

CITY OF NEWTON, ILLINOIS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
APRIL 30, 2018

CITY OF NEWTON, ILLINOIS
Financial Statements
April 30, 2018

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Financial Statements
April 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members
of the City Council
City of Newton, Illinois

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Newton, Illinois, as of and for the year ended April 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, Illinois, as of April 30, 2018, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newton, Illinois' basic financial statements. The Supplementary Information and Other Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

The budgetary comparison information on pages 34 – 36, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of the City of Newton, Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Newton, Illinois' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Newton, Illinois' internal control over financial reporting and compliance.

Kemper CPA Group LLP

KEMPER CPA GROUP LLP
Certified Public Accountants and Consultants

September 10, 2018

CITY OF NEWTON, ILLINOIS
Statement of Net Position - Modified Cash Basis
April 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,122,959	\$ 3,436,903	\$ 5,559,862
Restricted cash and cash equivalents	-	332,101	332,101
Notes receivable	52,694	-	52,694
Inventory	108,043	-	108,043
Internal balances	(194,605)	194,605	-
Capital assets, net of accumulated depreciation	5,488,813	12,662,758	18,151,571
Total assets	<u>\$ 7,577,904</u>	<u>\$ 16,626,367</u>	<u>\$ 24,204,271</u>
DEFERED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>\$ 81,760</u>	<u>\$ -</u>	<u>\$ 81,760</u>
LIABILITIES AND NET POSITION:			
Liabilities:			
Customer deposits	\$ -	\$ 332,101	\$ 332,101
Sales tax payable	6	9	15
Payroll withholdings	161	-	161
Due within one year:			
Notes payable	-	75,481	75,481
Bonds payable	120,000	-	120,000
Due in more than one year:			
Notes payable	-	1,464,157	1,464,157
Bonds payable	1,221,295	-	1,221,295
Total liabilities	<u>1,341,462</u>	<u>1,871,748</u>	<u>3,213,210</u>
Net Position:			
Net investment in capital assets	4,229,278	11,123,120	15,352,398
Restricted for:			
Other purposes	1,149,318	-	1,149,318
Unrestricted	939,606	3,631,499	4,571,105
Total net position	<u>6,318,202</u>	<u>14,754,619</u>	<u>21,072,821</u>
Total liabilities and net position	<u>\$ 7,659,664</u>	<u>\$ 16,626,367</u>	<u>\$ 24,286,031</u>

CITY OF NEWTON, ILLINOIS
Statement of Activities - Modified Cash Basis
For the Year Ended April 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 335,054	\$ 56,766	\$ -	\$ -	\$ (278,288)	\$ -	\$ (278,288)
Public safety	927,740	35,548	5,705	-	(886,487)	-	(886,487)
Transportation and public works	401,463	-	72,459	-	(329,004)	-	(329,004)
Social services	26,989	1,800	-	-	(25,189)	-	(25,189)
Community development	282,935	8,277	-	-	(274,658)	-	(274,658)
Culture and recreation	462,700	76,625	-	-	(386,075)	-	(386,075)
Interest on long-term debt	44,441	-	-	-	(44,441)	-	(44,441)
Total governmental activities	<u>2,481,322</u>	<u>179,016</u>	<u>78,164</u>	<u>-</u>	<u>(2,224,142)</u>	<u>-</u>	<u>(2,224,142)</u>
Business-type activities:							
Electric	2,683,773	2,980,488	-	-	-	296,715	296,715
Water	568,055	670,162	-	-	-	102,107	102,107
Waste water treatment	577,657	648,966	-	-	-	71,309	71,309
Total business-type activities	<u>3,829,485</u>	<u>4,299,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>470,131</u>	<u>470,131</u>
Total primary government	<u>\$ 6,310,807</u>	<u>\$ 4,478,632</u>	<u>\$ 78,164</u>	<u>\$ -</u>	<u>(2,224,142)</u>	<u>470,131</u>	<u>(1,754,011)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					959,463	-	959,463
Intergovernmental revenue:							
Sales tax					686,081	-	686,081
Income tax					301,781	-	301,781
Replacement tax					38,786	-	38,786
Township road and bridge					62,227	-	62,227
Interest and investment earnings					12,193	28,583	40,776
Miscellaneous					22,406	15,685	38,091
Transfers					250,003	(250,003)	-
Total general revenues and transfers					<u>2,332,940</u>	<u>(205,735)</u>	<u>2,127,205</u>
Change in net position					108,798	264,396	373,194
Net position - beginning					<u>6,209,404</u>	<u>14,490,223</u>	<u>20,699,627</u>
Net position - ending					<u>\$ 6,318,202</u>	<u>\$ 14,754,619</u>	<u>\$ 21,072,821</u>

CITY OF NEWTON, ILLINOIS
Balance Sheet - Modified Cash Basis
Governmental Funds
April 30, 2018

