

CITY OF NESS CITY, KANSAS

FINANCIAL STATEMENT

WITH

INDEPENDENT AUDITOR'S REPORT

December 31, 2017

CITY OF NESS CITY
TABLE OF CONTENTS
December 31, 2017

	<u>Page Number</u>
Independent Auditor's Report	1 - 2
Statement 1	
Summary Statement of Receipts, Expenditures and Unencumbered Cash - Regulatory Basis	3
Notes to Financial Statement	4 - 10
Schedule 1	
Summary of Expenditures - Actual and Budget - Regulatory Basis	12
Schedule 2-A	
Schedule of Receipts and Expenditures - Actual and Budget - Regulatory Basis	
<i>General Fund</i>	13 - 15
<i>Special Highway Fund</i>	16
<i>Special Parks and Recreation Fund</i>	17
<i>Industrial Development Fund</i>	18
<i>Library Fund</i>	19
<i>Library Employee Benefit Fund</i>	20
<i>Guest Tax Fund</i>	21
<i>Water Utility Fund</i>	22
<i>Sewer Utility Fund</i>	23
<i>Solid Waste Disposal Fund</i>	24
Schedule 2-B	
Schedule of Receipts and Expenditures - Actual - Regulatory Basis	
<i>Capital Improvement Fund</i>	25
<i>Airport Improvement Fund</i>	26
<i>Equipment Reserve Fund</i>	27
Schedule 2-C	
Related Municipal Entity - Schedule of Receipts and Expenditures - Actual - Regulatory Basis	
<i>Ness City Public Library</i>	28
Uniform Guidance Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance In Accordance with the Uniform Guidance	32 - 33
Schedule 3	
<i>Schedule of Expenditures of Federal Awards</i>	34
<i>Notes to Schedule of Expenditures of Federal Awards</i>	35
Schedule 4	
<i>Schedule of Findings and Questioned Costs</i>	36



May 21, 2018

Mayor and Council Members
City of Ness City, Kansas

Independent Auditor's Report

We have audited the accompanying summary statement of receipts, expenditures, and unencumbered cash - regulatory basis - of the City of Ness City, Kansas (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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

As described in Note 1 to the financial statement, the financial statement is prepared by the City to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Independent Auditor's Report

May 21, 2018
City of Ness City, Kansas
(Continued)

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Regulatory-Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2017 summary statement of receipts, expenditures, and unencumbered cash - regulatory basis (basic financial statement) as a whole. The summary of expenditures - actual and budget - regulatory basis - and individual fund schedules of receipts and expenditures - actual and budget - regulatory basis - (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the 2017 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statement. The 2017 information has been subjected to the auditing procedures applied in the audit of the 2017 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 basic financial statement or to the 2017 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 basic financial statement as a whole, on the basis of accounting described in Note 1.

Varny & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF NESS CITY, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2017

STATEMENT 1

Fund	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds							
General Fund	\$ 319,359	\$ -	\$ 1,029,994	\$ 1,119,093	\$ 230,260	\$ (82)	\$ 230,178
Special Purpose Funds			-				
Special Highway Fund	7,737	-	37,227	18,243	26,721	-	26,721
Special Parks and Recreation Fund	13,889	-	2,005	1,964	13,930	-	13,930
Industrial Development Fund	14,488	-	479	-	14,967	-	14,967
Library Fund	5,651	-	86,606	86,606	5,651	-	5,651
Library Employee Benefit Fund	-	-	41,946	41,290	656	-	656
Capital Improvement Fund	779,007	-	1,420,963	1,643,882	556,088	-	556,088
Equipment Reserve Fund	222,164	-	-	6,578	215,586	-	215,586
Guest Tax Fund	32,935	-	10,171	8,148	34,958	-	34,958
Capital Project Fund							
Airport Improvements Fund	(35,540)	-	2,427,941	2,433,181	(40,780)	-	(40,780)
Business Funds			-				
Water Utility Fund	721,137	-	413,534	523,454	611,217	-	611,217
Sewer Utility Fund	185,567	-	150,787	152,783	183,571	-	183,571
Solid Waste Disposal Fund	120,505	-	123,946	111,183	133,268	9,348	142,616
Subtotal Primary Government	\$ 2,386,899	\$ -	\$ 5,745,599	\$ 6,146,405	\$ 1,986,093	\$ 9,266	\$ 1,995,359
Related Municipal Entity							
Ness City Public Library	\$ 127,766	\$ -	\$ 160,453	\$ 139,673	\$ 148,546	\$ -	\$ 148,546
Total Financial Reporting Entity	\$ 2,514,665	\$ -	\$ 5,906,052	\$ 6,286,078	\$ 2,134,639	\$ 9,266	\$ 2,143,905

