

CITY OF SABETHA, KANSAS
FINANCIAL STATEMENTS
Year Ending December 31, 2017

This page intentionally left blank.

City of Sabetha, Kansas
FINANCIAL STATEMENTS
Year ending December 31, 2017

TABLE OF CONTENTS

	<u>Page Number</u>
<u>INTRODUCTORY SECTION</u>	
Table of Contents	i
<u>FINANCIAL STATEMENTS SECTION</u>	
Independent Auditor's Report	1 - 2
Summary Statement of Receipts, Expenditures and Unencumbered Cash	3
Notes to the Financial Statements	4 - 11
<u>REGULATORY REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE 1	
Summary of Expenditures - Actual and Budget	12
SCHEDULE 2	
Schedule of Receipts and Expenditures - Actual and Budget	
General Fund	13 - 14
Library Fund	15
Airport Fund	16
Parks and Recreation Fund	17
Highway Fund	18
Bond and Interest Fund	19
Aquatic Center Fund	20
Electric Fund	21
Water Fund	22
Sewer Fund	23
SCHEDULE 3	
Schedule of Receipts and Expenditures - Actual	
Mary Cotton Public Library - Related Municipal Entity	24
Sabetha Cemetery - Related Municipal Entity	25
SCHEDULE 4	
Summary of Receipts and Disbursements	
Agency Funds	26

INDEPENDENT AUDITOR'S REPORT

Mayor and City Commission
City of Sabetha, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Sabetha, 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 Statements

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 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 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 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 omission of the financial data of one, but not all, of the related municipal entities of the City of Sabetha, Kansas and 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.

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, 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 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 (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, the individual fund schedules of regulatory basis receipts and expenditures-actual and budget, the schedules of regulatory basis receipts and expenditures-related municipal entities, and the summary of regulatory basis receipts and disbursements-agency funds (Schedules 1, 2, 3 and 4 as listed in the table of contents) are presented for analysis and are not a required part of the 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the 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 basic 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 basic financial statement as a whole, on the basis of accounting described in Note 1.

Mike Houser: Company PA

Certified Public Accountants
Lawrence, Kansas

March 26, 2018

City of Sabetha, Kansas
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2017

<u>Funds</u>	<u>Restated Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
General Funds:							
General	\$ 3,107,195	\$ -	\$ 2,494,461	\$ 4,944,715	\$ 656,941	\$ -	\$ 656,941
Special Purpose Funds:							
Library	4,098	-	131,804	131,758	4,144	-	4,144
Airport	204,881	-	24,376	34,285	194,972	-	194,972
Parks and Recreation	-	-	6,115	6,115	-	-	-
Highway	-	-	68,908	68,908	-	-	-
Bond and Interest Funds:							
Bond and Interest	104,737	-	41,312	59,000	87,049	-	87,049
Aquatic Center	179,770	-	273,626	219,760	233,636	-	233,636
Business Funds:							
Electric	3,208,548	-	4,844,524	5,115,658	2,937,414	-	2,937,414
Water	281,224	-	678,228	628,008	331,444	-	331,444
Sewer	260,791	-	2,005,027	2,033,275	232,543	-	232,543
Related Municipal Entities:							
Mary Cotton Public Library	165,245	-	161,515	150,757	176,003	-	176,003
Sabetha Cemetery	10,715	-	60,894	54,304	17,305	6,250	23,555
Total Reporting Entity [Excluding Agency Funds]	<u>\$ 7,527,204</u>	<u>\$ -</u>	<u>\$ 10,790,790</u>	<u>\$ 13,446,543</u>	<u>\$ 4,871,451</u>	<u>\$ 6,250</u>	<u>\$ 4,877,701</u>

Composition of Cash:

M & J Bank	
Checking	\$ 443,161
Money Market	782,939
Community National Bank	
Checking	1,143,491
Money Market	10,190
United Bank	
Checking	2,318,365
Money Market	4,997
Court	3,816
EMS	36,044
Armory Event Center	5,003
Library Checking	68,033
Library Money Market	15,449
Library Certificate of Deposit	92,521
Cemetery Checking	11,908
Cemetery Money Market	9,116
Cemetery Certificate of Deposit	<u>3,238</u>
Subtotal	4,948,271
Less: Agency Funds per Schedule 4	<u>[69,863]</u>
Total Reporting Entity [Excluding Agency Funds]	<u>\$ 4,878,408</u>

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

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Sabetha (the City) is a municipal corporation governed by a five-member commission. These financial statements present only the primary government of the City and the Mary Cotton Public Library and Sabetha Cemetery related municipal entities. They exclude one of the related municipal entities for which the City is considered financially accountable:

The Sabetha Housing Authority

Separate financial statements may be obtained directly from the above.