	General	TIF	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 639,516	\$ 118,025	\$ 1,163,867	\$ 1,921,408
Notes receivable	-	52,694	-	52,694
Due from other funds	-	-	60,627	60,627
Inventory	-	108,043	-	108,043
Total current assets	\$ 639,516	\$ 278,762	\$ 1,224,494	\$ 2,142,772
LIABILITIES AND FUND BALANCES				
Liabilities:				
Sales tax payable	\$ 6	\$ -	\$ -	\$ 6
Payroll withholdings	161	-	-	161
Due to other funds	-	97,000	60,627	157,627
Total liabilities	167	97,000	60,627	157,794
Fund balances:				
Nonspendable	-	108,043	-	108,043
Restricted:				
Other purposes	35,233	73,719	1,040,366	1,149,318
Committed	32,907	-	184,128	217,035
Assigned	225,999	-	-	225,999
Unassigned	345,210	-	(60,627)	284,583
Total fund balances	639,349	181,762	1,163,867	1,984,978
Total liabilities and fund balances	\$ 639,516	\$ 278,762	\$ 1,224,494	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

5,488,813

Internal service funds are used by management to charge health insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.

103,946

Long-term liabilities, including bonds payable and deferred outflows on debt refunding, are not due and payable in the current period and therefore are not reported in the funds.

(1,259,535)

Net position of governmental activities

\$ 6,318,202

CITY OF NEWTON, ILLINOIS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Year Ended April 30, 2018

	<u>General</u>	<u>TIF</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 79,066	\$ 361,004	\$ 519,393	\$ 959,463
Intergovernmental:				
Sales tax	686,081	-	-	686,081
Income tax	301,781	-	-	301,781
Replacement tax	38,786	-	-	38,786
Township road and bridge	62,227	-	-	62,227
Licenses and permits	23,244	-	-	23,244
Fees and fines	68,635	-	-	68,635
Charges for services	78,861	-	-	78,861
Revenue from the use of property and equipment	-	-	8,277	8,277
Interest and investment earnings	5,583	1,156	4,502	11,241
Operating grants and contributions	5,705	-	72,459	78,164
Miscellaneous	18,181	2,499	1,726	22,406
Total revenues	<u>1,368,150</u>	<u>364,659</u>	<u>606,357</u>	<u>2,339,166</u>
EXPENDITURES				
Current:				
General government	253,587	-	48,751	302,338
Public safety	720,858	-	195,435	916,293
Transportation and public works	189,962	-	112,532	302,494
Social services	26,719	-	-	26,719
Community development	-	168,475	74,865	243,340
Culture and recreation	236,112	-	47,508	283,620
Debt service:				
Principal	115,000	-	-	115,000
Interest	35,185	-	-	35,185
Capital outlay	3,897	119,116	26,092	149,105
Total expenditures	<u>1,581,320</u>	<u>287,591</u>	<u>505,183</u>	<u>2,374,094</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(213,170)</u>	<u>77,068</u>	<u>101,174</u>	<u>(34,928)</u>
OTHER FINANCING SOURCES				
Operating transfers in	165,161	-	84,842	250,003
Total other financing sources	<u>165,161</u>	<u>-</u>	<u>84,842</u>	<u>250,003</u>
Net change in fund balance	(48,009)	77,068	186,016	215,075
Fund balances - beginning	687,358	104,694	977,851	1,769,903
Fund balances - ending	<u>\$ 639,349</u>	<u>\$ 181,762</u>	<u>\$ 1,163,867</u>	<u>\$ 1,984,978</u>

CITY OF NEWTON, ILLINOIS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities - Modified Cash Basis
For the Year Ended April 30, 2018

Net change in fund balances - total governmental funds \$ 215,075

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

	Capital Outlay	149,105	
	Depreciation	<u>(360,698)</u>	(211,593)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, the governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

	Repayment	115,000	
	Deferred charge on refunding amortization	(9,258)	
	Bond discount amortization	<u>147</u>	105,889

Internal service funds are used by management to charge health insurance to individual funds. The change in net position of certain activities of internal service funds is reported with governmental activities. (573)

Change in net position of governmental activities \$ 108,798

CITY OF NEWTON, ILLINOIS
Statement of Net Position - Modified Cash Basis
Proprietary Funds
April 30, 2018