Composition of Cash:

Checking Accounts	\$ 1,040,889
Savings Accounts	-
Certificates of Deposit	954,470
Subtotal Primary Government	\$ 1,995,359
Related Municipal Entity	148,546
Total Primary Government	\$ 2,143,905

The accompanying notes are an integral part of this financial statement.
See Independent Auditor's Report.

Financial Statement

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT
December 31, 2017

Notes to Financial Statement

Note 1: Summary of Significant Accounting Policies

The City of Ness City, Kansas (the City) is a municipal corporation governed by an elected five-member council. The accounting policies of the City conform to the cash-basis and budget laws of Kansas (regulatory basis). The following is a summary of the more significant policies.

Municipal Financial Reporting Entity

The municipal financial reporting entity is comprised of the primary government and the one related municipal entity, the Ness City Public Library. The related municipal entity is included in the City's reporting entity because it was established to benefit the City and/or its constituents. This financial statement does not include the related municipal entities Ness City Airport Authority and Ness City Cemetery District.

Regulatory Basis Fund Types

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statement in this report, the various funds are grouped into generic fund types and broad fund categories as follows:

General Fund - The general fund is the chief operating fund of the City. It is used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds - Special purpose funds are used to account for the proceeds of specific tax levies and other specific revenue sources intended for specified purposes.

Capital Projects Fund - Capital projects fund is used to account for capital projects.

Business Funds - Business funds are used to account for funds financed in whole or in part by fees charged to users of the goods or services.

Basis of Accounting

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

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Notes to Financial Statement

Note 1: Summary of Significant Accounting Policies (Continued)

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose funds: equipment reserve fund, capital improvement fund and airport improvement fund.

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

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Notes to Financial Statement

Note 2: Deposits and Investments (Continued)

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when coverage is 50%. The City does not utilize "peak periods". All deposits were legally secured at December 31, 2017.

As of December 31, 2017, the City's carrying amount of the deposits was \$1,995,359 and the bank balance was \$2,540,175. The bank balance was held by one bank, in checking, money market and certificates of deposit. Of the bank balance, \$250,000 was covered by federal depository insurance and \$2,290,175 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Note 3: Property Taxes

In accordance with governing state 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 1st of each year. The county treasurer is the tax collection agent for all taxing entities within the county. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20th of the ensuing year. State statutes prohibit the county treasurer from distributing taxes levied and collected in the year prior to January 1st of the ensuing year.

Note 4: Defined Benefit Pension Plan

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. 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 www.kpers.org or by writing to KPERS (611 S. Kansas Avenue, Suite 100, Topeka, KS 66503) or by calling 1-888-275-5737.

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

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium from the period of January 1, 2017 through September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for fiscal year ended December 31, 2017. Contributions to the pension plan from the City were \$29,488 for the year ended December 31, 2017.