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 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 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.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the City for the year ended December 31, 2017:

General Fund - the chief operating 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.

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

Agency Fund - used to report assets held by a municipal reporting entity in a purely custodial capacity (i.e. payroll clearing fund, county treasurer tax collection accounts, etc.).

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

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 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 governing body may amend the budget at that time. The budget for the year ended December 31, 2017 was amended for the General Fund, Aquatic Center Fund and Sewer Fund.

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, 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 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.

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.

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 2 - Leases

The City has entered into the following lease agreements as lessee for financing the acquisition of equipment:

Item <u>Purchased</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance December 31, 2017</u>
Fire Truck	2013	2018	1.98%	\$ 220,000	\$ 45,743
Ambulance	2014	2018	2.98%	110,000	28,724
Substation	2015	2021	1.95%	880,000	710,000
					<u>\$ 784,467</u>

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

<u>Year Ending December 31,</u>	
2018	\$ 261,648
2019	185,419
2020	185,419
2021	185,420
Total minimum lease payments	817,906
Less: amount representing interest	<u>[33,439]</u>
Present value of minimum lease payments	<u>\$ 784,467</u>

NOTE 3 - Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and business fund activities. These bonds are reported in the business funds if they are expected to be repaid from business fund regulatory receipts. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds outstanding at December 31, 2017 are as follows:

<u>Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Balance December 31, 2017</u>
Paid for by taxes					
General Obligation Series 2016-A	10/5/2016	9/1/1936	2.00 - 3.00%	\$ 3,300,000	\$ 3,165,000
Paid for by taxes and revenues					
General Obligation Refunding Series 2011-A	12/15/2011	9/1/2033	2.00 - 4.00%	<u>4,280,000</u>	<u>3,310,000</u>
				<u>\$ 7,580,000</u>	<u>\$ 6,475,000</u>

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 3 - Long-Term Debt (Continued)

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

Year Ending December 31,	Governmental Funds		Business Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 130,000	\$ 90,900	\$ 165,000	\$ 108,300	\$ 295,000	\$ 199,200
2019	135,000	88,300	170,000	104,175	305,000	192,475
2020	140,000	85,600	175,000	99,925	315,000	185,525
2021	140,000	82,800	180,000	95,550	320,000	178,350
2022	145,000	78,600	185,000	91,050	330,000	169,650
2023-2027	2,475,000	144,000	995,000	374,645	3,470,000	518,645
2028-2032	-	-	1,175,000	191,390	1,175,000	191,390
2033	-	-	265,000	10,600	265,000	10,600
	<u>\$ 3,165,000</u>	<u>\$ 570,200</u>	<u>\$ 3,310,000</u>	<u>\$ 1,075,635</u>	<u>\$ 6,475,000</u>	<u>\$ 1,645,835</u>

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Bond and Interest Fund. Special assessments paid prior to the issuance of bonds are recorded as regulatory receipts in the appropriate project. Special assessments received after the issuance of bonds are recorded as regulatory receipts in the Bond and Interest Fund.

State Agency Loans. In 2004, the City arranged for a \$3,250,000 loan from The Kansas Water Pollution Control Revolving Loan Fund through the Kansas Department of Health and Environment for improving the wastewater system of Sabetha. The City is obligated to make semi-annual payments of \$106,567 from March 1, 2006 to September 1, 2025. These payments will include a gross interest rate of 2.54% plus a .25% service fee. At December 31, 2017, the outstanding principal balance was \$1,514,100. In 2016, the City arranged for a \$1,292,032 loan from the Kansas Water Pollution Control Revolving Loan Fund through the Kansas Department of Health and Environment for improving the sanitary sewer collection system of Sabetha. The City is obligated to make semi-annual payments of \$39,339 from March 1, 2018 to September 1, 2037. These payments will include a gross interest rate of 1.75 % plus a .25% service fee.