	Business-type Activities - Enterprise Funds			Totals	Governmental Activities - Internal Service Fund
	Electric	Water	Waste Water		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,594,253	\$ 292,427	\$ 550,223	\$ 3,436,903	\$ 201,551
Restricted cash and cash equivalents	332,101	-	-	332,101	-
Due from other funds	185,020	-	-	185,020	-
Total current assets	<u>3,111,374</u>	<u>292,427</u>	<u>550,223</u>	<u>3,954,024</u>	<u>201,551</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation	4,391,628	3,819,446	4,451,684	12,662,758	-
Total noncurrent assets	<u>4,391,628</u>	<u>3,819,446</u>	<u>4,451,684</u>	<u>12,662,758</u>	<u>-</u>
Total assets	<u>\$ 7,503,002</u>	<u>\$ 4,111,873</u>	<u>\$ 5,001,907</u>	<u>\$ 16,616,782</u>	<u>\$ 201,551</u>
LIABILITIES AND NET POSITION					
Liabilities:					
Current liabilities:					
Customer deposits	\$ 332,101	\$ -	\$ -	\$ 332,101	\$ -
Sales tax payable	-	9	-	9	-
Due to other funds	-	-	88,020	88,020	-
Current portion of notes payable	-	-	75,481	75,481	-
Total current liabilities	<u>332,101</u>	<u>9</u>	<u>163,501</u>	<u>495,611</u>	<u>-</u>
Noncurrent liabilities:					
Notes payable	-	-	1,464,157	1,464,157	-
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>1,464,157</u>	<u>1,464,157</u>	<u>-</u>
Total liabilities	<u>332,101</u>	<u>9</u>	<u>1,627,658</u>	<u>1,959,768</u>	<u>-</u>
Net Position					
Net investment in capital assets	4,391,628	3,819,446	2,912,046	11,123,120	-
Unrestricted	2,779,273	292,418	462,203	3,533,894	201,551
Total net position	<u>7,170,901</u>	<u>4,111,864</u>	<u>3,374,249</u>	<u>14,657,014</u>	<u>201,551</u>
Total liabilities and net position	<u>\$ 7,503,002</u>	<u>\$ 4,111,873</u>	<u>\$ 5,001,907</u>		<u>\$ 201,551</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				97,605	
Total net position of business-type activities				<u>\$ 14,754,619</u>	

CITY OF NEWTON, ILLINOIS
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Modified Cash Basis
Proprietary Funds
For the Year Ended April 30, 2018

	Business-type Activities - Enterprise Funds			Totals	Governmental Activities - Internal Service Fund
	Electric	Water	Waste Water		
Operating revenues:					
Charges for services	\$ 2,980,488	\$ 670,162	\$ 648,966	\$ 4,299,616	\$ 216,505
Reinsurance reimbursements	-	-	-	-	154,726
Miscellaneous	11,755	2,118	1,812	15,685	-
Total operating revenues	<u>2,992,243</u>	<u>672,280</u>	<u>650,778</u>	<u>4,315,301</u>	<u>371,231</u>
Operating expenses:					
Personal services	353,679	227,593	163,707	744,979	-
Support services	4,233	4,737	5,280	14,250	-
Contractual services	1,734,663	17,559	22,757	1,774,979	46,663
Utilities	7,130	27,617	39,888	74,635	-
Repairs and maintenance	172,685	77,616	61,617	311,918	-
Other supplies and materials	154,637	30,594	14,864	200,095	-
Insurance	64,330	56,838	48,646	169,814	327,203
Depreciation	191,300	124,115	174,987	490,402	-
Miscellaneous	517	701	1,181	2,399	-
Total operating expenses	<u>2,683,174</u>	<u>567,370</u>	<u>532,927</u>	<u>3,783,471</u>	<u>373,866</u>
Operating income (loss)	<u>309,069</u>	<u>104,910</u>	<u>117,851</u>	<u>531,830</u>	<u>(2,635)</u>
Nonoperating revenue (expenses):					
Interest and investment revenue	23,756	1,802	3,025	28,583	806
Interest expense	-	(299)	(44,459)	(44,758)	-
Total nonoperating revenues (expenses)	<u>23,756</u>	<u>1,503</u>	<u>(41,434)</u>	<u>(16,175)</u>	<u>806</u>
Income (loss) before transfers	332,825	106,413	76,417	515,655	(1,829)
Transfers out	<u>(197,965)</u>	<u>(26,345)</u>	<u>(25,693)</u>	<u>(250,003)</u>	<u>-</u>
Change in net position	134,860	80,068	50,724	265,652	(1,829)
Total net position - beginning	<u>7,036,041</u>	<u>4,031,796</u>	<u>3,323,525</u>		<u>203,380</u>
Total net position - ending	<u>\$ 7,170,901</u>	<u>\$ 4,111,864</u>	<u>\$ 3,374,249</u>		<u>\$ 201,551</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(1,256)	
Change in net position of business-type activities				<u>\$ 264,396</u>	

CITY OF NEWTON, ILLINOIS
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended April 30, 2018