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Note 4: Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Net Pension Liability. At December 31, 2017, the City's proportionate share of the collective net pension liability reported by KPERS was \$273,063. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

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

Note 5: Interfund Transfers

Transfers for the year ended December 31, 2017 were as follows:

From	To	Regulatory Authority	Amount
General Fund	Capital Improvement Fund	K.S.A. 12-1, 117	\$ 470,000
Sewer Utility Fund	Sewer Replacement Fund	K.S.A. 12-825d	2,500
Water Utility Fund	General Fund	K.S.A. 12-825d	50,000
Water Utility Fund	Water Reserve Fund	K.S.A. 12-825d	18,000
Total Transfers			<u><u>\$ 540,500</u></u>

Note 6: Long-Term Debt

The City has the following types of long-term debt:

KDHE Revolving Loan

The City entered into a \$1,150,000 revolving loan agreement on November 18, 2004 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance Public Water Supply System Project #2416. The City will use proceeds generated by the operation of the facility for loan repayment, which began February 1, 2007.

Lease Obligations

The City has entered into lease agreements for equipment. The leases contain a fiscal funding clause.

General Obligation Bonds

The City has one outstanding general obligation bond.

Note 7: Debt Restrictions and Covenants

KDHE Public Water Supply Loan

The City entered into a loan agreement with the Kansas Department of Health and Environment to fund the improvements to the public water supply system in the amount of \$1,150,000. The loan agreement requires that the City provide for the repayment of this loan by providing dedicated funds. The City is in compliance with the requirement as of December 31, 2017 as it is providing dedicated funds through water rates and fees charged.

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Notes to Financial Statement

Note 8: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no decreases in insurance coverage from the prior year.

Note 9: Compliance with Finance-Related Legal and Contractual Provisions

There were no budget or cash violations during 2017.

Note 10: Other Post Employment Benefits

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

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

Note 11: Related Party Transactions

The City has entered into arms length transactions with council member Brian Gabel. The City paid \$31,287 for services provided by Gabel Lease Service and \$4,901 to Piranha Fabrication Inc. during the year ended December 31, 2017. Brian Gabel is the owner of the businesses.

Note 12: Capital Projects

At year end, capital project authorizations compared with cash disbursements and accounts payable from inception are as follows:

	Project Authorizations	Expenditures To Date
Airport Runway Connector	\$ 2,970,096	\$ 1,127,022

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Note 13: Changes in Long-Term Debt

ISSUE	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
2015 Series	2.50 - 4.50%	7/1/2015	\$ 85,000	10/01/35	\$ 83,000	\$ -	\$ 3,000	\$ (3,000)	\$ 80,000	\$ 2,905
KDHE Loan										
Public Water Supply System Project	3.66%	11/18/04	1,150,000	8/1/26	632,420	-	53,428	(53,428)	578,992	22,662
Capital Leases										
Backhoe Lease	3.39%	4/22/13	60,779	1/15/19	31,628	-	10,191	(10,191)	21,437	2,197
TOTAL LONG-TERM DEBT					<u>\$ 747,048</u>	<u>\$ -</u>	<u>\$ 66,619</u>	<u>\$ (66,619)</u>	<u>\$ 680,429</u>	<u>\$ 27,764</u>

CITY OF NESS CITY, KANSAS
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2017

Note 14: Maturity of Long-Term Debt

PRINCIPAL	2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2037	Total
General Obligation Bond	\$ 3,000	\$ 3,000	\$ 3,000	\$ 4,000	\$ 4,000	\$ 20,000	\$ 25,000	\$ 18,000	\$ 80,000
KDHE Loan	55,401	57,448	59,570	61,770	64,051	280,752	-	-	578,992
Capital Lease	10,540	10,897	-	-	-	-	-	-	21,437
Total Principal	\$ 68,941	\$ 71,345	\$ 62,570	\$ 65,770	\$ 68,051	\$ 300,752	\$ 25,000	\$ 18,000	\$ 680,429
INTEREST									
General Obligation Bond	\$ 2,830	\$ 2,755	\$ 2,680	\$ 2,605	\$ 2,505	\$ 10,905	\$ 7,125	\$ 1,620	\$ 33,025
KDHE Loan	20,688	18,641	16,521	14,321	12,038	23,609	-	-	105,818
Capital Lease	727	369	-	-	-	-	-	-	1,096
Total Interest	\$ 24,245	\$ 21,765	\$ 19,201	\$ 16,926	\$ 14,543	\$ 34,514	\$ 7,125	\$ 1,620	\$ 139,939
TOTAL PRINCIPAL AND INTEREST	\$ 93,186	\$ 93,110	\$ 81,771	\$ 82,696	\$ 82,594	\$ 335,266	\$ 32,125	\$ 19,620	\$ 820,368

