\$ 800,000
2019	800,000
2020	800,000
2021	800,000
2022	800,000
2023 – 2027	4,000,000
2028 – 2030	<u>2,400,000</u>
Totals	<u>\$ 10,400,000</u>

The lease has a term of 20 years. The County is responsible for a majority of utility payments and the lessee is responsible for insurance expenses associated with the property.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt

Crossover Refunding Bonds

For reporting purposes, under a crossover advance refunding bond issue, the original issue (refunded bonds) is not considered defeased until they are retired. As with advance refunding bond issues, the proceeds of the crossover advance refunding bonds are placed into an escrow account. However, unlike other types of advance refundings, the escrow account in a crossover advance refunding transaction is not immediately dedicated to debt service principal and interest payments on the refunded debt. Instead, the resources in the escrow account are used temporarily to meet debt service requirements on the refunding bonds. Only at a later date when debt is called or matures, known as the "crossover date" are the resources in the escrow account dedicated exclusively to the payment of principal and interest on the refunded debt. Crossover refunding does not result in the defeasance of debt prior to the crossover date. The County has recorded in the appropriate financial statements the outstanding debt of both the refunding and the refunded issues which are not considered defeased.

On September 15, 2014, the Sedgwick County Public Building Commission issued \$25,745,000 in revenue bonds at a premium of \$2,823,335 for a crossover refunding. The bonds have a true interest cost of 2.3 percent. The crossover refunding portion includes \$26,065,000 of Series 2008-1 Bonds with an average interest rate of 5.1 percent.

The crossover date on this refunding issue is August 1, 2018.

The County refunded these bonds to reduce its total debt service payments over a period of 14 years and will realize a net savings of \$3,076,572 with a present value savings of \$2,510,739.

At December 31, 2017, \$26,065,000 of crossover refunding bonds have not been called.

General Obligation Bonds

Sedgwick County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities, roads, bridges, storm water drainage systems and also to refund past debt issuances. All general obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of Sedgwick County. These bonds generally are issued as 20-year serial bonds with a level repayment schedule.

General obligation bonds outstanding at December 31, 2017 are as follows:

Purpose	Interest Rate	Amount
Governmental Activities – Road and Bridge	2.00 – 5.65%	\$ 13,979,624
Governmental Activities – Facilities	2.00 – 5.65%	11,332,376
Governmental Activities – Refunding	2.00 – 5.65%	<u>21,145,000</u>
Total general obligation bonds outstanding		<u>\$ 46,457,000</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

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

Year ending December 31	Governmental Activities		
	Principal	Interest	Totals
2018	\$ 8,261,000	\$ 1,839,960	\$ 10,100,960
2019	4,952,000	1,521,605	6,473,605
2020	4,732,000	1,326,045	6,058,045
2021	4,642,000	1,116,734	5,758,734
2022	4,158,000	908,301	5,066,301
2023 - 2027	11,871,000	2,655,636	14,526,636
2028 - 2032	6,466,000	835,605	7,301,605
2033 - 2037	1,375,000	85,319	1,460,319
Totals	<u>\$ 46,457,000</u>	<u>\$ 10,289,205</u>	<u>\$ 56,746,205</u>

Sedgwick County also issues special assessment debt. Prior to 2002, the County issued special assessment debt to provide funds for the construction of sewer systems and streets for residential and commercial development. The County sold the sewer system to the City of Wichita on April 1, 2001 and now only issues special assessment debt to provide funds for the construction of streets. Special assessment bonds will be repaid from amounts levied against the property owners benefited by the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the County will provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. These bonds are issued as 15-year serial bonds with a level repayment schedule. Special assessment bonds currently outstanding are as follows:

Purpose	Interest Rate	Amount
Governmental activities – Street and Sewer	2.00 – 5.20%	\$ 1,958,000

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year ending December 31	Governmental Activities		
	Principal	Interest	Totals
2018	\$ 239,000	\$ 83,863	\$ 322,863
2019	253,000	74,538	327,538
2020	258,000	66,489	324,489
2021	288,000	55,423	343,423
2022	212,000	42,728	254,728
2023 – 2027	704,000	71,049	775,049
2028 – 2032	4,000	160	4,160
Totals	<u>\$ 1,958,000</u>	<u>\$ 394,248</u>	<u>\$ 2,352,248</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

