

CITY OF NORTH NEWTON, KANSAS

Financial Statement

For the Year Ended December 31, 2018

City of North Newton, Kansas  
For the Year Ended December 31, 2018

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
 <b><u>Financial Section</u></b>	
Summary Statement of Receipts, Expenditures and Unencumbered Cash – Regulatory Basis	Statement 1      3
Notes to Financial Statement	4-12
 <b><u>Regulatory – Required Supplementary Information</u></b>	
Summary of Expenditures – Actual and Budget – Regulatory Basis	Schedule 1      13
Schedule of Receipts and Expenditures – Actual and Budget – Regulatory Basis	Schedule 2
General Fund	14
Special Purpose Funds	15-16
Bond and Interest Fund	17
Business Funds	18-21
Trust Fund	22
Schedule of Receipts and Disbursements – Regulatory Basis	Schedule 3
Agency Fund	23

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of North Newton  
North Newton, Kansas 67117

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of North Newton, Kansas (City), as of and for the year ended December 31, 2018, 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; 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 involves performing procedures to obtain audit evidence about 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 City'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 City'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 of the financial statement, the financial statement is prepared by the City 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 generally accepted in the United States of America.

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

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the 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, 2018, or changes in financial position and cash flows thereof for the year then ended.

### ***Unmodified 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, 2018, 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.

### ***Other Matters***

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the 2018 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and disbursements-agency funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the 2018 basic financial statement, but 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 2018 basic financial statement. The 2018 information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 basic financial statement or to the 2018 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 2018 basic financial statement as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the City as of and for the year ended December 31, 2017 (not presented herein), and have issued our report thereon dated June 4, 2018, which contained an unmodified opinion on the basic financial statement. The 2017 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2017 actual column (2017 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget for the year ended December 31, 2018 (Schedule 2 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2017 comparative 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 comparative information was 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 2017 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2017, on the basis of accounting described in Note 1.

*Krudsen, Monroe & Company, LLC*

Certified Public Accountants  
Newton, Kansas  
May 9, 2019

## City of North Newton, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH  
Regulatory Basis  
For the Year Ended December 31, 2018

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
<b>General Fund</b>	\$ 241,866	1,103,184	1,049,864	295,186	4,508	299,694
<b>Special Purpose Funds</b>						
Consolidated Street and Highway	56,417	88,557	62,429	82,545	153	82,698
Equipment Reserve	148,620	80,000	18,916	209,704	-	209,704
Capital Improvement	300,874	1,085,000	483,512	902,362	1,825	904,187
<b>Bond and Interest Fund</b>	35,668	552,442	510,020	78,090	-	78,090
<b>Business Funds</b>						
Water	227,624	353,434	500,433	80,625	3,279	83,904
Sewer	196,466	707,000	783,612	119,854	1,548	121,402
Solid Waste	81,387	93,503	89,414	85,476	7,308	92,784
Water Reserve	-	80,000	-	80,000	-	80,000
Sewer Reserve	120,000	30,000	-	150,000	-	150,000
<b>Trust Fund</b>						
Special Law Enforcement Trust	4,492	9,672	10,168	3,996	-	3,996
<b>Total Reporting Entity</b> (Excluding Agency Funds)	<u>\$ 1,413,414</u>	<u>4,182,792</u>	<u>3,508,368</u>	<u>2,087,838</u>	<u>18,621</u>	<u>2,106,459</u>
<b>Composition of Cash</b>						
Midland National Bank						
Checking						\$ 32,928
Money Market						1,026,681
Certificates of Deposit						300,000
First Bank of Newton - Certificate of Deposit						250,000
Central National Bank - Certificate of Deposit						250,000
Citizens State Bank - Certificate of Deposit						<u>250,000</u>
Total Cash						2,109,609
Less Agency Funds per Schedule 3						<u>3,150</u>
<b>Total Reporting Entity (Excluding Agency Funds)</b>						<u>\$ 2,106,459</u>

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

NOTES TO FINANCIAL STATEMENT

December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Financial Reporting Entity

The City of North Newton is a municipal corporation governed by an elected five-member council. The regulatory financial statement presents the City of North Newton (City). In addition to the primary government, the local housing authority, Wheatland Homes, which operates the City's housing projects, qualifies as a component unit of the City. Its financial activity is not, however, included in the accompanying financial statement.

Regulatory Basis Fund Types

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

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources including tax levies, transfers from other funds and payment of general long-term debt.

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Fund – used to account in whole or in part for fees charged to users of the goods and services (i.e., water fund, sewer fund, etc.).