Notes to Financial Statement

REGULATORY-REQUIRED SUPPLEMENTAL INFORMATION

CITY OF NESS CITY, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

Fund	Certified Budget	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Funds			
General Fund	\$ 1,227,000	\$ 1,119,093	\$ (107,907)
Special Purpose Funds			
Special Highway Fund	39,879	18,243	(21,636)
Special Parks and Recreation Fund	3,802	1,964	(1,838)
Industrial Development Fund	9,000	-	(9,000)
Library Fund	89,500	86,606	(2,894)
Library Employee Benefit Fund	41,290	41,290	-
Guest Tax Fund	20,000	8,148	(11,852)
Business Funds			
Water Utility Fund	641,000	523,454	(117,546)
Sewer Utility Fund	185,000	152,783	(32,217)
Solid Waste Disposal Fund	143,000	111,183	(31,817)
TOTAL	\$ 2,399,471	\$ 2,062,764	\$ (336,707)

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Taxes			
Ad Valorem	\$ 421,855	\$ 463,676	\$ (41,821)
Delinquent	18,694	-	18,694
Motor Vehicle	102,203	75,784	26,419
Intangible	15,738	14,772	966
Total Taxes	<u>\$ 558,490</u>	<u>\$ 554,232</u>	<u>\$ 4,258</u>
Intergovernmental			
Local City Sales Tax	\$ 205,947	\$ 220,000	\$ (14,053)
Local Alcoholic Liquor Tax	2,005	2,100	(95)
Connecting Links	5,120	5,000	120
Total Intergovernmental	<u>\$ 213,072</u>	<u>\$ 227,100</u>	<u>\$ (14,028)</u>
Licenses			
Franchise Fees	\$ 121,186	\$ 90,000	\$ 31,186
Licenses and Permits	5,477	5,000	477
Total Licenses and Permits	<u>\$ 126,663</u>	<u>\$ 95,000</u>	<u>\$ 31,663</u>
Fines and Forfeitures			
Fines	<u>\$ 32,753</u>	<u>\$ 20,000</u>	<u>\$ 12,753</u>
Use of Money and Property			
Interest	<u>\$ 3,441</u>	<u>\$ 2,500</u>	<u>\$ 941</u>
Miscellaneous			
Swimming Pool	\$ 2,353	\$ 4,000	\$ (1,647)
Recycling Revenue	7,346	2,500	4,846
Community Building Donations	6,750	1,500	5,250
Other	29,126	5,000	24,126
Transfers In	50,000	50,000	-
Total Miscellaneous	<u>\$ 95,575</u>	<u>\$ 63,000</u>	<u>\$ 32,575</u>
Total Receipts	<u>\$ 1,029,994</u>	<u>\$ 961,832</u>	<u>\$ 68,162</u>

(continued)