The following displays annual debt service requirements to maturity for the loan payable to be paid from service regulatory receipts, for the full proceeds amount:

Year Ending December 31,	
2018	\$ 291,812
2019	291,812
2020	291,813
2021	291,812
2022	291,812
2023-2027	1,032,793
2028-2032	393,390
2033-2037	<u>393,388</u>
Total principal, interest, and service fees	3,278,632
Less: interest and service fees	<u>[472,500]</u>
Total principal	<u>\$ 2,806,132</u>

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 3 - Long-Term Debt (Continued)

Changes in General Long-term Liabilities. During the year ended December 31, 2017, the following changes occurred in long term liabilities:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year	Interest Paid
Paid for by taxes						
General obligation bonds	\$ 3,300,000	\$ -	\$ 135,000	\$ 3,165,000	\$ 130,000	\$ 84,760
	<u>\$ 3,300,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ 3,165,000</u>	<u>\$ 130,000</u>	<u>\$ 84,760</u>
Paid for by taxes and revenues						
KDHE revolving loan	\$ 1,724,446	\$ 1,248,427	\$ 166,741	\$ 2,806,132	\$ 225,410	\$ 54,450
Hospital construction general obligation bonds	<u>3,475,000</u>	<u>-</u>	<u>165,000</u>	<u>3,310,000</u>	<u>165,000</u>	<u>111,600</u>
	<u>\$ 5,199,446</u>	<u>\$ 1,248,427</u>	<u>\$ 331,741</u>	<u>\$ 6,116,132</u>	<u>\$ 390,410</u>	<u>\$ 166,050</u>

NOTE 4 - Deposits and Investments

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.

Investments. 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. As of December 31, 2017, the City held no investments.

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, except during designated "peak periods" when required coverage is 50%. The City has no designated "peak periods".

At December 31, 2017, the City's carrying amount of deposits was \$4,748,006 and the bank balance was \$4,828,250. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$750,000 was covered by federal depository insurance and the balance of \$4,078,250 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

At December 31, 2017, the Library's carrying amount of deposits was \$176,003 and the bank balance was \$178,472. The bank balance was held by one bank resulting in a concentration of credit risk. All of the Library's bank balance was covered by federal depository insurance.

At December 31, 2017, the Cemetery's carrying amount of deposits was \$24,262 and the bank balance was \$24,262. The bank balance was held by one bank resulting in a concentration of credit risk. All of the Cemetery's bank balance was covered by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 5 - Interfund Transfers

A reconciliation of transfers by fund type for 2017 follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Regulatory Authority</u>
Highway Fund	General Fund	\$ 68,908	K.S.A. 68-590
Parks and Recreation Fund	General Fund	6,115	K.S.A. 79-2958
Electric Fund	General Fund	221,000	K.S.A. 12-825d
Water Fund	General Fund	11,000	K.S.A. 12-825d
Sewer Fund	General Fund	2,500	K.S.A. 12-825d
Total		<u>\$ 309,523</u>	

NOTE 6 - 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 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. 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. Members 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 for the period of January 1, 2017 through September 30, 2017 for Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the City were \$144,399 for the year ended December 31, 2017.

Net Pension Liability. At December 31, 2017, the City's proportionate share of the collective net pension liability reported by KPERS was \$1,343,529. 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 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 these financial statements.

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 or can be obtained as described above.

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 7 - Compensated Absences

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2017, the liability for accrued vacation pay was \$39,256.

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; natural disasters and other events for which the City carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - 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 this financial statement.

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 government under this program.

NOTE 10 - Commitments and Contingencies

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the City as of December 31, 2017.

NOTE 11 - Statutory Violations

Actual exceeded budgeted expenditures in the Highway Fund, which is a violation of K.S.A. 79-2935.

NOTE 12 - Capital Projects

During 2017, the City substantially completed construction of an Aquatic Park at a total cost of \$3,938,724. The City issued Series 2016-A General Obligation Bonds in the amount of \$3,300,000 to finance a portion of the cost of this project, with the additional funding coming from lawfully available funds of the City.

During 2017, the City began construction of the West Loop Circuit Rebuild Project, which is be completed in 2018 at a total estimated cost of \$324,577. The project is being paid for from lawfully available funds of the City's Electric Fund. As of December 31, 2017, total costs incurred on the project were \$217,357.

During 2017, the City began and completed construction of the Wastewater Collection Improvements Project at a total cost of \$1,285,155. The City arranged for a \$1,292,032 loan from the Kansas Water Pollution Control Revolving Loan Fund through the Kansas Department of Health and Environment to finance the cost of this project.

This page intentionally left blank.

CITY OF SABETHA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

NOTE 13 - Restatements

During 2017, the City elected to make a prior year accounting reclassification between the General Fund and the Aquatic Center Fund. These changes in presentation resulted in the following restatements to beginning unencumbered cash.