Sedgwick County Public Building Commission Revenue Bonds

The Sedgwick County Public Building Commission (SCPBC) is a blended component unit of Sedgwick County. The SCPBC has the authority to issue revenue bonds to finance the cost of acquiring and/or constructing land and facilities operated for a public purpose by a governmental entity. The SCPBC finances the debt service of the revenue bonds by leasing the land and facilities to the governmental entity, which operates it. The operating governmental entity guarantees the rentals under the SCPBC lease. The SCPBC has no power to levy taxes and revenue bonds issued by the SCPBC are not included in any legal debt limitations of Sedgwick County. SCPBC bonds do not constitute a debt or pledge the full faith and credit of Sedgwick County, except to the extent the lease agreement constitutes an unconditional obligation of the County. The County is the operating governmental entity on eight of the eleven issues outstanding (as indicated with a “*”) with repayment schedules ranging from 5 to 20 years with one exception. The WSU Experiential Engineering 2014-3 is paid over 40 years to keep annual debt service under \$2,500,000. The current bonds outstanding are as follows:

Purpose	Interest Rate	Amount
*#Technical Education Complex 2008-1	4.00 – 5.25%	\$ 28,060,000
*Public Safety Facilities & Equipment 2011-1	2.00 – 4.00%	9,410,000
*Juvenile Justice 2012-1 Refunding	2.00 – 3.00%	7,955,000
*Juvenile Justice Complex 2014-1 Refunding	1.00 – 5.00%	5,625,000
*Technical Education Complex 2014-2 Refunding	1.75 – 5.00%	25,745,000
^WSU Experiential Engineering (Tax Exempt) 2014-3	1.50 – 5.00%	38,895,000
^WSU Experiential Engineering 2014-4	1.95 – 3.90%	6,050,000
*Exploration Place Series 2015-1 Refunding	5.00%	4,550,000
Total		<u>\$ 126,290,000</u>

^: These bond issues do not constitute an unconditional obligation of the County.

#: \$26.065 million of this bond issue has been crossover refunded as a result of the proceeds from the 2014-2 issue. Funds have been placed into an escrow account to be used on the crossover dates. See page A-51 for additional information.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ending December 31	Component Unit – SCPBC		
	Principal	Interest	Totals
2018	\$ 5,730,000	\$ 5,150,744	\$ 10,880,744
2019	8,055,000	4,961,885	13,016,885
2020	8,325,000	4,704,351	13,029,351
2021	8,690,000	4,363,268	13,053,268
2022	9,000,000	4,017,513	13,017,513
2023 - 2027	38,530,000	14,917,015	53,447,015
2028 - 2032	13,515,000	8,849,751	22,364,751
2033 - 2037	5,065,000	7,306,339	12,371,339
2038 - 2042	6,415,000	5,908,422	12,323,422
2043 - 2047	8,155,000	4,141,725	12,296,725
2048 - 2052	10,120,000	2,142,875	12,262,875
2053 - 2058	4,690,000	204,400	4,894,400
Totals	<u>\$ 126,290,000</u>	<u>\$ 66,668,287</u>	<u>\$ 192,958,287</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

SCPBC Revenue Bonds – WSU Experiential Engineering 2014-3 & 2014-4

On December 30, 2014, the SCPBC issued revenue bonds for Wichita State University (WSU) to finance the cost of constructing, furnishing, and equipping the first project part of the University's Innovation Campus. The proceeds of the bonds were deposited into an escrow trust account. Concurrent with the debt issuance, the SCPBC entered into a ground lease (as lessee) with the Kansas Board of Regents and a project lease (as lessor) with the Wichita State Board of Trustees. At December 31, 2017, the components of the net investment of this lease consist of:

Lease receivable	\$ 90,108,843
Less unearned income	45,681,759
Net effect on statement of net position	<u>\$ 44,427,084</u>

Annual debt service requirements to maturity for these revenue bonds are as follows:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 565,000	\$ 1,928,313	\$ 2,493,313
2019	575,000	1,916,479	2,491,479
2020	585,000	1,902,695	2,487,695
2021	600,000	1,886,686	2,486,686
2022	620,000	1,868,681	2,488,681
2023 - 2027	3,420,000	9,007,440	12,427,440
2028 - 2032	4,135,000	8,273,464	12,408,464
2033 - 2037	5,065,000	7,306,339	12,371,339
2038 - 2042	6,415,000	5,908,422	12,323,422
2043 - 2047	8,155,000	4,141,725	12,296,725
2048 - 2052	10,120,000	2,142,875	12,262,875
2053 - 2058	4,690,000	204,400	4,894,400
Total	<u>\$ 44,945,000</u>	<u>\$ 46,487,518</u>	<u>\$ 91,432,518</u>

Fire District Lease Agreements

In 2011, 2014, and 2016 the County entered into three lease agreements as lessee for financing the acquisition of major equipment for the Fire District. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through the capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 4,727,984
Less: accumulated depreciation	2,719,649
Total	<u>\$ 2,008,335</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2017, were as follows:

Year ending December 31	Governmental Activities
2018	\$ 302,557
2019	231,060
2020	231,060
2021	231,060
2022	145,749
2023	30,219
Total minimum lease payments	1,171,705
Less: amount representing interest	46,886
Total	<u>\$ 1,124,819</u>