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Expenditures			
General and Administrative			
Personal Services	\$ 87,329	\$ 85,000	\$ 2,329
Contractual Services	28,907	32,000	(3,093)
Commodities	28,106	20,000	8,106
Capital Outlay	721	15,000	(14,279)
Total General and Administrative	<u>\$ 145,063</u>	<u>\$ 152,000</u>	<u>\$ (6,937)</u>
Police Department			
Contractual Services	<u>\$ 200,833</u>	<u>\$ 200,000</u>	<u>\$ 833</u>
Street Department			
Personal Services	\$ 53,986	\$ 55,000	\$ (1,014)
Contractual Services	24,691	20,000	4,691
Commodities	93,479	75,000	18,479
Capital Outlay	-	20,000	(20,000)
Total Street Department	<u>\$ 172,156</u>	<u>\$ 170,000</u>	<u>\$ 2,156</u>
Employee Benefits			
Health Insurance	\$ 26,217	\$ 35,000	\$ (8,783)
Social Security	12,225	15,000	(2,775)
Workman's Compensation	-	7,000	(7,000)
KPERS	11,743	13,000	(1,257)
Unemployment	322	500	(178)
Total Employee Benefits	<u>\$ 50,507</u>	<u>\$ 70,500</u>	<u>\$ (19,993)</u>
Street Lighting			
Contractual Services	<u>\$ 23,607</u>	<u>\$ 30,000</u>	<u>\$ (6,393)</u>
Swimming Pool			
Personal Services	\$ 15,995	\$ 17,500	\$ (1,505)
Contractual Services	30	1,000	(970)
Commodities	6,636	7,500	(864)
Total Swimming Pool	<u>\$ 22,661</u>	<u>\$ 26,000</u>	<u>\$ (3,339)</u>

(continued)