	General Fund	Aquatic Center Fund
Unencumbered Cash Balance, December 31, 2016	\$ 3,286,965	\$ -
Adjustment for prior year reclassification	<u>[179,770]</u>	<u>179,770</u>
Unencumbered Cash Balance, December 31, 2016, Restated	<u>\$ 3,107,195</u>	<u>\$ 179,770</u>

City of Sabetha, Kansas
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2017

<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>
General Funds:					
General	\$ 6,000,000	\$ -	\$ 6,000,000	\$ 4,944,715	\$ 1,055,285
Special Purpose Funds:					
Library	152,175	-	152,175	131,758	20,417
Airport	100,000	-	100,000	34,285	65,715
Parks and Recreation	7,500	-	7,500	6,115	1,385
Highway	67,370	-	67,370	68,908	[1,538]
Bond and Interest Funds:					
Bond and Interest	107,325	-	107,325	59,000	48,325
Aquatic Center	225,000	-	225,000	219,760	5,240
Business Funds:					
Electric	5,959,870	-	5,959,870	5,115,658	844,212
Water	882,100	-	882,100	628,008	254,092
Sewer	2,100,000	-	2,100,000	2,033,275	66,725

City of Sabetha, 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>	Variance- Over [Under]
Receipts			
Taxes	\$ 766,308	\$ 1,031,325	\$ [265,017]
Intergovernmental	319,796	322,000	[2,204]
Franchise tax	176,393	190,000	[13,607]
Licenses	4,691	6,000	[1,309]
Fines and fees	12,390	10,000	2,390
Interest	6,649	4,500	2,149
Use of property	30,464	20,000	10,464
Charges for services	541,180	485,285	55,895
Reimbursement	284,784	286,459	[1,675]
Operating transfers	309,523	374,870	[65,347]
Miscellaneous	<u>42,283</u>	<u>-</u>	<u>42,283</u>
Total Receipts	<u>2,494,461</u>	<u>\$ 2,730,439</u>	<u>\$ [235,978]</u>
Expenditures			
General Government			
Personnel	196,023	\$ 215,000	\$ 18,977
Contractual services	273,753	180,000	[93,753]
Commodities	15,472	15,000	[472]
Law Enforcement			
Personnel	339,319	350,000	10,681
Contractual services	82,604	75,000	[7,604]
Commodities	7,241	24,000	16,759
Parks and Recreation			
Personnel	250,989	175,000	[75,989]
Contractual services	172,671	130,000	[42,671]
Commodities	23,628	25,000	1,372
Streets			
Personnel	166,508	250,000	83,492
Contractual services	105,422	145,000	39,578
Commodities	97,196	105,000	7,804
EMT			
Personnel	197,332	215,000	17,668
Contractual services	17,628	115,000	97,372
Commodities	13,616	45,000	31,384
Industrial development	3,755	5,000	1,245
Capital outlay	2,794,958	3,644,160	849,202
Cemetery subsidy	30,000	24,000	[6,000]

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
General Fund (Continued)
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Expenditures (Continued)			
Debt service	\$ 156,600	\$ 156,600	\$ -
Operating transfers	<u>-</u>	<u>106,240</u>	<u>106,240</u>
Total Expenditures	<u>4,944,715</u>	<u>\$ 6,000,000</u>	<u>\$ 1,055,285</u>
Receipts Over [Under] Expenditures	<u>[2,450,254]</u>		
Unencumbered Cash, Beginning (as originally stated)	3,286,965		
Prior Period Adjustment	<u>[179,770]</u>		
Unencumbered Cash, Beginning (restated)	<u>3,107,195</u>		
Unencumbered Cash, Ending	<u>\$ 656,941</u>		

See independent auditor's report on the financial statements.