Changes in Noncurrent Liabilities

Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities of the Internal Service Funds are included as part of the totals for governmental activities. At year-end, claims payable totaling \$3,140,300 are included in the amounts below. Claims are generally liquidated by the appropriate Internal Service Fund. The net pension liability will be liquidated primarily through KPERs employer contributions made primarily from the governmental funds. Generally, compensated absences and other postemployment benefits are liquidated by the General Fund. Noncurrent liability activity for the year ended December 31, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 54,548,000	\$ -	\$ 8,091,000	\$ 46,457,000	\$ 8,261,000
Revenue bonds	133,025,000	-	6,735,000	126,290,000	5,730,000
Special assessment debt with government commitment	2,192,000	-	234,000	1,958,000	239,000
Total bonds payable	189,765,000	-	15,060,000	174,705,000	14,230,000
Capital lease payable	1,713,962	-	589,143	1,124,819	289,679
Claims payable	3,131,500	27,808,706	27,799,906	3,140,300	2,755,000
Other postemployment benefits	19,458,116	1,714,872	666,341	20,506,647	-
Compensated absences	6,400,000	6,166,143	6,416,143	6,150,000	5,350,000
Governmental activities	220,468,578	35,689,721	50,531,533	205,626,766	22,624,679
Premium	8,509,062	-	1,248,496	7,260,566	-
Noncurrent liabilities	<u>\$ 228,977,640</u>	<u>\$ 35,689,721</u>	<u>\$ 51,780,029</u>	<u>\$ 212,887,332</u>	<u>\$ 22,624,679</u>
				141,282,887	
				<u>\$ 354,170,219</u>	

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

Conduit Debt

The County has issued Economic Development revenue bonds not directly obligated by the County. The County has issued these bonds individually and jointly with surrounding counties. The total amount outstanding at December 31, 2017 was \$21,725,000 for the Industrial Revenue Bonds and \$478,198 for the Single Family Mortgage Revenue Bonds. These bonds do not constitute an indebtedness or pledge of the faith and credit of the responsible entities or the County.

F. Interfund Transfers

A summary of interfund transfers is as follows:

Transfers in:						
	General Fund	Federal/State Assistance Funds	Debt Service Fund	Nonmajor Governmental Funds	Internal Service Funds	Totals
Transfers out:						
General Fund	\$ -	\$ 676,223	\$ 1,695,826	\$ 8,195,500	771,455	\$ 11,339,004
Debt Proceed Fund	-	-	739,360	491,061	-	1,230,421
Nonmajor Governmental Funds	477,058	224,612	732,304	4,429,578	-	5,863,552
Internal Service Funds	-	-	-	644,910	-	644,910
Total	<u>\$ 477,058</u>	<u>\$ 900,835</u>	<u>\$ 3,167,490</u>	<u>\$ 13,761,049</u>	<u>771,455</u>	<u>\$ 19,077,887</u>

Transfers are used to [1] move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, [2] move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and [3] use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Interfund Receivables and Payables

Interfund balances result from the time lag between the dates that [1] interfund goods and services are provided or reimbursable expenditures occur, [2] transactions are recorded in the accounting system, and [3] payments between funds are made. Interfund payables at year-end relate to amounts spent in certain capital projects funds that have yet to be repaid from long-term financing from the Debt Proceeds Fund.

A summary of interfund receivables and payables at December 31, 2017 is as follows:

	Interfund Receivable	Interfund Payable
Debt Proceeds Fund	\$ 495,860	\$ -
Nonmajor Capital Projects Funds:		
Building and Equipment Fund	-	83,967
Street, Bridge and Other Fund	-	411,893
	<u>\$ 495,860</u>	<u>\$ 495,860</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

III. Detailed Notes on All Funds (continued)

G. Interfund Receivables and Payables (continued)

During 2003, 2013, and 2014 interfund loans were made between the General Fund and the Capital Improvement Fund to provide for the funding of Department of Corrections Adult Residential Facility and Fire Stations 34, 35, and 36. These advance receivables and payables as of December 31, 2017 are supported by note agreements specifying payment dates and interest amounts and are as follows:

	Advance Receivables	Advance Payables
General Fund	\$ 5,410,167	\$ -
Nonmajor Capital Projects Fund:		
Capital Improvement Fund	-	5,410,167
	<u>\$ 5,410,167</u>	<u>\$ 5,410,167</u>

IV. Other Information

A. Risk Management

The County's property and casualty insurance coverage consists of both a self-insurance program and insurance policies purchased from various insurance carriers. The overall cost of insurance coverage has increased significantly the past three years. There have not been any settlements in excess of insurance coverage during any of the prior three fiscal years. Exposure to various risks associated with weather related incidents such as wind, hail, and storm damage is covered by a property insurance policy.

