

CITY OF NORTH NEWTON
NORTH NEWTON, KANSAS

Financial Statement

December 31, 2012

City of North Newton, Kansas

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Knudsen Monroe & Company LLC

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, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. 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.

Auditors' 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 of North Newton to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles 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 of North Newton as of December 31, 2012, 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 North Newton as of December 31, 2012, 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 expenditures-actual and budget and individual fund schedules of cash receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement. 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.

The 2011 Actual columns presented in the individual fund schedules of cash receipts and expenditures-actual and budget, (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and are not a required part of the 2011 financial statement upon which we rendered an unqualified opinion dated June 7, 2012. The 2011 financial statements and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management Analysis and Standards at the following link <http://www.da.ks.gov/ar/muniserv/>. Such 2011 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 2011 financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 financial statement or to the 2011 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 financial statement as a whole.

Knudsen, Manroe & Company LLC

Certified Public Accountants
Newton, Kansas

June 7, 2013

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of North Newton is a municipal corporation governed by an elected five-member council. These financial statements present the City of North Newton (the primary government) as the only component unit.

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 of Accounting and Departure from Accounting Principles Generally Accepted in the United State of America

The 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.

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 statutory basis of accounting.

KMAAG Regulatory Basis of Presentation and Definitions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated 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 for the year 2012:

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

Special Purpose Funds - 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.

Debt Service Fund - to account for the accumulation of resources for and the payment of interest and principal on general long-term debt and the financing of special assessments that are general obligations of the City.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Funds--to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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), debt service funds, and business funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The 2012 budget was not amended.

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 cash basis of accounting, modified by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, 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. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

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

Equipment Reserve Fund
Capital Improvement Fund

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violations occurring in the year ended December 31, 2012.

3. 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 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 investment policy 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. As of December 31, 2012, the City's investments included only bank savings accounts and certificates of deposit with a fair value of \$1,147,052, which are not subject to investment rating.

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 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 District has not designated peak periods. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the carrying amount of the City's deposits was \$1,152,004. The bank balance totaled \$1,169,966. Of the bank balance, \$272,914 was covered by FDIC insurance and the remaining \$897,052 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

4. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2012 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Balance 12-31-11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12-31-12</u>	<u>Interest Paid</u>
General Obligation Bonds:									
Series 1998	4.30-5.00%	09/01/98	\$ 226,000	12/01/13	\$ 30,000	-	15,000	15,000	1,492
Series 2003	4.25-4.80%	02/01/03	320,000	12/01/23	220,000	-	15,000	205,000	9,918
Series 2006	4.05-5.00%	12/01/06	982,000	12/01/26	740,000	-	55,000	685,000	31,660
Series 2009 (refunding)	1.40-3.80%	11/03/09	520,000	12/01/19	405,000	-	55,000	350,000	12,095
					<u>1,395,000</u>	<u>-</u>	<u>140,000</u>	<u>1,255,000</u>	<u>55,165</u>
KDHE revolving loan	3.78%	04/30/04	591,212	08/01/24	431,370	-	26,247	405,123	16,060
Lease purchase - Kidron Woods	3.00%	04/09/10	100,000	04/01/14	76,097	-	24,620	51,477	2,283
Lease purchase - Bobcat	4.25%	08/24/12	35,260	09/24/13	-	35,260	4,587	30,673	-
					<u>76,097</u>	<u>35,260</u>	<u>29,207</u>	<u>82,150</u>	<u>2,283</u>
Total Long-Term Debt					<u>\$ 1,902,467</u>	<u>35,260</u>	<u>195,454</u>	<u>1,742,273</u>	<u>73,508</u>

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31							Total
	2013	2014	2015	2016	2017	2018-2022	2023-Mat.	
Principal								
General Obligation Bonds	\$145,000	130,000	130,000	140,000	105,000	395,000	210,000	1,255,000
Revenue Obligation Loans	27,248	28,288	29,367	30,488	31,651	177,319	80,762	405,123
Lease purchase	56,031	26,119	-	-	-	-	-	82,150
Total principal	<u>228,279</u>	<u>184,407</u>	<u>159,367</u>	<u>170,488</u>	<u>136,651</u>	<u>572,319</u>	<u>290,762</u>	<u>1,742,273</u>
Interest								
General Obligation Bonds	50,373	45,215	40,603	35,793	30,408	93,878	22,785	319,055
Revenue Obligation Loans	13,664	12,721	11,741	10,725	9,669	34,046	3,491	96,057
Lease purchase	2,873	784	-	-	-	-	-	3,657
Total interest	<u>66,910</u>	<u>58,720</u>	<u>52,344</u>	<u>46,518</u>	<u>40,077</u>	<u>127,924</u>	<u>26,276</u>	<u>418,769</u>
Total Principal and Interest	<u>\$295,189</u>	<u>243,127</u>	<u>211,711</u>	<u>217,006</u>	<u>176,728</u>	<u>700,243</u>	<u>317,038</u>	<u>2,161,042</u>

City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

5. 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.

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, 2012:

Balance, December 31, 2011	\$ 589,791
Deposits - Compensation deferred by participants	6,956
Withdrawals	(28,197)
Change in market value	47,628
Costs	<u>(3,048)</u>
Balance, December 31, 2012	<u>\$ 613,130</u>

The following schedule summarizes activity in the accounts maintained by Lord Abbett mutual funds during the year ended December 31, 2012:

Balance, December 31, 2011	\$ 164,411
Deposits - Compensation deferred by participants	8,449
Fees	(334)
Change in market value	17,637
Dividends	<u>1,417</u>
Balance, December 31, 2012	<u>\$ 191,580</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of North Newton contributes to 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. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 to 6% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute was 8.34% at December 31, 2012. The City's employer contributions to KPERS for the years ending December 31, 2012, 2011 and 2010 were \$34,695, \$34,875 and \$32,179 respectively, equal to the statutory required contributions for each year.

7. COMPENSATED ABSENCES

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 statements.

Full-time employees earn 12 days of paid sick leave in one 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 in the accompanying financial statements.

City of North Newton, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

8. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>Transfers To</u>	<u>Transfers From</u>					<u>Total</u>
	<u>General</u>	<u>Consolidated Street and Highway</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	
General	\$ -	-	5,000	5,000	15,000	25,000
Capital Improvement	-	23,500	70,000	135,000	-	228,500
Bond and Interest	-	-	-	7,038	-	7,038
Consolidated Street and Highway	45,000	-	-	5,000	-	50,000
Equipment Reserve	9,500	5,000	18,000	15,000	-	47,500
	<u>\$54,500</u>	<u>28,500</u>	<u>93,000</u>	<u>167,038</u>	<u>15,000</u>	<u>358,038</u>

9. CONTINGENT LIABILITIES

Public Wholesale Supply District #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, 2012, the District owed approximately \$1,684,145 on this loan. 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 2.02%.

Wastewater Processing Agreement

The City of Newton processes sewage for the City of North Newton. The City is in a disagreement with the City of Newton over the interpretation of what is included in the sewer charges that are owed to Newton for the processing of sewage. This disagreement has gone on since 2009. The amount owed to the City of Newton per Newton's computation is approximately \$375,000 for unpaid sewer charges.

10. DATE OF MANAGEMENT REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through June 7, 2013, which is the date at which the financial statements were available to be issued.

CITY OF NORTH NEWTON
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012