	Business-type Activities - Enterprise Funds			Totals	Governmental Activities - Internal Service Fund
	Electric	Water	Waste Water		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 2,986,164	\$ 670,171	\$ 648,966	\$ 4,305,301	\$ -
Receipts from interfund services provided	-	-	-	-	216,505
Payments to suppliers	(2,138,195)	(215,662)	(194,233)	(2,548,090)	(46,663)
Payments to employees	(319,910)	(205,851)	(148,442)	(674,203)	-
Payments for interfund services used	(33,769)	(21,742)	(15,265)	(70,776)	-
Payments for claims	-	-	-	-	(327,203)
Other receipts	11,755	2,118	1,812	15,685	154,726
Net cash provided (used) by operating activities	<u>506,045</u>	<u>229,034</u>	<u>292,838</u>	<u>1,027,917</u>	<u>(2,635)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(197,965)	(26,345)	(25,693)	(250,003)	-
Net cash used by noncapital financing activities	<u>(197,965)</u>	<u>(26,345)</u>	<u>(25,693)</u>	<u>(250,003)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(717,176)	(15,147)	-	(732,323)	-
Receipts (payments) for interfund loans	185,192	(152,571)	(12,622)	19,999	-
Principal paid on notes	-	-	(73,391)	(73,391)	-
Interest paid on notes/interfund loans	-	(299)	(44,459)	(44,758)	-
Net cash used by capital and related financing activities	<u>(531,984)</u>	<u>(168,017)</u>	<u>(130,472)</u>	<u>(830,473)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest	23,756	1,802	3,025	28,583	806
Net cash provided by investing activities	<u>23,756</u>	<u>1,802</u>	<u>3,025</u>	<u>28,583</u>	<u>806</u>
Net increase (decrease) in cash and cash equivalents	(200,148)	36,474	139,698	(23,976)	(1,829)
Cash and cash equivalents - beginning of year	3,126,502	255,953	410,525	3,792,980	203,380
Cash and cash equivalents - end of year	<u>\$ 2,926,354</u>	<u>\$ 292,427</u>	<u>\$ 550,223</u>	<u>\$ 3,769,004</u>	<u>\$ 201,551</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 309,069	\$ 104,910	\$ 117,851	\$ 531,830	\$ (2,635)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	191,300	124,115	174,987	490,402	-
Change in liabilities:					
Customer deposits	5,676	-	-	5,676	-
Sales tax payable	-	9	-	9	-
Net cash provided (used) by operating activities	<u>\$ 506,045</u>	<u>\$ 229,034</u>	<u>\$ 292,838</u>	<u>\$ 1,027,917</u>	<u>\$ (2,635)</u>
Reconciliation of cash on statement of net position to cash balance at year end:					
Cash and cash equivalents	\$ 2,594,253	\$ 292,427	\$ 550,223	\$ 3,436,903	\$ 201,551
Restricted cash and cash equivalents	332,101	-	-	332,101	-
Cash and cash equivalents - end of year	<u>\$ 2,926,354</u>	<u>\$ 292,427</u>	<u>\$ 550,223</u>	<u>\$ 3,769,004</u>	<u>\$ 201,551</u>

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018

Note 1: Summary of Significant Accounting Policies

The City of Newton, Illinois (the “City”) operates under the Illinois Municipal Code, Chapter 65 of the Illinois Compiled Statutes. It provides for the following services as authorized by statute: public safety and health, maintenance of highways and streets, recreation, zoning and planning, sanitation services, and general administration.

The accounting policies and presentation of the basic financial statements of the City have been prepared in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as applicable to governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

A. Financial Reporting Entity

In conformance with the modified cash basis of accounting, the City is considered the primary governmental unit, and includes all funds, elected offices, and departments of the City.

Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either (1) the City’s ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the City. After applying the concept of financial accountability, scope of public service, or special financing relationship criteria, no organizations have been determined to be part of the reporting entity.

Basis of Presentation

The City’s basic financial statements consist of government-wide statements including the statement of net position and statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The government-wide focus is on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The statement of net position and statement of activities display information about the City as a whole. These statements include financial activities of the primary government. The effect of interfund activity has been removed from these statements. The government-wide statement of activities reflects both expenses and net cost of each function of the City’s governmental activities. Program revenues include charges paid by a recipient for the goods or services offered by the program, grants and contributions that are restricted to meeting operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, such as property taxes, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing or draws from the general revenues of the City.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that is comprised of its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund financial statements are provided for governmental and proprietary funds. The emphasis of fund financial statements is on major funds; therefore each is displayed in a separate column. All remaining governmental funds are aggregated and presented as nonmajor funds.

Funds are classified into the following categories: governmental and proprietary.

Governmental funds are used to account for all or most of a City's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Measurement Focus

The government-wide statements report using the economic resources measurement focus. Proprietary fund financial statements also report using this same focus. Governmental fund financial statements report using the current financial resources measurement focus. Since the governmental fund financial statements are presented on a different measurement focus than the government-wide statements (due mainly to inclusion of capital assets and long-term debt activity in the government-wide presentation) a reconciliation is presented, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Basis of Accounting

Basis of accounting refers to when revenues received and expenses or expenditures disbursed are recognized in the accounts and how they are reported on the financial statements. The City maintains its accounting records for all funds on the modified cash basis of accounting. Modified cash basis financial statements omit recognition of receivables and payables and other accrued and deferred items that do not arise from previous cash transactions. Accordingly, revenues are recognized and recorded in the accounts when cash is received. In the same manner, expenses or expenditures are recognized and recorded upon the disbursement of cash. Assets of a fund are only recorded when a right to receive cash exists which arises from a previous cash transaction. Liabilities of a fund, similarly, result from previous cash transactions.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Basis of Accounting (Continued)

Operating revenue and expenses reported in proprietary fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenue for proprietary funds is charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

B. Fund Types and Major Funds

The City reports the following major governmental funds:

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

The TIF fund is used to account for the revenues and expenditures of the Tax Increment Financing District of the City.

The City reports the following major proprietary funds:

The Electric fund is used to account for revenues and expenses associated with providing electric services to the City.

The Water fund is used to account for revenues and expenses associated with providing water services to the City.

The Waste Water Treatment fund is used to account for revenues and expenses associated with providing sewage services to the City.

The Health Insurance fund is used to account for the activities of the City's self-insured health plan for its employees.

