

City of Eastborough, Kansas

Independent Auditor's Report and Financial Statement
and Regulatory Required Supplementary Information

For the Year Ended December 31, 2018

City of Eastborough, Kansas
December 31, 2018

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Independent Auditor's Report

The Honorable Mayor and City Council
City of Eastborough, Kansas

Report on Financial Statement

We have audited the accompanying fund summary statement of receipts, expenditures and unencumbered cash balances regulatory basis of the City of Eastborough, Kansas, 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 from 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 the 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* of the financial statement, the financial statement is prepared by the City of Eastborough, 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 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 accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Eastborough, Kansas as of December 31, 2018, 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 of Eastborough, Kansas 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*.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures and unencumbered cash balances (regulatory basis 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 (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the regulatory basis 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 regulatory basis financial statement. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statement or to the 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 regulatory basis financial statement as a whole, on the basis of accounting described in *Note 1*.

BKD, LLP

Wichita, Kansas
September 11, 2019

City of Eastborough, 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 Outstanding Encumbrances	Ending Cash Balance
Governmental Funds						
General	\$ 378,613	\$ 1,059,639	\$ 1,110,491	\$ 327,761	\$ -	\$ 327,761
Special Purpose						
Employee Benefit	30,444	174,916	167,331	38,029	-	38,029
Capital Improvement	715,288	28,476	38,684	705,080	-	705,080
Special Highway	76,537	29,813	33,681	72,669	-	72,669
Bond and Interest	21,544	97,151	93,942	24,753	-	24,753
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total reporting entity	<u>\$ 1,222,426</u>	<u>\$ 1,389,995</u>	<u>\$ 1,444,129</u>	<u>\$ 1,168,292</u>	<u>\$ -</u>	<u>\$ 1,168,292</u>

Composition of cash

Checking account - INTRUST Bank	\$ 91,679
Money market - Equity Bank	101,893
Petty cash	100
ICS - Equity Bank	<u>974,620</u>
Total reporting entity	<u>\$ 1,168,292</u>

City of Eastborough, Kansas

Notes to Financial Statement

December 31, 2018

Note 1: Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Eastborough, Kansas (the City) is presented to assist in understanding the City's financial statement. The financial statement and notes are representations of the City's management, who is responsible for their integrity and objectivity.

Reporting Entity

The City of Eastborough, Kansas is a municipal corporation incorporated under the laws of the State of Kansas. The City is governed by elected six person council and provides services to the citizens in the areas of highways and streets, public improvement, public safety, planning and zoning, recreation and general administrative services.

Basis of Presentation

The financial activities of the City are recorded and presented on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Eastborough, Kansas for the year 2018:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – used to account for the proceeds of specific tax levies and other specific revenue 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.

Basis of Accounting

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 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.

City of Eastborough, Kansas

Notes to Financial Statement

December 31, 2018

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.

Note 2: 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 1.
2. Publication in local newspaper on or before August 5 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

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 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 revenues are recognized when cash is received and expenditures including 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 budgeted expenditure authority lapses at year-end.

City of Eastborough, Kansas

Notes to Financial Statement

December 31, 2018

A legal operating budget is not required for capital project funds, trust funds and the following special purpose funds:

Capital Improvement

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 3: Deposits

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.

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. All deposits were legally secured at December 31, 2018.

At December 31, 2018, the City's carrying amount of deposits was \$1,168,292 and a bank balance was \$1,174,344. The bank balance was held by two banks resulting in a concentration of credit risk. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. At December 31, 2018, the entire bank balance was covered by FDIC insurance.

City of Eastborough, Kansas

Notes to Financial Statement

December 31, 2018

Note 4: Defined Contribution Pension Plan

The City provides pension benefits for its employees through the City of Eastborough Retirement Plan (Plan) established June 1, 1993. The Plan was restated January 1, 2009. The Plan is a defined contribution plan whereby benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon completing one year's service working a minimum of 1,000 hours and having reached age 21. The City is required to contribute an amount equal to 7% of the employee's salary each month. The City's contributions for each eligible employee are invested in an annuity contract with The Principal Financial Group as directed by the participant. Participants are fully vested in their accounts credited with the City's contributions and allocated interest after six years of continuous service. The City's pension plan contribution for 2018 was \$28,625.

Note 5: Risk Management

The City continues to carry commercial insurance for all other risks of loss, including property, liability, crime, inland marine, automobile and workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6: Compensated Absences

Vacation

The amount of vacation time earned shall be based on length of continuous service. The earned vacation leave is as follows:

After 1 year of service	10 days
After 10 years of service	15 days

Vacation time is credited at 4.61 hours per pay period for employees earning 10 days per year and at 6.92 hours per pay period for employees earning 15 days per year, starting upon employment. An employee may carry over a maximum of 10 days (120 hours) of vacation into next year. Employees leaving employment with the City shall be paid for vacation leave earned to the date of termination.