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Expenditures (continued)			
Park Improvement			
Personal Services	\$ -	\$ 2,000	\$ (2,000)
Contractual Services	1,231	2,500	(1,269)
Commodities	1,398	5,000	(3,602)
Capital Outlay	-	2,000	(2,000)
Total Park Improvement	<u>\$ 2,629</u>	<u>\$ 11,500</u>	<u>\$ (8,871)</u>
Recycling			
Personal Services	\$ 5,935	\$ 10,000	\$ (4,065)
Contractual Services	338	5,000	(4,662)
Commodities	3,897	4,000	(103)
Capital Outlay	-	5,000	(5,000)
Total Recycling	<u>\$ 10,170</u>	<u>\$ 24,000</u>	<u>\$ (13,830)</u>
Community Building			
Contractual Services	\$ 5,966	\$ 5,000	\$ 966
Commodities	10,138	10,000	138
Total Community Building	<u>\$ 16,104</u>	<u>\$ 15,000</u>	<u>\$ 1,104</u>
Appropriations			
Airport	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -</u>
Debt Payments	<u>\$ 2,363</u>	<u>\$ -</u>	<u>\$ 2,363</u>
Transfers Out	<u>\$ 470,000</u>	<u>\$ 525,000</u>	<u>\$ (55,000)</u>
Total Expenditures	<u>\$ 1,119,093</u>	<u>\$ 1,227,000</u>	<u>\$ (107,907)</u>
Receipts Over (Under) Expenditures	\$ (89,099)		
Unencumbered Cash - Beginning	<u>319,359</u>		
Unencumbered Cash - Ending	<u>\$ 230,260</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
SPECIAL HIGHWAY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Intergovernmental			
State Gasoline Tax	\$ 37,227	\$ 37,740	\$ (513)
Expenditures			
Personal Services	\$ -	\$ 10,500	\$ (10,500)
Contractual Services	17,743	5,000	12,743
Commodities	500	24,379	(23,879)
Total Expenditures	<u>\$ 18,243</u>	<u>\$ 39,879</u>	<u>\$ (21,636)</u>
Receipts Over (Under) Expenditures	\$ 18,984		
Unencumbered Cash - Beginning	<u>7,737</u>		
Unencumbered Cash - Ending	<u>\$ 26,721</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
SPECIAL PARKS AND RECREATION FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Intergovernmental			
Local Alcoholic Liquor Tax	\$ 2,005	\$ 1,500	\$ 505
EXPENDITURES			
Culture and Recreation	\$ 1,964	\$ 3,802	\$ (1,838)
Receipts Over (Under) Expenditures	\$ 41		
Unencumbered Cash - Beginning	<u>13,889</u>		
Unencumbered Cash - Ending	<u>\$ 13,930</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
INDUSTRIAL DEVELOPMENT FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Taxes			
Ad Valorem	\$ 260	\$ 289	\$ (29)
Delinquent	29	-	29
Motor Vehicle	190	158	32
Total Receipts	<u>\$ 479</u>	<u>\$ 447</u>	<u>\$ 32</u>
Expenditures			
Industrial Development	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ (9,000)</u>
Receipts Over (Under) Expenditures	\$ 479		
Unencumbered Cash - Beginning	<u>14,488</u>		
Unencumbered Cash - Ending	<u>\$ 14,967</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
LIBRARY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Taxes			
Ad Valorem	\$ 65,201	\$ 71,663	\$ (6,462)
Delinquent	3,714	-	3,714
Motor Vehicle	17,691	12,524	5,167
Total Receipts	<u>\$ 86,606</u>	<u>\$ 84,187</u>	<u>\$ 2,419</u>
Expenditures			
Appropriations	<u>\$ 86,606</u>	<u>\$ 89,500</u>	<u>\$ (2,894)</u>
Receipts Over (Under) Expenditures	\$ -		
Unencumbered Cash - Beginning	<u>5,651</u>		
Unencumbered Cash - Ending	<u>\$ 5,651</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
LIBRARY EMPLOYEE BENEFIT FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Taxes			
Ad Valorem	\$ 32,194	\$ 35,382	\$ (3,188)
Delinquent	1,645	-	1,645
Motor Vehicle	8,107	6,052	2,055
Total Receipts	<u>\$ 41,946</u>	<u>\$ 41,434</u>	<u>\$ 512</u>
Expenditures			
Appropriations	<u>\$ 41,290</u>	<u>\$ 41,290</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	\$ 656		
Unencumbered Cash - Beginning	<u>-</u>		
Unencumbered Cash - Ending	<u>\$ 656</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
GUEST TAX FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Taxes			
Guest Tax	<u>\$ 10,171</u>	<u>\$ 10,000</u>	<u>\$ 171</u>
Expenditures			
Convention and Tourism	<u>\$ 8,148</u>	<u>\$ 20,000</u>	<u>\$ (11,852)</u>
Receipts Over (Under) Expenditures	<u>\$ 2,023</u>		
Unencumbered Cash - January 1	<u>32,935</u>		
Unencumbered Cash - December 31	<u>\$ 34,958</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
WATER UTILITY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Water Sales	\$ 385,722	\$ 380,000	\$ 5,722
Interest	4,457	5,000	(543)
Late Charges	5,355	3,000	2,355
Transfer In	18,000	-	18,000
Total Cash Receipts	<u>\$ 413,534</u>	<u>\$ 388,000</u>	<u>\$ 25,534</u>
EXPENDITURES			
Production			
Personal Services	\$ 95,270	\$ 125,000	\$ (29,730)
Contractual Services	84,792	100,000	(15,208)
Commodities	134,453	65,000	69,453
Capital Outlay	6,767	120,000	(113,233)
Total Production	<u>\$ 321,282</u>	<u>\$ 410,000</u>	<u>\$ (88,718)</u>
Employee Benefits			
Health Insurance	\$ 34,465	\$ 35,000	\$ (535)
Social Security	7,036	8,500	(1,464)
Workman's Compensation	-	2,000	(2,000)
KPERS	8,277	13,000	(4,723)
Total Employee Benefits	<u>\$ 49,778</u>	<u>\$ 58,500</u>	<u>\$ (8,722)</u>
Non-Operating Expenses			
Sales Tax	\$ 4,731	\$ 5,500	\$ (769)
Debt Service	76,090	92,000	(15,910)
Miscellaneous	3,573	5,000	(1,427)
Reserve for Repairs	-	20,000	(20,000)
Transfers Out	68,000	50,000	18,000
Total Non-Operating Expenses	<u>\$ 152,394</u>	<u>\$ 172,500</u>	<u>\$ (20,106)</u>
Total Expenditures	<u>\$ 523,454</u>	<u>\$ 641,000</u>	<u>\$ (117,546)</u>
Receipts Over (Under) Expenditures	\$ (109,920)		
Unencumbered Cash - Beginning	<u>721,137</u>		
Unencumbered Cash - Ending	<u>\$ 611,217</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
SEWER UTILITY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
Sewer Service Charges	\$ 110,296	\$ 100,000	\$ 10,296
Interest	875	850	25
Commercial Utility	37,116	40,000	(2,884)
Transfers In	2,500	2,000	500
Total Receipts	<u>\$ 150,787</u>	<u>\$ 142,850</u>	<u>\$ 7,937</u>
EXPENDITURES			
Collection Maintenance			
Personal Services	\$ 48,340	\$ 55,000	\$ (6,660)
Contractual Services	34,484	45,000	(10,516)
Commodities	44,774	45,000	(226)
Capital Outlay	2,816	15,000	(12,184)
Employee Benefits	16,324	25,000	(8,676)
Debt Service	3,545	-	3,545
Transfers Out	2,500	-	2,500
Total Collection Maintenance	<u>\$ 152,783</u>	<u>\$ 185,000</u>	<u>\$ (32,217)</u>
Receipts Over (Under) Expenditures	\$ (1,996)		
Unencumbered Cash - Beginning	<u>185,567</u>		
Unencumbered Cash - Ending	<u>\$ 183,571</u>		