Risks associated with the operation of the INTRUST Bank Arena include loss related to theft, damage or destruction of assets, and natural disasters. These risks are covered by commercial insurance. Settlements from these risks have not exceeded insurance coverage for the past three years.

Health/Dental/Life Insurance Reserve Fund The County has a self-funded insurance fund for health claims. Claims for county employees are administered through a third party administrator for the County's self-insured plan. Premiums are paid by employer and employee contributions into an internal service fund and are available to pay claims and costs of an administrative service agreement. An excess insurance policy covers individual claims in excess of \$500,000. Incurred but not reported claims of \$2,000,000 have been accrued as a liability. In 2017, \$26,855,172 was paid as claims. The outstanding claims liability is calculated from historical data and future expectations. This includes an estimated liability for known claims as well as an estimated liability for claims incurred but not reported.

Workers' Compensation Reserve Fund The County provides workers' compensation benefits through a self-insured plan that has been approved by the State of Kansas. Workers' compensation claims are administered by Risk Management, with the assistance of a contract attorney. Funding (premiums) for this self insurance plan is allocated to County departments. Premiums are determined by a formula that uses both paid claims and the actual number of claims. The County does maintain reserves and pays all expenses for this plan from the Workers' Compensation Reserve Fund.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

A. Risk Management (continued)

Risk Management Reserve Fund The Risk Management Reserve Fund was established for the purpose of providing a contingency fund to pay self-insured claims, retentions and deductibles, and to provide an additional source of funding for the self-insured law enforcement liability, general liability, and public official's liability. Property insurance is also maintained with a commercial insurer and provides a self-insured retention of \$100,000 for each claim. In 2017, \$317,429 was paid as claims.

The following is a summary of the changes in the unpaid claims liability:

	<u>Workers' Compensation</u>	<u>Health/Dental Life Insurance</u>
January 1, 2016 liability balances	\$ 1,082,100	1,900,000
Claims and changes in estimates	937,383	23,906,886
Claim payments	<u>(887,983)</u>	<u>(23,806,886)</u>
December 31, 2016 liability balances	1,131,500	\$ 2,000,000
Claims and changes in estimates	953,534	26,855,172
Claim payments	<u>(944,734)</u>	<u>(26,855,172)</u>
December 31, 2017 liability balances	<u>\$ 1,140,300</u>	<u>\$ 2,000,000</u>

Net position available for self-insurance expenses and future catastrophic losses are as follows:

Health/Dental/Life Insurance Reserve Fund	\$ 5,712,826
Workers' Compensation Reserve Fund	3,924,107
Risk Management Reserve Fund	1,467,195

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

B. Commitments

Encumbrances - The County uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executed contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but, rather, as restricted, committed, or assigned fund balance. As of December 31, 2017 the County's governmental funds had a total of \$8.2 million in encumbrances, which were reported as following:

	General	Federal/State Assistance	Other Governmental Funds	Total Governmental Funds
Restricted:				
General government	\$ -	\$ -	\$ 18,228	\$ 18,228
Public safety	-	6,527	97,497	104,024
Health and welfare	-	28,621	357	28,978
Public Works	-	-	29,081	29,081
Economic development	-	3,391	-	3,391
Capital Outlay				
Road improvements	-	-	3,927,063	3,927,063
Preventive maintenance	-	-	313,953	313,953
Bridge improvements	-	-	1,412,606	1,412,606
Building improvements	-	-	304,030	304,030
Committed:				
Public safety	-	40,668	20,901	61,569
Capital Outlay				
Building improvements	-	-	707,357	707,357
Bridge improvements	-	-	27,801	27,801
Drainage Improvements	-	-	29,451	29,451
Equipment Reserve	-	-	665,945	665,945
Road improvements	-	-	158,482	158,482
Sedgwick County park improvements	-	-	15,500	15,500
Assigned:				
General government	254,398	-	-	254,398
Public safety	121,416	-	-	121,416
Public works	400	-	-	400
Health and welfare	1,555	17,560	-	19,115
Culture and recreation	2,556	-	-	2,556
Total	<u>\$ 380,325</u>	<u>\$ 96,767</u>	<u>\$ 7,728,252</u>	<u>\$ 8,205,344</u>

C. Contingent Liabilities

The County is a defendant in various legal actions pending or in process for tax appeals, property damage, and miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. Management and the County's counsel are of the opinion that the final outcome of the cases will not have an adverse material effect on the County's financial statements.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

D. Tax Abatements

There are currently two programs being utilized in Sedgwick County that offer tax abatements for economic development purposes. Both operate by granting an exemption on part or all of a property's assessed, or taxable, valuation.

Economic Development Exemptions (EDX)

Article 11, Section 13 of the Kansas Constitution gives counties and cities the authority to exempt from ad valorem taxation all or any portion of the valuation of buildings, land or other improvements used to facilitate business expansion and new employment creation. Such economic development exemptions may be in effect for up to ten years.