Trust Fund – used to report assets held in trust for the benefit of the City (i.e., pension funds, investment trust funds, private purpose trust funds which benefit the City, scholarship funds, etc.).

Agency Fund – used to report assets held by the City in a purely custodial capacity.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

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 a 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 receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

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

NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 Fund, 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 regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such 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 schedules 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 regulatory receipts 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 City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budget expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, business reserve funds, trust funds and agency funds.

Spending in funds that 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.

Reimbursements

The City records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under the KMAAG regulatory basis accounting.

NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 an 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.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by 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.

At December 31, 2018, the carrying amount of the City's deposits was \$2,109,609 and the bank balance was \$2,121,232. The bank balance was held by four banks. Of the bank balances, \$1,000,000 was covered by federal depository insurance, \$1,119,290 was collateralized with securities held by the pledging financial institutions' agents in the City's name, and the remaining \$1,942 was unsecured.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The City was not in compliance with K.S.A. 9-1402 and 9-1405, which requires the City's deposits to be adequately secured throughout the year.



City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2018

4. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2018, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions /Payments	Balance End of Year	Interest Paid
<b>General Obligation Bonds</b>									
Series 2015 (refunding)	3.00-4.25%	06/04/15	\$ 3,015,000	12/01/35	\$ 2,535,000	-	185,000	2,350,000	170,887
<b>Temporary Note, Series 2018</b>	2.1%	06/01/18	930,000	06/01/19	-	930,000	-	930,000	-
<b>KDHE Loans</b>									
KDHE - Series 2004	3.78%	04/30/04	591,212	08/01/24	258,081	-	32,858	225,223	9,448
KDHE - Series 2014	2.78%	01/09/14	3,097,000	08/01/35	<u>2,788,708</u>	<u>-</u>	<u>121,275</u>	<u>2,667,433</u>	<u>76,689</u>
					<u>3,046,789</u>	<u>-</u>	<u>154,133</u>	<u>2,892,656</u>	<u>86,137</u>
Total contractual indebtedness					<u>\$ 5,581,789</u>	<u>930,000</u>	<u>339,133</u>	<u>6,172,656</u>	<u>257,024</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year ending December 31								
	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2035	Total
<b>Principal</b>									
General Obligation Bonds	\$ 185,000	145,000	150,000	160,000	160,000	660,000	610,000	280,000	2,350,000
Temporary Note	930,000	-	-	-	-	-	-	-	930,000
KDHE Loans	<u>158,781</u>	<u>163,573</u>	<u>168,512</u>	<u>173,603</u>	<u>178,850</u>	<u>797,953</u>	<u>868,844</u>	<u>382,540</u>	<u>2,892,656</u>
Total principal	<u>1,273,781</u>	<u>308,573</u>	<u>318,512</u>	<u>333,603</u>	<u>338,850</u>	<u>1,457,953</u>	<u>1,478,844</u>	<u>662,540</u>	<u>6,172,656</u>
<b>Interest</b>									
General Obligation Bonds	79,200	73,650	69,300	64,800	60,000	232,950	132,325	18,063	730,288
Temporary Note	17,786	-	-	-	-	-	-	-	-
KDHE Loans	<u>81,488</u>	<u>76,697</u>	<u>71,758</u>	<u>66,667</u>	<u>61,419</u>	<u>234,169</u>	<u>120,971</u>	<u>13,385</u>	<u>726,554</u>
Total interest	<u>178,474</u>	<u>150,347</u>	<u>141,058</u>	<u>131,467</u>	<u>121,419</u>	<u>467,119</u>	<u>253,296</u>	<u>31,448</u>	<u>1,456,842</u>
Total Principal and Interest	<u>\$ 1,452,255</u>	<u>458,920</u>	<u>459,570</u>	<u>465,070</u>	<u>460,269</u>	<u>1,925,072</u>	<u>1,732,140</u>	<u>693,988</u>	<u>7,629,498</u>

City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2018

5. INTERFUND TRANSFERS

Operating transfers were as follows:

From	To	Regulatory Authority	Total
General	Consolidated Street and Highway	K.S.A. 12-1,119	\$ 40,000
Water	General	K.S.A. 12-825d	25,000
Water	Equipment Reserve	K.S.A. 12-825d	15,000
Water	Capital Improvement	K.S.A. 12-1,118	60,000
Water	Bond and Interest	K.S.A. 12-825d	240,600
Sewer	General	K.S.A. 12-825d	30,000
Sewer	Equipment Reserve	K.S.A. 12-825d	65,000
Sewer	Capital Improvement	K.S.A. 12-1,118	95,000
Sewer	Bond and Interest	K.S.A. 12-825d	147,000
Sewer	Water Reserve	K.S.A. 12-631o	80,000
Sewer	Sewer Reserve	K.S.A. 12-631o	30,000
			<u>\$ 827,600</u>

6. CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	Project Authorization	Expenditures To Date
Water line improvements	\$ 288,040	11,794
Street improvements - Lakewood Circle	456,960	403,063
KDOT Trail project	185,000	37,463
	<u>\$ 930,000</u>	<u>452,320</u>

7. 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](http://www.kpers.org) or by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

NOTES TO FINANCIAL STATEMENT

December 31, 2018

7. DEFINED BENEFIT PENSION PLAN (Continued)

Contributions

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law 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 for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from the City were \$42,925 for the year ended December 31, 2018.

Net Pension Liability

At December 31, 2018, the City's proportionate share of the collective net pension liability reported by KPERS was \$351,210. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. 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 nonemployer 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 assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at [www.kpers.org](http://www.kpers.org) or can be obtained as described above.

8. DEFERRED COMPENSATION PLAN

Employees of the City of North Newton may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the City. In prior years, the City made contributions to the plan for participating employees. Vesting of the portion contributed by the City begins after one year of service with full vesting after five years. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2018

8. DEFERRED COMPENSATION PLAN (Continued)

The deferred compensation plan is administered by Lincoln Financial Group and Lord Abbett mutual funds. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts is held by the insurance company and mutual fund until paid or made available to the employees or beneficiaries.

The following schedule summarizes activity in the accounts maintained by Lincoln Financial Group during the year ended December 31, 2018:

Balance, December 31, 2017	\$ 571,420
Deposits - Compensation deferred by participants	3,900
Withdrawals	(1,114)
Fees	(496)
Change in market value	(16,370)
Balance, December 31, 2018	<u>\$ 557,340</u>

The following schedule summarizes activity in the accounts maintained by Lord Abbett mutual funds during the year ended December 31, 2018:

Balance, December 31, 2017	\$ 78,273
Deposits - Compensation deferred by participants	5,108
Withdrawals	-
Fees	(243)
Change in market value	(13,587)
Dividends	5,954
Balance, December 31, 2018	<u>\$ 75,505</u>

The accounts maintained by the Lincoln Financial Group and Lord Abbett mutual fund are not included in the accompanying financial statement of the City.

9. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Other Post-Employment Benefits

As provided by K.S.A. 12-5400, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City 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.

NOTES TO FINANCIAL STATEMENT

December 31, 2018

9. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS (Continued)

Death and Disability Other Post-Employment Benefits

As provided by K.S.A. 74-4927, disabled members in the Kansas Public Employees Retirement System (KPERs) receive long-term disability benefits and life insurance benefits. The plan is administered through a trust held by KPERs that is funded to pay annual benefit payments. The employer contribution rate is set at 1% for the year ended December 31, 2018.

Other Employee Benefits

Full-time employees earn five days of paid vacation upon completion of six months of employment; from one through ten years of service they earn two weeks of paid vacation per year. After ten years of service, employees earn three weeks of paid vacation per year. Unused vacation pay is paid to employees upon termination. Unused vacation time has not been recorded as a liability in the accompanying financial statement.

Full-time employees earn 12 days of paid sick leave for each year of service which can be accumulated to a maximum of 60 days. Unused sick leave at December 31 may be converted to vacation time on a basis of two days sick leave for one day vacation. Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded as a liability in the accompanying financial statement.

10. CONTINGENT LIABILITIES

Public Wholesale Water Supply District No. 17

In February 1997, the City entered into an agreement with the cities of Newton, Halstead, and Sedgwick to organize the Public Wholesale Water Supply District No. 17 (District). The purpose of the District is to secure adequate sources of water for the member cities, to transport and distribute the water to purchasers, and to increase efficiency in providing public water supplies through sharing of facilities and resources. The District began pumping and distributing water to the member cities during 2000.

In order to purchase water rights and to construct facilities necessary for transportation and distribution, the District incurred debt through a loan from the Kansas Rural Water Finance Authority in February 2000. At December 31, 2018, the District owed approximately \$417,975 on this loan. This loan is scheduled to be paid in full in August 2020. As specified in the organization agreement, should the District terminate or otherwise fail to meet debt service requirements, the member cities are required to tender their pro rata share of the deficiency as determined by the membership percentages stated in the agreement. The City's stated membership percentage is 5.63%.