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
SOLID WASTE DISPOSAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Receipts			
User Fees	\$ 123,946	\$ 120,000	\$ 3,946
Expenditures			
Contractual Services	\$ 111,183	\$ 140,000	\$ (28,817)
Commodities	-	2,000	(2,000)
Capital Outlay	-	1,000	(1,000)
Total Expenditures	<u>\$ 111,183</u>	<u>\$ 143,000</u>	<u>\$ (31,817)</u>
Receipts Over (Under) Expenditures	\$ 12,763		
Unencumbered Cash - Beginning	<u>120,505</u>		
Unencumbered Cash - Ending	<u>\$ 133,268</u>		

Regulatory-Required Supplemental Information

SCHEDULE 2-B
(continued)

CITY OF NESS CITY, KANSAS
CAPITAL IMPROVEMENT FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>
Receipts	
Miscellaneous Revenue	\$ 950,963
Transfers In	470,000
Total Receipts	<u>\$ 1,420,963</u>
Expenditures	
Capital Outlay	<u>\$ 1,643,882</u>
Receipts Over (Under) Expenditures	\$ (222,919)
Unencumbered Cash - Beginning	<u>779,007</u>
Unencumbered Cash - Ending	<u><u>\$ 556,088</u></u>

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
AIRPORT IMPROVEMENT FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>
Receipts	
Intergovernmental	
Federal Aid	\$ 2,228,224
Miscellaneous Revenue	199,717
Total Receipts	<u>\$ 2,427,941</u>
Expenditures	
Publications	270
Contractual	2,135,185
Postage	15
Fees - Professional Services	297,711
Total Expenditures	<u>\$ 2,433,181</u>
Receipts Over (Under) Expenditures	\$ (5,240)
Unencumbered Cash - Beginning	<u>(35,540)</u>
Unencumbered Cash - Ending	<u><u>\$ (40,780)</u></u>

Regulatory-Required Supplemental Information

CITY OF NESS CITY, KANSAS
EQUIPMENT RESERVE FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>
Receipts	
Transfers In	<u>\$ -</u>
Expenditures	
Capital Outlay	<u>\$ 6,578</u>
Receipts Over (Under) Expenditures	<u>\$ (6,578)</u>
Unencumbered Cash - Beginning	<u>222,164</u>
Unencumbered Cash - Ending	<u><u>\$ 215,586</u></u>