Exempt Industrial Revenue Bonds (IRB)

Kansas Statutes Annotated 79-213 et.seq. establish procedures by which the taxable value of real or personal property being financed by industrial revenue bonds may be wholly or partially exempt. In Sedgwick County, IRB exemptions granted by the County and several of the cities are currently in effect. The table below shows taxes that are foregone by the County government and the County Fire District for both EDX & IRB abatements whether issued by the County or by another municipal government that reduce County revenues.

Economic Development Tax Abatements Abated Taxes

Location of Exempt Property	Sedgwick County	Sedgwick County Fire District	Total
<u>IRB</u>			
County	\$1,428,563	\$879,143	\$2,307,706
Cities	\$1,719,166	\$413,237	\$2,132,403
Total IRB	\$3,147,729	\$1,292,380	\$4,440,109
<u>EDX</u>			
County	\$0	\$0	\$0
Cities	\$353,262	\$1,921	\$355,183
Total EDX	\$353,262	\$1,921	\$355,183
Total Abatements	\$3,500,991	\$1,294,301	\$4,795,292

The abated taxes reflect the amounts that would have been levied on behalf of the County and the County Fire District on the 2016 tax roll to fund expenditures during calendar year 2017 were it not for the tax exemption.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

E. Pending Governmental Accounting Standards

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the other post-employment benefits (OPEB) that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB benefits. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for financial statements for the County's fiscal year ending December 31, 2018.

GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (ARO). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This statement requires that recognition occurs when the liability is both incurred and reasonably estimable, and it also requires the measurement of an ARO be based on the best estimate of the current value of outlays expected to be incurred. This statement also requires disclosure about the nature of a government's AROs, the methods and assumptions used for the estimated of the liabilities, and the estimated remaining useful life of the associated tangible capital asset. The provisions of this statement are effective for financial statements for the County's fiscal year ending December 31, 2019.

GASB Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The requirements of this Statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The provisions of this statement are effective for financial statements for the County's fiscal year ending December 31, 2019.

GASB Statement No. 85, Omnibus 2017, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of this statement are effective for financial statements for the County's fiscal year ending December 31, 2018.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

IV. Other Information (continued)

E. Pending Governmental Accounting Standards (continued)

GASB Statement No. 86, Certain Debt Extinguishment Issues, establishes accounting and financial reporting guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt), are placed in an irrevocable trust for the sole purpose of extinguishing debt. When debt is defeased in substance, the debt, cash, and other monetary assets placed in trust are no longer reported in the financial statements. But governments are required to disclose information in the notes to the financial statements about debt that has been defeased in substance. Statement 86 also provides guidance relating to prepaid insurance on debt that is extinguished. When governments extinguish debt, whether through a legal extinguishment or through an in substance defeasance, this statement will require that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The provisions of this statement are effective for financial statements for the County's fiscal year ending December 31, 2018.

GASB Statement No. 87, Leases, establishes a single approach to accounting for and reporting leases by state and local governments. The standard addresses the reporting for governments that are lessors or lessees. GASB 87 is effective for financial statements for the County's fiscal year ending December 31, 2020.

F. Defined Benefit Pension Plans

General Information about the Pension Plan

Plan description. The County participates in the Kansas Public Employees Retirement System (KPERs) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et. seq.* Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. KPERs' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERs website at <http://www.kpers.org> or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

F. Defined Benefit Pension Plans (continued)

Benefits provided. KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points" (Police and Firemen's normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 36 years of service).

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

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee'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 member employees 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 years of age 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.

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. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. K.S.A. 74-4975 establishes the Police and Firemen (KP&F) member-employee contribution rate at 7.15% of covered salary. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

F. Defined Benefit Pension Plans (continued)

State law provides that the employer contribution rates for KPERS 1, KPERS 2, KPERS 3, and KP&F be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate and the statutory contribution rate was 8.46% for KPERS and 19.03% for KP&F for the fiscal year ended December 31, 2017. Contributions to the pension plan from the County were \$8,284,779 for KPERS and \$6,262,222 for KP&F for the year ended December 31, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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 group of the plan. The County participates in the local (KPERS) group and the Police and Firemen (KP&F) group.