The City is paying the District for its portion of the total debt service on a monthly basis. At December 31, 2018, the remaining balance of the City's portion was \$23,532. Payments totaling \$16,959 are included in the Water fund expenditures in the accompanying financial statement for the year ended December 31, 2018.

NOTES TO FINANCIAL STATEMENT

December 31, 2018

11. INDUSTRIAL REVENUE BONDS

The City has entered into an agreement to induce businesses to locate or expand operations in North Newton, Kansas. In connection therewith, the City has issued industrial revenue bonds (IRB's) which require the businesses to make lease payments to trust accounts sufficient to pay the debt service on the IRB's. The City is under no obligation to pay the IRB debt, which is to be paid from the lease payments made by the related business.

12. 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; employee injuries; and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2017 to 2018; and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.

13. SUBSEQUENT EVENT

In April 2019, the City issued General Obligation Bonds, Series 2019, in the amount of \$1,615,000 to cover improvement projects within the City.

14. DATE OF MANAGEMENT REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through May 9, 2019, which is the date at which the financial statement was available to be issued.

CITY OF NORTH NEWTON  
REGULATORY – REQUIRED  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2018

## City of North Newton, Kansas

SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET  
Regulatory Basis

For the Year Ended December 31, 2018

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
<b>GENERAL FUND</b>	\$ 1,176,675	-	1,176,675	1,049,864	(126,811)
<b>SPECIAL PURPOSE FUND</b>					
Consolidated Street and Highway	127,700	-	127,700	62,429	(65,271)
<b>BOND AND INTEREST FUND</b>	510,077	-	510,077	510,020	(57)
<b>BUSINESS FUNDS</b>					
Water	530,450	-	530,450	500,433	(30,017)
Sewer	793,925	-	793,925	783,612	(10,313)
Solid waste	115,250	-	115,250	89,414	(25,836)



## City of North Newton, Kansas

**General Fund****SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET**  
Regulatory Basis

For the Year Ended December 31, 2018

(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		Current Year		
	Prior Year			Variance
	Actual	Actual	Budget	Over
				(Under)
RECEIPTS				
Ad valorem property tax	\$ 407,051	415,240	413,870	1,370
Intangibles tax	36,306	36,264	29,609	6,655
Delinquent tax	2,504	1,924	-	1,924
Vehicle tax	60,367	71,351	69,585	1,766
Sales tax - County	296,117	292,520	280,000	12,520
Payment in lieu of tax	43,126	43,482	39,620	3,862
Franchise fees	121,684	129,625	112,500	17,125
Interest	1,775	8,425	1,500	6,925
Earnings from endowment fund	4,900	6,711	5,400	1,311
Fines, fees, other	50,203	42,642	28,800	13,842
Transfers from				
Water	-	25,000	25,000	-
Sewer	100,000	30,000	30,000	-
Total receipts	1,124,033	1,103,184	1,035,884	67,300
EXPENDITURES				
General administration	166,516	180,559	198,575	(18,016)
Law enforcement	286,080	350,190	311,500	38,690
Fire protection	376,672	373,689	425,000	(51,311)
Municipal court	29,820	27,413	31,700	(4,287)
Utility services	27,865	24,852	28,000	(3,148)
Economic Development Council	7,500	7,275	7,000	275
Distributions from endowment fund	4,900	6,711	5,400	1,311
Other	39,788	39,175	52,500	(13,325)
Transfers to				
Consolidated Street and Highway	40,000	40,000	40,000	-
Equipment Reserve	-	-	9,500	(9,500)
Capital Improvement	63,000	-	67,500	(67,500)
Total expenditures	1,042,141	1,049,864	1,176,675	(126,811)
Receipts over (under) expenditures	81,892	53,320		
UNENCUMBERED CASH, beginning	159,974	241,866		
UNENCUMBERED CASH, ending	\$ 241,866	295,186		