C. Cash and Investments

The City maintains cash balances to meet current operating requirements. Cash in excess of current requirements is invested in interest bearing deposit accounts and included in the financial statements as cash and cash equivalents.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considers all passbook savings and non-negotiable certificates of deposit to be cash equivalents.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

E. Inventory

Inventory consists of developed lots in the 5 Aprils Crossing subdivision held for sale by the City, which are valued at cost.

F. Internal Balances

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, right of ways, and bridges), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial, individual cost of more than \$5,000 and an estimated useful life of 1 year or more. Such assets are recorded at historical costs if purchased or constructed. Donated capital assets are not recorded because they did not result from a cash transaction. The City writes off fully depreciated capital assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-50
Improvements	10-20
Equipment	2-20

H. Compensated Absences

The City of Newton maintains policies governing vacation, sick, comp time, and personal time covering qualified employees. Under the modified cash basis of accounting, the City does not record any accrued compensated absences. Those benefits utilized in the current year are recorded through payroll.

The City pays out either 50% or 100% of unused sick time upon an employee's termination. As of April 30, 2018, the City's liability for unused sick time is estimated to be \$189,063.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

I. Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs, are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums and discounts received on debt issuance are also reported as other financing sources/ (uses). Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities fund type financial statements.

In the fund financial statements, governmental fund types recognize long-term debt proceeds as other financing sources, and repayments of long-term debt as ordinary expenditures.

K. Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

L. Fund Equity

In the government-wide financial statements, restricted net position is legally restricted by outside parties for a specific purpose. Net investment in capital assets is the net cost (book value) of the capital assets, less principal on any long-term debt outstanding that was issued to construct, purchase or otherwise acquire the capital asset.

According to generally accepted accounting principles applicable to governments, fund balances are to be classified into five major classifications: Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance based on the nature and extent of the constraints placed on a government's fund balances. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

L. Fund Equity (Continued)

Restricted fund balance – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned fund balance – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for a specific purpose. Only the City Council may assign amounts for specific purposes.

Unassigned fund balance – all other spendable amounts.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

M. Property Taxes

The City’s property tax is levied each year on all taxable real estate located in the City. The local taxing authority for the City of Newton is Jasper County. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in December and are payable in two installments between July and September of the subsequent year. Property taxes are billed and collected by the County, which in turn, remits them to the City. Payments are typically made during the period August through November. The 2016 tax year levy, received during fiscal year 2018, was adopted by the City Council on December 6, 2016.

N. Program Revenues

Charges for services include revenues based on exchange or exchange-like transactions, namely charges for services provided by the City’s office. Program specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program, namely donations received from third-parties or state grants received for program operations.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

O. Use of Estimates

The preparation of the financial statements requires the City's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and/or amounts of reported revenues and expenditures during the reporting period. Actual results could differ from those estimates.

P. Restricted Cash

Enterprise Funds hold customer deposits that will have to be refunded to the customer in the future.

At April 30, 2018, the City maintained restricted cash of \$332,101 as follows:

<u>Business-type Activities</u>	
For customer utility deposits	\$ <u>332,101</u>

Q. Concentration of Credit Risk

All users of the City's electric, water and waste water system are located within the same geographic area within Jasper County, Illinois.

R. Date of Management's Review

The City has evaluated subsequent events through September 10, 2018, the date which the financial statements were available to be issued.

Note 2: Cash and Investments

The City's cash deposits consist of checking, savings accounts, and non-negotiable certificates of deposit. These deposits are stated at cost. The City is authorized by state statute to invest in obligations of the U.S. Treasury, agencies, instrumentalities, commercial paper noted within the three highest classifications by at least two standard rating services, obligations of state and their political subdivisions, savings accounts, credit union shares, and Illinois Public Treasurer's Investment Pool or such other officially recognized Illinois funds.

Cash Deposits

At April 30, 2018, the carrying amount and the bank balance of the City's cash deposits were \$5,890,663 and \$5,934,897, respectively. Cash deposits do not include petty cash of \$850 recorded in the General Fund, \$125 recorded in the Electric Fund, \$125 recorded in the Water Fund, and \$200 recorded in the Waste Water Fund. The City has a written investment policy.

The City's cash deposits are fully insured by the Federal Deposit Insurance Corporation and an irrevocable fluctuating letter of credit from the Federal Home Loan Bank.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 3: Common Bank Account

Separate bank accounts are not maintained for all of the City's funds. Certain funds maintain a portion of their cash balances in a common money market account, with accounting records being maintained to show the portion of the common bank account balance attributable to each participating fund. Occasionally, certain funds participating in the common bank account may incur an overdraft (deficit) in the account. The overdraft results from expenditures which have been approved by the City.

Note 4: Notes Receivable

The City of Newton was under a contractual agreement with the Illinois Department of Commerce and Community Affairs to implement an economic development program that significantly impacts its economic base. Due to recent changes in the availability of this program the City has reimbursed the State of Illinois for corresponding funds including the balance of the loan listed below. The following loan is still outstanding and reported as a receivable from Newton Hotel Group, LLC in the Tax Increment Financing Fund.