City of Sabetha, 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>	Variance- Over [Under]
Receipts			
Taxes	\$ 131,804	\$ 131,451	\$ 353
Total Receipts	<u>131,804</u>	<u>\$ 131,451</u>	<u>\$ 353</u>
Expenditures			
Appropriations	<u>131,758</u>	<u>\$ 152,175</u>	<u>\$ 20,417</u>
Total Expenditures	<u>131,758</u>	<u>\$ 152,175</u>	<u>\$ 20,417</u>
Receipts Over [Under] Expenditures	46		
Unencumbered Cash, Beginning	<u>4,098</u>		
Unencumbered Cash, Ending	<u>\$ 4,144</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Airport Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Charges for services	\$ 24,376	\$ 40,000	\$ [15,624]
Total Receipts	<u>24,376</u>	<u>\$ 40,000</u>	<u>\$ [15,624]</u>
Expenditures			
Contractual services	10,602	\$ 15,000	\$ 4,398
Commodities	19,783	20,000	217
Capital outlay	<u>3,900</u>	<u>65,000</u>	<u>61,100</u>
Total Expenditures	<u>34,285</u>	<u>\$ 100,000</u>	<u>\$ 65,715</u>
Receipts Over [Under] Expenditures	[9,909]		
Unencumbered Cash, Beginning	<u>204,881</u>		
Unencumbered Cash, Ending	<u>\$ 194,972</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
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>	Variance- Over [Under]
Receipts			
Taxes	\$ 6,115	\$ 7,500	\$ 1,385
Total Receipts	<u>6,115</u>	<u>\$ 7,500</u>	<u>\$ 1,385</u>
Expenditures			
Operating transfers	<u>6,115</u>	<u>\$ 7,500</u>	<u>\$ 1,385</u>
Total Expenditures	<u>6,115</u>	<u>\$ 7,500</u>	<u>\$ 1,385</u>
Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
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>	Variance- Over [Under]
Receipts			
Taxes	\$ 68,908	\$ 66,550	\$ 2,358
Total Receipts	<u>68,908</u>	<u>\$ 66,550</u>	<u>\$ 2,358</u>
Expenditures			
Operating transfers	<u>68,908</u>	<u>\$ 67,370</u>	<u>\$ [1,538]</u>
Total Expenditures	<u>68,908</u>	<u><u>\$ 67,370</u></u>	<u><u>\$ [1,538]</u></u>
Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u><u>\$ -</u></u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Bond and Interest Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Taxes	\$ 41,312	\$ 41,503	\$ [191]
Total Receipts	<u>41,312</u>	<u>\$ 41,503</u>	<u>\$ [191]</u>
Expenditures			
Principal	<u>59,000</u>	<u>\$ 107,325</u>	<u>\$ 48,325</u>
Total Expenditures	<u>59,000</u>	<u>\$ 107,325</u>	<u>\$ 48,325</u>
Receipts Over [Under] Expenditures	[17,688]		
Unencumbered Cash, Beginning	<u>104,737</u>		
Unencumbered Cash, Ending	<u>\$ 87,049</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
 Aquatic Center Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Taxes	\$ 273,626	\$ 225,000	\$ 48,626
Total Receipts	<u>273,626</u>	<u>\$ 225,000</u>	<u>\$ 48,626</u>
Expenditures			
Debt service	<u>219,760</u>	<u>\$ 225,000</u>	<u>\$ 5,240</u>
Total Expenditures	<u>219,760</u>	<u>\$ 225,000</u>	<u>\$ 5,240</u>
Receipts Over [Under] Expenditures	<u>53,866</u>		
Unencumbered Cash, Beginning (as originally stated)	-		
Prior Period Adjustment	<u>179,770</u>		
Unencumbered Cash, Beginning (restated)	<u>179,770</u>		
Unencumbered Cash, Ending	<u>\$ 233,636</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Electric Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Charges to customers	\$ 4,762,928	\$ 5,250,000	\$ [487,072]
Reimbursements	59,431	45,000	14,431
Use of money and property	<u>22,165</u>	<u>15,000</u>	<u>7,165</u>
Total Receipts	<u>4,844,524</u>	<u>\$ 5,310,000</u>	<u>\$ [465,476]</u>
Expenditures			
Administration	509,024	\$ 233,630	\$ [275,394]
Production	748,826	923,845	175,019
Distribution	2,585,018	3,604,500	1,019,482
Capital outlay	1,001,790	847,895	[153,895]
Debt service	50,000	50,000	-
Operating transfers	<u>221,000</u>	<u>300,000</u>	<u>79,000</u>
Total Expenditures	<u>5,115,658</u>	<u>\$ 5,959,870</u>	<u>\$ 844,212</u>
Receipts Over [Under] Expenditures	[271,134]		
Unencumbered Cash, Beginning	<u>3,208,548</u>		
Unencumbered Cash, Ending	<u>\$ 2,937,414</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Water Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Charges to customers	\$ 656,752	\$ 665,000	\$ [8,248]
Miscellaneous	12,610	20,000	[7,390]
Use of money and property	<u>8,866</u>	<u>6,000</u>	<u>2,866</u>
Total Receipts	<u>678,228</u>	<u>\$ 691,000</u>	<u>\$ [12,772]</u>
Expenditures			
Administration	151,761	\$ 130,000	\$ [21,761]
Production	217,011	205,100	[11,911]
Distribution	215,353	162,000	[53,353]
Capital outlay	22,883	65,000	42,117
Debt service	10,000	320,000	310,000
Operating transfers	<u>11,000</u>	<u>-</u>	<u>[11,000]</u>
Total Expenditures	<u>628,008</u>	<u>\$ 882,100</u>	<u>\$ 254,092</u>
Receipts Over [Under] Expenditures	50,220		
Unencumbered Cash, Beginning	<u>281,224</u>		
Unencumbered Cash, Ending	<u>\$ 331,444</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Sewer Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