## City of North Newton, Kansas

**Special Purpose Funds****SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET**  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		Current Year		
	Prior Year			Variance Over
	Actual	Actual	Budget	(Under)
<b>CONSOLIDATED STREET AND HIGHWAY</b>				
<b>RECEIPTS</b>				
Gasoline tax	\$ 47,990	48,557	47,630	927
Transfers from				
General	40,000	40,000	40,000	-
Sewer	-	-	25,000	(25,000)
Total receipts	87,990	88,557	112,630	(24,073)
<b>EXPENDITURES</b>				
Personal services	45,369	43,958	46,200	(2,242)
Contractual services	12,739	8,465	16,700	(8,235)
Commodities	7,236	10,006	9,550	456
Capital outlay	-	-	1,750	(1,750)
Transfers to				
Equipment Reserve	-	-	5,000	(5,000)
Capital Improvement	-	-	48,500	(48,500)
Total expenditures	65,344	62,429	127,700	(65,271)
Receipts over (under) expenditures	22,646	26,128		
UNENCUMBERED CASH, beginning	33,771	56,417		
UNENCUMBERED CASH, ending	\$ 56,417	82,545		

## City of North Newton, Kansas

**Special Purpose Funds****SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL****Regulatory Basis**

For the Year Ended December 31, 2018

(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

	<u>2017</u>	<u>2018</u>
<b>EQUIPMENT RESERVE</b>		
<b>RECEIPTS</b>		
Sale of equipment	\$ 4,000	-
Transfers from		
Water	-	15,000
Sewer	<u>120,000</u>	<u>65,000</u>
Total receipts	124,000	80,000
<b>EXPENDITURES</b>		
Equipment purchases	<u>64,930</u>	<u>18,916</u>
Receipts over (under) expenditures	59,070	61,084
UNENCUMBERED CASH, beginning	<u>89,550</u>	<u>148,620</u>
UNENCUMBERED CASH, ending	<u>\$ 148,620</u>	<u>209,704</u>
<b>CAPITAL IMPROVEMENT</b>		
<b>RECEIPTS</b>		
Temporary note proceeds	\$ -	930,000
Donations	2,568	-
Transfers from		
General	63,000	-
Water	-	60,000
Sewer	<u>30,000</u>	<u>95,000</u>
Total receipts	95,568	1,085,000
<b>EXPENDITURES</b>		
Other capital expenditures	<u>189,041</u>	<u>483,512</u>
Receipts over (under) expenditures	(93,473)	601,488
UNENCUMBERED CASH, beginning	<u>394,347</u>	<u>300,874</u>
UNENCUMBERED CASH, ending	<u>\$ 300,874</u>	<u>902,362</u>

## City of North Newton, Kansas

**Bond and Interest Fund**SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		Current Year		
	Prior Year			Variance
	Actual	Actual	Budget	Over
				(Under)
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 35,540	36,544	36,425	119
Delinquent tax	316	172	-	172
Vehicle tax	6,830	6,191	6,037	154
Special assessments	115,946	121,935	113,597	8,338
Transfer from				
Water	240,600	240,600	217,600	23,000
Sewer	150,000	147,000	133,500	13,500
Total receipts	549,232	552,442	507,159	45,283
<b>EXPENDITURES</b>				
Principal	339,623	339,133	425,307	(86,174)
Interest	181,097	170,887	84,750	86,137
Commission and fees	-	-	20	(20)
Total expenditures	520,720	510,020	510,077	(57)
Receipts over (under) expenditures	28,512	42,422		
UNENCUMBERED CASH, beginning	7,156	35,668		
UNENCUMBERED CASH, ending	\$ 35,668	78,090		

## City of North Newton, Kansas

**Business Funds**

**SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET**  
**Regulatory Basis**

For the Year Ended December 31, 2018  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		<u>Current Year</u>		
	Prior Year			Variance
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Over</u>
				<u>(Under)</u>
<b>WATER</b>				
<b>RECEIPTS</b>				
Sales and connection fees	\$ 373,360	353,434	507,700	(154,266)
Reimbursed expenses	<u>104</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>373,464</u>	<u>353,434</u>	<u>507,700</u>	<u>(154,266)</u>
<b>EXPENDITURES</b>				
Personal services	70,099	86,726	72,250	14,476
Contractual services	28,378	31,076	31,800	(724)
Commodities	13,629	13,094	12,600	494
Capital outlay	7,149	8,493	8,300	193
Sales tax and water protection fee	3,643	3,485	3,900	(415)
Wholesale water district	16,028	16,959	19,000	(2,041)
Transfers to				
General	-	25,000	25,000	-
Equipment Reserve	-	15,000	50,000	(35,000)
Capital Improvement	-	60,000	90,000	(30,000)
Bond and Interest	<u>240,600</u>	<u>240,600</u>	<u>217,600</u>	<u>23,000</u>
Total expenditures	<u>379,526</u>	<u>500,433</u>	<u>530,450</u>	<u>(30,017)</u>
Receipts over (under) expenditures	(6,062)	(146,999)		
UNENCUMBERED CASH, beginning	<u>233,686</u>	<u>227,624</u>		
UNENCUMBERED CASH, ending	<u>\$ 227,624</u>	<u>80,625</u>		