At December 31, 2017, the County reported a liability of \$78,873,375 for KPERS and \$62,409,512 for KP&F for its proportionate share of the KPERS' collective net pension liability. The collective net pension liability was measured by KPERS as of June 30, 2017, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The County's proportion of the collective net pension liability was based on the ratio of the County's actual contributions to KPERS and KP&F, relative to the total employer and nonemployer contributions of the KPERS and KP&F for the fiscal year ended June 30, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, the County's proportion and change from its proportion measured as of June 30, 2016 were as follows:

	Net pension liability as of December 31, 2017	Proportion as of June 30, 2017	Increase (Decrease) in proportion from June 30, 2016
KPERS (local)	\$ 78,873,375	5.445%	0.101%
KP&F	62,409,512	6.655%	(0.080%)
	<u>\$ 141,282,887</u>		

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

F. Defined Benefit Pension Plans (continued)

For the year ended December 31, 2017, the County recognized pension expense of \$7,441,410 for KPERS and \$8,240,314 for KP&F. At December 31, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

KPERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 381,478	\$ (2,727,277)
Net difference between projected and actual earnings on pension plan investments	2,474,126	-
Changes in proportion	2,024,772	(1,988,295)
Changes of assumptions	4,247,655	(576,756)
County contributions subsequent to measurement date	4,296,580	-
Total	<u>\$ 13,424,611</u>	<u>\$ (5,292,328)</u>

KP&F	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,016,951	\$ (466,853)
Net difference between projected and actual earnings on pension plan investments	2,311,987	-
Changes in proportion	124,212	(1,243,953)
Changes of assumptions	4,357,954	(278,897)
County contributions subsequent to measurement date	3,155,661	-
Total	<u>\$ 12,966,765</u>	<u>\$ (1,989,703)</u>

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

F. Defined Benefit Pension Plans (continued)

The \$7,452,241 reported as deferred outflows of resources related to pensions resulting from the County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) to pension expense as follows:

KPERS

Year ending December 31:	Net Deferred Outflows and Inflows of Resources
2018	\$ (255,829)
2019	2,852,197
2020	1,772,936
2021	(884,961)
2022	351,360
	<u>\$ 3,835,703</u>

KP&F

Year ending December 31:	Net Deferred Outflows and Inflows of Resources
2018	\$ 1,313,877
2019	3,679,124
2020	2,312,186
2021	101,298
2022	414,916
	<u>\$ 7,821,401</u>

Actuarial assumptions. The total pension liability for KPERS in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% (3% in prior year)
Salary increases	3.50% to 12.00%, including price inflation (4% to 16% in prior year)
Investment Rate of Return	7.75% compounded annually, net of investment expense, including price inflation (8% in prior year)

Mortality rates were based on the RP 2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016. For the prior year, mortality rates were based on the RP-2000 combined mortality table for males or females as appropriate.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

F. Defined Benefit Pension Plans (continued)

The long-term expected rate of return on 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 as of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.80%
Fixed income	13	1.25
Yield driven	8	6.55
Real return	11	1.71
Real estate	11	5.05
Alternatives	8	9.85
Short-term investments	2	(0.25)
Total	100%	

Discount rate. The discount rate used by KPERS to measure the total pension liability was 7.75% (8% in prior year). The projection of cash flows used to determine the discount rate was based on member and employer contributions. The local groups do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The statutory cap for Fiscal Year 2017 was 1.2%. Based on those assumptions, the pension plans 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 County's proportionate share of the collective net pension liability to changes in the discount rate. The following presents the County's proportionate share of the collective net pension liability calculated using the discount rate of 7.75%, as well as what the County's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's KPERS proportionate share of the net pension liability	\$ 113,594,898	\$ 78,873,375	\$ 49,604,489
County's KP&F proportionate share of the net pension liability	88,536,881	62,409,512	40,537,170
	<u>\$ 202,131,779</u>	<u>\$ 141,282,887</u>	<u>\$ 90,141,659</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

G. Postemployment Benefits Other than Pensions

Plan description. The County sponsors a single-employer defined benefit healthcare plan that provides healthcare benefits, including medical, dental and vision, to retirees. Retiree health coverage is provided for under K.S.A. 12-5040. Employees who retire with at least 10 years of cumulative service with the County and commence retirement or disability benefits under the Kansas Public Employee Retirement System (KPERS) are eligible for benefits. The funding policy of the County is to pay premiums as they come due through the Health/Dental/Life Insurance Reserve internal service fund.

County retirees pay the same premiums charged to COBRA participants for medical, dental and vision coverage. The COBRA rates being paid by retirees for benefits are typically lower than those for individual health insurance policies. The difference between these two amounts is the implicit rate subsidy, which is considered other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statement No. 45 (GASB Statement 45).

Retirees and spouses have the same benefit as active employees. Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches the Medicare eligibility age which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies.

Funding policy. The contribution requirements of plan members and the County are established and may be amended by the County Commission. The required contribution is based on projected pay-as-you-go financing requirements. County retirees pay 100% of their healthcare premiums; the County is not required to share costs of retiree premiums.