	<u>Actual</u>	<u>Budget</u>	Variance- Over [Under]
Receipts			
Charges to customers	\$ 486,600	\$ 520,000	\$ [33,400]
Reimbursements	8,630	10,000	[1,370]
Sales tax	273,626	260,000	13,626
Operating transfers	-	106,240	[106,240]
Loan proceeds	1,229,522	1,229,522	-
Use of money and property	<u>6,649</u>	<u>5,000</u>	<u>1,649</u>
Total Receipts	<u>2,005,027</u>	<u>\$ 2,130,762</u>	<u>\$ [125,735]</u>
Expenditures			
Administration	183,510	\$ 148,155	\$ [35,355]
Treatment	190,100	215,759	25,659
Capital outlay	1,306,655	1,362,982	56,327
Collection	129,321	158,970	29,649
Debt service	221,189	214,134	[7,055]
Operating transfers	<u>2,500</u>	<u>-</u>	<u>[2,500]</u>
Total Expenditures	<u>2,033,275</u>	<u>\$ 2,100,000</u>	<u>\$ 66,725</u>
Receipts Over [Under] Expenditures	[28,248]		
Unencumbered Cash, Beginning	<u>260,791</u>		
Unencumbered Cash, Ending	<u>\$ 232,543</u>		

See independent auditor's report on the financial statements.

City of Sabetha, Kansas
Mary Cotton Public Library - Related Municipal Entity
General Fund
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2017

Receipts	
State of Kansas	\$ 777
NEKL Association	19,639
City appropriation	131,758
Interest	1,264
Donations and sales	3,919
Matching funds	3,468
Reimbursements	416
Miscellaneous	<u>274</u>
Total Receipts	<u>161,515</u>
Expenditures	
Salary and payroll taxes	84,704
Books, periodicals and film	27,348
Supplies	7,759
Utilities	11,671
Maintenance	5,957
Miscellaneous	<u>13,318</u>
Total Expenditures	<u>150,757</u>
Receipts Over [Under] Expenditures	10,758
Unencumbered Cash, Beginning	<u>165,245</u>
Unencumbered Cash, Ending	<u><u>\$ 176,003</u></u>

City of Sabetha, Kansas
 Sabetha Cemetery - Related Municipal Entity
 General Fund
 Schedule of Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2017

Receipts	
City appropriation	\$ 30,000
Interest	94
Donations	-
Charges for services	<u>30,800</u>
Total Receipts	<u>60,894</u>
Expenditures	
Salaries	17,805
Payroll taxes	6,505
Contractual service	22,925
Supplies	<u>7,069</u>
Total Expenditures	<u>54,304</u>
Receipts Over [Under] Expenditures	6,590
Unencumbered Cash, Beginning	<u>10,715</u>
Unencumbered Cash, Ending	<u><u>\$ 17,305</u></u>

See independent auditor's report on the financial statements.

Schedule 4

City of Sabetha, Kansas
Agency Funds
Summary of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2017

<u>Fund</u>	Beginning Cash <u>Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	Ending Cash <u>Balance</u>
Tax Fund	\$ 24,327	\$ 673	\$ -	\$ 25,000
Municipal Court Fund	4,107	19,541	19,832	3,816
EMS Fund	34,768	392,795	391,519	36,044
Event Center	<u>27,280</u>	<u>5,003</u>	<u>27,280</u>	<u>5,003</u>
Total Agency Funds	<u>\$ 90,482</u>	<u>\$ 418,012</u>	<u>\$ 438,631</u>	<u>\$ 69,863</u>

See independent auditor's report on the financial statements.