Name	Terms	Amount
Newton Hotel Group, LLC	3.5% interest, \$989 payable monthly, due February 5, 2023	\$ 52,694

Note 5: Changes in Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities:

	Balance May 01, 2017	Additions	Deletions	Balance April 30, 2018
<u>Assets Not Depreciated</u>				
Land	\$ 558,574	\$ -	\$ -	\$ 558,574
Construction in progress	-	26,092	-	26,092
<u>Assets Depreciated</u>				
Buildings and improvements	4,291,372	-	-	4,291,372
Equipment, furniture, fixtures	411,404	3,897	(103,162)	312,139
Infrastructure	3,258,959	119,116	-	3,378,075
Total Capital Assets	8,520,309	149,105	(103,162)	8,566,252
Less: Accumulated depreciation				
Buildings and improvements	(1,537,863)	(173,397)	-	(1,711,260)
Equipment, furniture, fixtures	(326,773)	(26,361)	103,162	(249,972)
Infrastructure	(955,267)	(160,940)	-	(1,116,207)
Total Accumulated Depreciation	(2,819,903)	(360,698)	103,162	(3,077,439)
Capital Assets, net	\$ 5,700,406	\$ (211,593)	\$ -	\$ 5,488,813

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 5: Changes in Capital Assets (Continued)

Business-type Activities:

	Balance May 01, 2017	Additions	Transfers	Deletions	Balance April 30, 2018
<u>Assets Not Depreciated</u>					
Land	\$ 123,572	\$ -	\$ -	\$ -	\$ 123,572
Construction in progress	26,554	-	(26,554)	-	-
<u>Assets Depreciated</u>					
Plant and equipment	18,573,948	732,323	26,554	(13,455)	19,319,370
Total Capital Assets	18,724,074	732,323	-	(13,455)	19,442,942
Less: Accumulated depreciation	(6,303,237)	(490,402)	-	13,455	(6,780,184)
Capital Assets, net	<u>\$ 12,420,837</u>	<u>\$ 241,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,662,758</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General government	\$ 32,617
Public safety	10,658
Transportation and public works	98,675
Social services	270
Community development	39,595
Culture and recreation	178,883
	<u>\$ 360,698</u>

Business-Type Activities:

Electric	\$ 191,300
Water	124,115
Waste Water	174,987
	<u>\$ 490,402</u>

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 6: Interfund Receivables and Payables

Individual interfund receivable and payable balances at April 30, 2018 were as follows:

Fund	Receivable	Payable
Electric Fund:		
Waste Water Fund	\$ 88,020	\$ -
TIF Fund	97,000	-
Waste Water Fund:		
Electric Fund	-	88,020
TIF Fund:		
Electric Fund	-	97,000
Capital Development Fund:		
ITEP Eagle Trail Fund	60,627	-
ITEP Eagle Trail Fund:		
Capital Development Fund	-	60,627
	<u>\$ 245,647</u>	<u>\$ 245,647</u>

Interfund balances between the Electric Fund and the TIF Fund resulted from cash shortfalls in the TIF Fund. An interfund loan was made from the Electric Fund to the Water Fund to finance the city square water main project. An interfund loan was also made from the Electric Fund to the Waste Water Fund to finance waste water improvements. An interfund loan was made from the Capital Development Fund to the ITEP Eagle Trail Fund to finance the sidewalk beautification project. Interfund balances are expected to be repaid as cash balances allow, but may not be repaid within the next year.

Note 7: Long-Term Debt

Governmental Funds:

Bond Obligations

The City has outstanding General Obligation (Revenue Sharing Receipts Alternate Revenue Source) Series 2016 Bonds in the original amount of \$1,485,000. The Series 2016 bonds refunded \$1,340,000 of future principal payments on General Obligation Series 2008 bonds. Pursuant to the Local Government Debt Reform Act, the bonds are general obligations of the City, for which its full faith and credit has been irrevocably pledged. The bonds are payable from ad valorem taxes levied upon all the taxable property in the City without limitation as to rate or amount, all except as limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws relating to the enforcement of creditors' rights and subject to the exercise of judicial discretion. For the year ended April 30, 2018, the levy for such taxes was abated. The City also abated the levy for such taxes in all previous years.

The Series 2016 Bonds are dated February 17, 2016, with interest payable on May 1 and November 1 of each year. The bonds are issued in \$5,000 multiples.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 7: Long-Term Debt (Continued)

Governmental Funds (Continued):

Advanced Refunding

On February 17, 2016, the City issued \$1,485,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$1,340,000 of the Series 2008 general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$101,814. This amount is reflected as a deferred outflow and is being amortized over the remaining life of the refunded debt which is the same life as the new debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next ten years.

The advanced refunding resulted in a reduction of cash flow, over the life of the bonds, of \$70,045 and an economic gain of \$56,454.