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

G. Postemployment Benefits Other than Pensions (continued)

Annual OPEB Cost and Net OPEB Obligation. The County's annual 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 tables show the components of the primary government OPEB cost for 2017:

Annual OPEB Cost and Obligation for 2017		Amount
Annual required contribution (ARC)	\$	1,777,861
Interest on Net OPEB Obligation		681,034
Adjustment to the ARC		(744,023)
Annual OPEB cost (expense)		1,714,872
Contributions made		(666,341)
Increase in net OPEB obligation		1,048,531
Net OPEB obligation—beginning of year		19,458,116
Net OPEB obligation—end of year	\$	20,506,647

Employer Contribution for 2017		Amount
Age-approximating premiums paid on behalf of retirees	\$	1,203,073
Retiree contribution		(536,732)
Net employer contribution	\$	666,341

Schedule of Employer Contributions				
Year	Net OPEB Obligation	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed
2015	18,553,557	2,064,232	1,692,476	82.0%
2016	19,458,116	2,063,028	1,158,469	56.2%
2017	20,506,647	1,714,872	666,341	38.9%

Funded Status and Funding Progress. As of January 1, 2017, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$17.2 million, and there was no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$17.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$116.7 million, and the ratio of the UAAL to the covered payroll was 14.7 percent. 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

SEDGWICK COUNTY, KANSAS

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

IV. Other Information (continued)

G. Postemployment Benefits Other than Pensions (continued)

information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is 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 members) 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 members 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 January 1, 2017 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 2.50 percent inflation rate implicitly included in the 3.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment return on the County's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after nine years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2017, was thirty years.

Plan Report. The plan does not issue a stand-alone audited GAAP-basis report.

H. Subsequent Events

On January 10, 2018 the County approved a change to the sublease agreement for space at the National Center for Aviation Training (NCAT) on the aviation technical education campus. The sublease was originally between the County and the Wichita Area Technical College (WATC), but was amended to be between the County and Wichita State University (WSU) because of the affiliation between WSU and WATC that was approved by the Kansas Legislature in 2017. A separate sublease that had been with WSU for limited space at the NCAT facility was also incorporated into the amended sublease.

On March 28, 2018, the County issued \$3,682,621 of General Obligation Bonds, Series A, 2018. The proceeds of the 2018A General Obligation Bonds will be used for the purpose of providing permanent financing for the acquisition and improvement of the Ronald Reagan building. The 2018A bonds will be paid over twenty years with the final maturity of August 1, 2038.

On February 27, 2018, the County approved the issuance of \$2,850,000 of General Obligation Bonds Series 2018B to provide funds for various bridge projects. The official closing date of the issuance is expected to be in third quarter of 2018.

SEDGWICK COUNTY, KANSAS

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget to Actual – Budgetary Basis General Fund For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive/ (Negative)
Revenues				
Property taxes	\$ 115,456,111	\$ 115,456,111	\$ 115,452,832	\$ (3,279)
Sales taxes	29,496,813	29,496,813	28,118,684	(1,378,129)
Other taxes	271,148	271,148	324,026	52,878
Intergovernmental	1,471,193	1,471,193	1,561,187	89,994
Charges for services	16,686,727	16,686,727	15,380,085	(1,306,642)
Uses of money and property	4,650,609	4,650,609	5,421,101	770,492
Fines and forfeits	62,791	62,791	89,765	26,974
Licenses and permits	5,205,641	5,205,641	7,918,393	2,712,752
Reimbursed expenditures	5,338,805	5,338,805	5,455,204	116,399
Other	2,806,148	2,806,148	4,237,785	1,431,637
Total revenues	<u>181,445,986</u>	<u>181,445,986</u>	<u>183,959,062</u>	<u>2,513,076</u>
Expenditures				
Current:				
Personnel services	114,251,192	113,605,235	108,875,775	4,729,460
Contractual services	61,821,687	58,225,611	39,834,283	18,391,328
Commodities	5,535,191	7,634,374	6,950,687	683,687
Capital outlay	3,492,198	214,174	147,183	66,991
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total debt service	-	-	-	-
Total expenditures	<u>185,100,268</u>	<u>179,679,394</u>	<u>155,807,928</u>	<u>23,871,466</u>
Revenues over expenditures	<u>(3,654,282)</u>	<u>1,766,592</u>	<u>28,151,134</u>	<u>26,384,542</u>
Other financing sources (uses)				
Transfers from other funds	-	-	477,058	477,058
Transfers to other funds	(19,229,040)	(24,649,914)	(23,800,780)	849,134
Total other financing sources (uses)	<u>(19,229,040)</u>	<u>(24,649,914)</u>	<u>(23,323,722)</u>	<u>1,326,192</u>
Net change in fund balances	(22,883,322)	(22,883,322)	4,827,412	27,710,734
Fund balances, beginning of year	<u>22,883,322</u>	<u>22,883,322</u>	<u>61,857,743</u>	<u>38,974,421</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,685,155</u>	<u>\$ 66,685,155</u>

SEDGWICK COUNTY, KANSAS

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017

Schedule of Revenues, Expenditures and Changes in Fund Balances (continued)

Budget / GAAP Reconciliation

All legal operating budgets are prepared using the modified cash basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Accordingly, the data presented in the budgetary comparison statements differs from the data presented in the financial statements prepared in accordance with GAAP. The following schedule provides reconciliation from GAAP basis to budgetary basis for the General Fund.