## City of North Newton, Kansas

**Business Funds**

**SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET**  
**Regulatory Basis**

For the Year Ended December 31, 2018  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		Current Year		Variance
	Prior Year			Over
	Actual	Actual	Budget	(Under)
<b>SEWER</b>				
<b>RECEIPTS</b>				
User fees and other	\$ 716,532	707,000	725,000	(18,000)
<b>EXPENDITURES</b>				
Personal services	85,151	103,818	88,400	15,418
Purchased services	200,000	200,000	230,000	(30,000)
Contractual services	28,080	27,912	26,025	1,887
Commodities	3,423	4,882	21,000	(16,118)
Debt service	-	-	15,000	(15,000)
Transfers to				
General	100,000	30,000	30,000	-
Consolidated Street and Highway	-	-	25,000	(25,000)
Equipment Reserve	120,000	65,000	120,000	(55,000)
Capital Improvement	30,000	95,000	70,000	25,000
Bond and Interest	150,000	147,000	133,500	13,500
Water Reserve	-	80,000	-	80,000
Sewer Reserve	40,000	30,000	35,000	(5,000)
Total expenditures	756,654	783,612	793,925	(10,313)
Receipts over (under) expenditures	(40,122)	(76,612)		
UNENCUMBERED CASH, beginning	236,588	196,466		
UNENCUMBERED CASH, ending	\$ 196,466	119,854		

## City of North Newton, Kansas

**Business Funds**SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

		Current Year		
	Prior Year			Variance
	Actual	Actual	Budget	Over
				(Under)
<b>SOLID WASTE</b>				
<b>RECEIPTS</b>				
User fees	\$ 93,175	93,503	95,000	(1,497)
<b>EXPENDITURES</b>				
Personal services	1,504	1,807	1,750	57
Contractual services	86,877	87,350	113,000	(25,650)
Commodities	247	257	500	(243)
Total expenditures	88,628	89,414	115,250	(25,836)
Receipts over (under) expenditures	4,547	4,089		
UNENCUMBERED CASH, beginning	76,840	81,387		
UNENCUMBERED CASH, ending	\$ 81,387	85,476		

## City of North Newton, Kansas

**Business Funds**SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

	<u>2017</u>	<u>2018</u>
<b>WATER RESERVE</b>		
<b>RECEIPTS</b>		
Transfer from Sewer	\$ -	80,000
<b>EXPENDITURES</b>	<u>-</u>	<u>-</u>
Receipts over (under) expenditures	<u>-</u>	<u>80,000</u>
UNENCUMBERED CASH, beginning	<u>-</u>	<u>-</u>
UNENCUMBERED CASH, ending	<u><u>\$ -</u></u>	<u><u>80,000</u></u>
<b>SEWER RESERVE</b>		
<b>RECEIPTS</b>		
Transfer from Sewer	\$ 40,000	30,000
<b>EXPENDITURES</b>	<u>-</u>	<u>-</u>
Receipts over (under) expenditures	<u>40,000</u>	<u>30,000</u>
UNENCUMBERED CASH, beginning	<u>80,000</u>	<u>120,000</u>
UNENCUMBERED CASH, ending	<u><u>\$ 120,000</u></u>	<u><u>150,000</u></u>



## City of North Newton, Kansas

**Trust Fund****SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL**  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

	<u>2017</u>	<u>2018</u>
<b>SPECIAL LAW ENFORCEMENT TRUST</b>		
<b>RECEIPTS</b>		
Monies seized	\$ 21,447	9,672
<b>EXPENDITURES</b>		
Equipment purchases	<u>18,675</u>	<u>10,168</u>
Receipts over (under) expenditures	<u>2,772</u>	<u>(496)</u>
UNENCUMBERED CASH, beginning	<u>1,720</u>	<u>4,492</u>
UNENCUMBERED CASH, ending	<u>\$ 4,492</u>	<u>3,996</u>

City of North Newton, Kansas

**Agency Fund**

**SCHEDULE OF RECEIPTS AND DISBURSEMENTS**  
Regulatory Basis

For the Year Ended December 31, 2018

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance</u>
<b>METER DEPOSITS</b>	<u>\$ 3,100</u>	<u>1,450</u>	<u>1,400</u>	<u>3,150</u>