Regulatory-Required Supplemental Information

**CITY OF NESS CITY, KANSAS
RELATED MUNICIPAL ENTITY
NESS CITY PUBLIC LIBRARY
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For the Year Ended December 31, 2017**

	<u>Actual</u>
Receipts	
Intergovernmental	\$ 13,567
Interest	257
Miscellaneous	4,334
Appropriations	127,895
Transfer in	14,400
Total Receipts	<u>\$ 160,453</u>
Expenditures	
Personal Service	\$ 105,249
Contractual Services	2,481
Commodities	31,943
Total Expenditures	<u>\$ 139,673</u>
Receipts Over (Under) Expenditures	\$ 20,780
Unencumbered Cash - Beginning	<u>127,766</u>
Unencumbered Cash - Ending	<u><u>\$ 148,546</u></u>

Regulatory-Required Supplemental Information

UNIFORM GUIDANCE



May 21, 2018

Mayor and Council Members
City of Ness City, Kansas

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in
Accordance with Government Auditing Standards**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*, the summary statement of receipts, expenditures, and unencumbered cash of the City of Ness City, Kansas (City) as of and for the year ended December 31, 2017, and the related notes to the financial statement, which collectively comprise the City's basic financial statement and have issued our report thereon dated May 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statement will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Independent Auditor's Report

May 21, 2018
City of Ness City, Kansas
(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varny & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

Independent Auditor's Report



May 21, 2018

Mayor and Council Members
City of Ness City, Kansas

**Independent Auditor's Report on Compliance for Each
Major Federal Program and Report on Internal Control Over
Compliance in Accordance With The Uniform Guidance**

We have audited the City's compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provided a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Independent Auditor's Report

May 21, 2018
City of Ness City, Kansas
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and correct, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Varny & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

CITY OF NESS CITY, KANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

	<u>Federal CFDA Number</u>		<u>Pass Thru Grantor's Number</u>	<u>Federal Award Expenditures</u>	<u>Subrecipient Expenditures</u>
U.S. Department of Transportation					
Airport Improvement Program	20.106	*	N/A	\$ 2,189,862	\$ -
Total Expenditures of Federal Awards				<u>\$ 2,189,862</u>	<u>\$ -</u>

* Major Program

See notes to Schedule of Expenditures of Federal Awards at Page 45.

CITY OF NESS CITY, KANSAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

SCHEDULE 3
(continued)

Note A - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2017. This schedule is prepared on the basis of accounting that demonstrates compliance with the cash basis. Cash receipts are recognized when the cash balance of a fund increased. Cash disbursements are recognized when the cash balance of a fund is decreased. Expenditures include disbursements, accounts payable and encumbrances. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Note B - Indirect Cost Rate

The City does not allocate indirect costs to its federal award programs. Accordingly, use of the 10% de minimis indirect cost rate provisioned by the Uniform Guidance Section 414, is not applicable.

Note C - Non-Cash Assistance, Insurance and Loans

The City did not receive or expend any federal awards in the form of non-cash assistance, insurance, loans or loan guarantees, including interest subsidies during the year ended December 31, 2017.

CITY OF NESS CITY, KANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued:	Unqualified		
Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ Yes	_____ X	No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ X	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X	No

Federal Awards

Internal controls over major programs:			
Material weaknesses identified?	_____ Yes	_____ X	No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.516(a)	_____ Yes	_____ X	No

Identification of major programs:

<u>Name of Federal program or Cluster</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as a low-risk auditee?	_____ Yes	_____ X	No
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NOTE: Beginning with the year ended December 31, 2015, the criteria for determination of low-risk auditee status changed by the U.S. Office of Management and Budget (OMB). Specifically, the regulatory basis of accounting prescribed by the State of Kansas does not meet the criteria established by the OMB in the Uniform Grant Guidance (UGG). The City continues, however, to meet each of the other criteria for low-risk auditee status.

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

There were no current year findings or questioned costs.