	December 31, 2017
Fund balance, budgetary basis	\$ 66,685,155
Current year encumbrances	380,325
Fair value adjustment of investments	(2,355,460)
Accrued revenues	1,483,059
Accrued expenditures	(20,657)
	<u>\$ 66,172,422</u>
Fund balance, GAAP basis	<u>\$ 66,172,422</u>

Defined Benefit Pension Plans

Share of the Collective Net Pension Liability Kansas Public Employees Retirement System Last Five Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
County's proportion of the collective net pension liability:					
KPERS (local group)	5.445%	5.344%	5.525%	5.403%	5.475%
KP&F (police & firemen)	6.655%	6.735%	6.858%	6.825%	6.879%
County's proportionate share of the collective net pension liability	\$ 141,282,887	\$ 145,221,592	\$ 122,343,954	\$ 111,262,101	\$ 139,254,285
County's covered-employee payroll ^	\$ 134,047,537	\$ 127,025,880	\$ 127,247,391	\$ 122,530,074	\$ 122,135,423
County's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	1.053976001	1.143244133	0.961465324	0.908039124	1.140162957
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%	59.94%

* GASB 68 requires presentation of ten years. As of December 31, 2017, only five years of information is available.

^ Covered payroll is measured as of the measurement date ending June 30.

Changes in assumptions related to inflation, salary increases, investment rate of return, mortality, and discount rate were made since the prior measurement date.

SEDGWICK COUNTY, KANSAS

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017

Defined Benefit Pension Plans (continued)

Schedule of County's Contributions Kansas Public Employees Retirement System Last Five Fiscal Years*

	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 14,547,001	\$ 18,215,161	\$ 16,216,371	\$ 14,137,345	\$ 12,199,406
Contributions in relation to the statutorily required contribution	(14,547,001)	(18,215,161)	(16,216,371)	(14,137,345)	(12,199,406)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
County's covered-employee payroll ^	\$ 131,611,804	\$ 126,822,618	\$ 127,537,022	\$ 124,775,254	\$ 122,097,547
Contributions as a percentage of covered-employee payroll	11.05%	14.36%	12.72%	11.33%	9.99%

* GASB 68 requires presentation of ten years. As of December 31, 2017, only five years of information is available.

^ Covered payroll is measured as of the fiscal year end December 31.

Changes in benefit terms for KPERS. In the state fiscal year 2014, the KP&F group had a change in benefit terms. The Legislature increased this group's employee contributions to 7.15 percent and eliminated the reduction of employee contributions to 2.0 percent after 32 years of service. In addition, the maximum retirement benefit increased to 90 percent of final average salary (reached at 36 years of service). Before this change, the maximum retirement benefit was limited to 80 percent of final average salary (reached at 32 years of service).

Effective January 1, 2014, KPERS 1 member's employee contribution rate increased to 5.0 percent and then on January 1, 2015, increased to 6.0 percent, with an increase in benefit multiplier to 1.85 percent for future years of service. For KPERS 2 members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85 percent multiplier for all years of service.

January 1, 2015, the KPERS 3 cash balance plan became effective. Members enrolled in this plan were first employed in a KPERS covered position on or after January 1, 2015, or KPERS 1 or KPERS 2 members who left employment before vesting and returned to employment on or after January 1, 2015. The retirement benefit is an annuity based on the account balance at retirement.

SEDGWICK COUNTY, KANSAS

REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2017

Postemployment Benefits Other than Pensions

Actuarial Valuation Date	Actuarial Value of Assets	Schedule of Funding Progress			Covered Payroll	UAAL as a Percentage of Covered Payroll
		Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio		
01/01/2013	-	27,567,411	27,567,411	-	111,026,155	24.8%
01/01/2015	-	21,379,829	21,379,826	-	117,796,647	18.1%
01/01/2017	-	17,167,274	17,167,274	-	116,717,554	14.7%

Note 1 Significant Factors Affecting Trends in Actuarial Information

Changes in the Actuarial Accrued Liability for the valuation completed at January 1, 2017 are primarily due to:

- The disability, turnover and retirement rates were updated where applicable to be based on the latest available rates from KPERS/KP&F.
- The assumed mortality was updated to reflect the Society of Actuaries Adjusted RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality with MP-2017 Full Generational Improvement.
- The assumed trend rates and per capita costs were updated as part of the ongoing valuation analysis.