The following is a summary of the City's change in long-term debt transactions for governmental funds for the year ended April 30, 2018:

	<u>Payable at May 1, 2017</u>	<u>Retired</u>	<u>Payable at April 30, 2018</u>	<u>Unamortized Bond Premium</u>	<u>Net Carrying Amount at April 30, 2018</u>
Advance Refunding Bonds - Series 2016	\$ 1,455,000	\$ (115,000)	\$ 1,340,000	\$ 1,295	\$ 1,341,295

The following is a maturity schedule of the bonds:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 120,000	\$ 17,017	\$ 137,017
2020	125,000	31,875	156,875
2021	125,000	29,625	154,625
2022	130,000	26,875	156,875
2023	130,000	24,015	154,015
2024-2028	710,000	64,833	774,833
	<u>\$ 1,340,000</u>	<u>\$ 194,240</u>	<u>\$ 1,534,240</u>

Total interest related to the bonds incurred and expensed for the year ended April 30, 2018 was \$35,185.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 7: Long-Term Debt (Continued)

Enterprise Funds:

Peoples State Bank Loan

On August 19, 2014, the City obtained a loan from Peoples State Bank in the amount of \$1,798,951. Monthly payments under the refinanced loan of \$9,789 were due beginning September 17, 2014. The loan has an interest rate of 2.79% and matures on October 17, 2022, at which time a balloon payment of \$1,192,400 is due.

The following is a summary of the City's change in long-term debt for enterprise funds for the year ended April 30, 2018:

	Payable at May 1, 2017	Additions	Reductions	Payable at April 30, 2018
Peoples State Bank	\$ 1,613,029	\$ -	\$ (73,391)	\$ 1,539,638

Presented below is a summary of debt service requirements to maturity by years for the Peoples State Bank loan:

Fiscal Year	Principal	Interest	Total
2019	\$ 75,481	\$ 41,990	\$ 117,471
2020	77,507	39,964	117,471
2021	79,804	37,667	117,471
2022	82,059	35,412	117,471
2023	1,224,787	16,884	1,241,671
	\$ 1,539,638	\$ 171,917	\$ 1,711,555

Total interest related to the loans incurred and expensed for the year ended April 30, 2018 was \$44,459.

Note 8: Fund Equity

During the fiscal year ended April 30, 2018, the City had the following nonspendable, restricted, committed, and assigned governmental fund balances:

The City's nonspendable fund balance consisted of the following:

Purpose	Amount
Inventory of lots in 5 Aprils Crossing subdivision	\$ 108,043

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 8: Fund Equity (Continued)

The following fund's cumulative revenue over expenditures have been restricted in accordance with Illinois Compiled Statutes, with the exception of the General Fund, whose balances are restricted by grants and contributions as follows:

Purpose	Amount
General Fund:	
DUI and drug equipment	\$ 35,233
TIF Fund	73,719
Social Security Fund	245,591
IMRF Fund	178,653
Emergency Management Fund	20,804
Motor Fuel Tax Fund	72,198
Insurance Fund	304,023
Workmen's Compensation Fund	219,097
	\$ 1,149,318

The City's cumulative revenue for the following purposes exceeded expenditures disbursed resulting in the following committed balances:

Fund	Amount
Capital Development Fund	\$ 184,128
General - Sidewalk replacement	9,586
General - Police safety	2,901
General - Firing range repairs	20,420
	\$ 217,035

The City reported the following assigned balance in the General Fund:

Purpose	Amount
Allocated Funds for Aquatic Facility Debt Payments	\$ 225,999

Note 9: Deficit Fund Balances

The ITEP Eagle Trail Fund had a deficit fund balance in the amount of \$60,627 at April 30, 2018. This deficit will be financed through future grants and other revenues.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 10: Interfund Transfers

For the year ended April 30, 2018, the following interfund transfers were made:

Fund	Interfund Transfer In	Interfund Transfer Out
General Fund:		
Electric Fund	\$ 113,123	\$ -
Water Fund	26,345	-
Waste Water Fund	25,693	-
Capital Development Fund:		
Electric Fund	84,842	-
Electric Fund:		
General Fund	-	113,123
Capital Development Fund	-	84,842
Water Fund:		
General Fund	-	26,345
Waste Water Fund:		
General Fund	-	25,693
	<u>\$ 250,003</u>	<u>\$ 250,003</u>

The transfer from the Electric Fund to the Capital Development Fund was made pursuant to an ordinance passed by the City Council establishing a capital development fund. The transfers from the Electric Fund, Water Fund, and Waste Water Fund to the General Fund were made pursuant to a resolution passed by the City Council.

Note 11: Defined Benefit Pension Plan - Illinois Municipal Retirement Plan

A. Plan Description:

The City's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The City's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information (RSI). That report may be obtained online at www.imrf.org.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 11: Defined Benefit Pension Plan - Illinois Municipal Retirement Plan (Continued)

B. Funding Policy:

As set by statute, the City's Regular plan members are required to contribute 4.50% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer annual contribution rate for calendar year 2017 was 12.03%. The City also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

The required contribution for calendar year ending December 31, 2017 was \$148,317. The covered payroll for calendar year 2017 (annual payroll of active employees covered by the plan) was \$1,232,890.

FICA

Employees not qualifying for coverage under the Illinois Municipal Retirement Fund (IMRF) are considered "non-participating employees". These employees and those qualifying for coverage under IMRF are covered under FICA. The City paid the total required contribution of \$100,308 for the current fiscal year.