Note 7: Interfund Transfers

Operating transfers per K.S.A. 10-117a, 12-825d, 12-1,117, 12-1-118, 12-631o, were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
General	Employee Benefit	\$ 40,935

City of Eastborough, Kansas

Notes to Financial Statement

December 31, 2018

Note 8: Stewardship, Compliance and Accountability

The City was in violation of statute K.S.A. 79-2935 with regards to expenditures exceeding budget limits. The City's Employee Benefit fund expenditures exceeded the budget by \$5,481.

Note 9: Long-term Debt

Changes in long-term debt for the year ended December 31, 2018:

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
General Obligation Bonds									
2012A GO Bonds	1.77%	2/22/2012	\$ 858,000	9/2/2022	\$ 450,000	\$ -	\$ 85,000	\$ 365,000	\$ 8,943
Revolving Loan Programs									
Transportation Revolving Fund TR-0042	3.65%	9/5/2006	224,308	8/1/2021	57,725	-	18,412	39,313	2,251
Transportation Revolving Fund TR-0090	3.90%	10/28/2008	227,794	8/1/2018	29,287	-	29,287	-	1,215
Total Revolving Loan Programs					87,012	-	47,699	39,313	3,466
Total Contractual Indebtedness					<u>\$ 537,012</u>	<u>\$ -</u>	<u>\$ 132,699</u>	<u>\$ 404,313</u>	<u>\$ 12,409</u>

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

	2019	2020	2021	2022	Total
Principal					
General Obligation Bonds	\$ 90,000	\$ 90,000	\$ 90,000	\$ 95,000	\$ 365,000
Revolving loan program	19,131	19,877	305	-	39,313
Total principal payments	<u>\$ 109,131</u>	<u>\$ 109,877</u>	<u>\$ 90,305</u>	<u>\$ 95,000</u>	<u>\$ 404,313</u>
Interest					
General Obligation Bonds	\$ 7,583	\$ 5,962	\$ 4,163	\$ 2,138	\$ 19,846
Revolving loan program	1,533	748	51	-	2,332
Total interest payments	<u>\$ 9,116</u>	<u>\$ 6,710</u>	<u>\$ 4,214</u>	<u>\$ 2,138</u>	<u>\$ 22,178</u>

Regulatory Required Supplementary Information

City of Eastborough, Kansas
Summary of Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

Funds	Amended or Certified Budget	Expenditures Chargeable to Current Year	Variance Over (Under)
General	\$ 1,154,328	\$ 1,110,491	\$ (43,837)
Special Purpose			
Employee Benefit	161,850	167,331	5,481
Capital Improvement	626,115	38,684	(587,431)
Special Highway	166,717	33,681	(133,036)
Bond and Interest	122,354	93,942	(28,412)

City of Eastborough, Kansas
General Fund
Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	Actual	Budget	Variance Over (Under)
Receipts			
Taxes			
Ad valorem property	\$ 583,060	\$ 599,703	\$ (16,643)
Delinquent tax	8,585	-	8,585
Motor vehicle	66,497	57,196	9,301
Intergovernmental: Local sales tax	230,997	145,000	85,997
Franchise fees	64,524	40,000	24,524
Fines	85,945	70,000	15,945
Interest on investments	4,566	-	4,566
Permits and other	8,482	-	8,482
Reimbursements	6,983	-	6,983
Total receipts	<u>1,059,639</u>	<u>911,899</u>	<u>147,740</u>
Expenditures			
General administration			
Personnel services	101,096	97,500	3,596
Contractual services	41,981	40,000	1,981
Commodities	3,276	5,000	(1,724)
Street lights	23,876	23,000	876
Police department			
Personnel services	387,802	365,000	22,802
Contractual services	34,696	40,000	(5,304)
Commodities	25,730	32,500	(6,770)
Capital outlay	5,576	35,000	(29,424)
Street department			
Contractual services	12,958	15,000	(2,042)
Commodities	1,154	-	1,154
Parks			
Contractual services	158,507	170,000	(11,493)
Commodities	1,133	1,000	133

City of Eastborough, Kansas
General Fund (Continued)
Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Expenditures (Continued)			
City Hall			
Contractual services	\$ 35,317	\$ 46,927	\$ (11,610)
Commodities	669	1,500	(831)
Municipal court			
Personnel services	33,045	36,500	(3,455)
Contractual services	5,716	1,500	4,216
Commodities	543	1,000	(457)
Mayor's discretionary fund	1,469	2,000	(531)
KDOT - TRF	51,166	51,166	-
Fire services	143,846	148,800	(4,954)
Transfer to Employee Benefit Fund	40,935	40,935	-
	<u>1,110,491</u>	<u>1,154,328</u>	<u>\$ (43,837)</u>
Receipts Over (Under) Expenditures	(50,852)	(242,429)	
Unencumbered Cash, Beginning	<u>378,613</u>	<u>242,429</u>	
Unencumbered Cash, Ending	<u>\$ 327,761</u>	<u>\$ -</u>	

City of Eastborough, Kansas
Employee Benefit Fund
Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	Actual	Budget	Variance Over (Under)
Receipts			
Taxes			
Ad valorem property	\$ 117,077	\$ 120,484	\$ (3,407)
Motor vehicle	13,363	11,492	1,871
Delinquent tax	1,742	-	1,742
Reimbursements and other	1,799	-	1,799
Transfer from General Fund	40,935	-	40,935
	<hr/>	<hr/>	<hr/>
Total receipts	174,916	131,976	42,940
	<hr/>	<hr/>	<hr/>
Expenditures			
Employee benefits	167,331	161,850	<u>\$ 5,481</u>
	<hr/>	<hr/>	<hr/>
Receipts Over (Under) Expenditures	7,585	(29,874)	
	<hr/>	<hr/>	
Unencumbered Cash, Beginning	30,444	29,874	
	<hr/>	<hr/>	
Unencumbered Cash, Ending	<u>\$ 38,029</u>	<u>\$ -</u>	

City of Eastborough, Kansas
Capital Improvement Fund
Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	Actual	Budget	Variance Over (Under)
Receipts			
Taxes			
Ad valorem property	\$ 25,424	\$ 26,158	\$ (734)
Delinquent	296	-	296
Motor vehicle	2,756	2,495	261
Recreational vehicle	-	2	(2)
Miscellaneous	-	315	(315)
Transfer from General Fund	-	40,935	(40,935)
	<u>28,476</u>	<u>69,905</u>	<u>(41,429)</u>
Total receipts			
	<u>28,476</u>	<u>69,905</u>	<u>(41,429)</u>
Expenditures			
Capital improvements	38,684	626,115	<u>\$ (587,431)</u>
	<u>38,684</u>	<u>626,115</u>	
Receipts Over (Under) Expenditures	(10,208)	(556,210)	
Unencumbered Cash, Beginning	715,288	556,210	
	<u>715,288</u>	<u>556,210</u>	
Unencumbered Cash, Ending	\$ 705,080	\$ -	
	<u>\$ 705,080</u>	<u>\$ -</u>	

City of Eastborough, Kansas
Special Highway Fund
Schedule of Receipts and Expenditures – Actual and Budget
Special Highway Fund
For the Year Ended December 31, 2018

	Actual	Budget	Variance Over (Under)
Receipts			
State of Kansas	\$ 20,608	\$ 20,480	\$ 128
City/county highway	<u>9,205</u>	<u>9,040</u>	<u>165</u>
Total receipts	<u>29,813</u>	<u>29,520</u>	<u>293</u>
Expenditures			
Street repair and maintenance	<u>33,681</u>	<u>166,717</u>	<u>\$ (133,036)</u>
Receipts Over (Under) Expenditures	(3,868)	(137,197)	
Unencumbered Cash, Beginning	<u>76,537</u>	<u>137,197</u>	
Unencumbered Cash, Ending	<u>\$ 72,669</u>	<u>\$ -</u>	

City of Eastborough, Kansas
Bond and Interest Fund
Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2018

	Actual	Budget	Variance Over (Under)
Receipts			
Taxes			
Ad valorem property	\$ 83,391	\$ 85,818	\$ (2,427)
Delinquent	1,156	-	1,156
Motor vehicle	9,581	8,190	1,391
Special assessments	3,023	3,140	(117)
	<u>97,151</u>	<u>97,148</u>	<u>3</u>
Total receipts			
Expenditures			
Principal	85,000	85,000	-
Interest	8,942	8,942	-
Miscellaneous	-	28,412	(28,412)
	<u>93,942</u>	<u>122,354</u>	<u>\$ (28,412)</u>
Total expenditures			
Receipts Over (Under) Expenditures	3,209	(25,206)	
Unencumbered Cash, Beginning	<u>21,544</u>	<u>25,206</u>	
Unencumbered Cash, Ending	<u>\$ 24,753</u>	<u>\$ -</u>	