Note 12: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other governments to form the Illinois Municipal Risk League, a public entity risk pool currently operating as a common risk management and insurance program for Illinois municipalities. The City pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Illinois Municipal Risk League provides that the pool will be self-sustaining through member premiums. There have been no significant changes from the prior year and settlements have not exceeded coverage in any of the prior three years.

Note 13: Commitments and Contingencies

Self-Insured Health Plan

The City has purchased a reinsurance policy as a result of having a self-insured health plan. Once the City has paid health costs in excess of \$15,000 on an employee per year, the City is reimbursed by the policy.

Insurance Coverage

The City's insurance coverage does not adequately cover all the property of the Electric Fund. The underinsured property consists of the electric poles and lines. As a result, the City has set aside money in a money market account and certificate of deposit that would be available if significant damage was incurred to the electric poles and lines.

City of Newton, Illinois
Notes to Financial Statements
April 30, 2018
(Continued)

Note 14: Post-Employment Health Care Benefits

COBRA Benefits – Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium and, if applicable, a 2% administration fee, is paid in full by the insured each month. This program is offered for a duration of 18 months after termination date, and is subject to extension. There is no associated cost to the City under this program.

In addition to COBRA Benefits, in accordance with rules established through participation in the Illinois Municipal Retirement Fund, the City offers health insurance coverage to retirees. The cost for retirees to purchase coverage is the same premium equivalent cost as active employees. Accounting standards require numerous disclosures about postemployment benefits, including amounts that can only be determined through an actuarial study. The City has elected not to incur the cost of having an actuarial study completed and therefore the amounts that should be disclosed are not known.

Note 15: Tax Abatements

The City currently has one tax increment financing district. Within this district, the City has entered into a redevelopment agreement with developers whereby the City will reimburse a certain percentage of property taxes generated by the property in the tax increment financing district and received by the City up to the lesser of either a set cumulative dollar amount or the total of all eligible redevelopment project costs. For the fiscal year ended April 30, 2018, the City abated property taxes totaling \$68,022 as follows:

- A 100 percent property tax abatement for the construction of a hotel. The abatement amounted to \$56,339.
- A 100 percent property tax abatement for the construction of an industrial building. The abatement amounted to \$1,254.
- A 50 percent property tax abatement for the construction of a retail store. The abatement amounted to \$10,429.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Members
of the City Council
City of Newton, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton, Illinois, as of and for the year ended April 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Newton, Illinois' basic financial statements and have issued our report thereon dated September 10, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2018-001, 2018-002, and 2018-003.

Compliance and Other Matters

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

City of Newton, Illinois' Response to Findings

The City of Newton, Illinois' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Newton, Illinois' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kemper CPA Group LLP

KEMPER CPA GROUP LLP
Certified Public Accountants and Consultants

September 10, 2018

City of Newton, Illinois
Schedule of Findings and Responses
Year Ended April 30, 2018

FINDING 2018-001 Ability to Draft Financial Statement Footnotes

Criteria: The City should have at least one employee who is trained in preparing the footnotes to the financial statements.

Condition: The City currently does not have an employee with the necessary knowledge or training to draft the footnotes to the financial statements in accordance with the modified cash basis of accounting.

Cause: City employees have not received the proper training in preparing the footnotes to the financial statements in accordance with the modified cash basis of accounting.

Finding

Effect: The City cannot prepare the footnotes to the financial statements in accordance with the modified cash basis of accounting.

Recommendation: The City should provide the necessary training to personnel or contract with an independent contractor with the knowledge to properly prepare the footnotes to the financial statements.

Management Response: The City plans to continue to utilize an independent contractor for the preparation of the footnotes to the financial statements. The City will continue to review and approve the footnotes to the financial statements.

FINDING 2018-002 Lack of Segregation of Duties – Public Utilities

Criteria: A basic premise of internal control is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: We noted a lack of segregation of duties exists with respect to the billing, adjusting of customer accounts, and accepting and processing of payments in the utilities department.

Cause: The City does not have the resources to hire additional staff to adequately segregate duties.

Effect: Because all duties are performed by the same individuals, the City is at risk for misstatements to occur and not be prevented or detected in the processing of transactions.

Recommendation: We recommend that duties among City Council members be segregated to the extent possible.

Management's Response: The City acknowledges this is a problem and has implemented mitigating controls to the extent practicable.

City of Newton, Illinois
Schedule of Findings and Responses
Year Ended April 30, 2018

FINDING 2018-003 Lack of Segregation of Duties – General Ledger

Criteria: A basic premise of internal control is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: We noted a lack of segregation of duties exists with respect to maintaining and reconciling the general ledger.

Cause: The City does not have the resources to hire additional staff to adequately segregate duties.

Effect: Because all duties are performed by the same individuals, the City is at risk for misstatements to occur and not be prevented or detected in the processing of transactions.

Recommendation: We recommend that duties among City employees be segregated to the extent possible.

Management's Response: The City acknowledges this is a problem and has implemented mitigating controls to the extent practicable.

CITY OF NEWTON, ILLINOIS
Combining Balance Sheet - Modified Cash Basis
Nonmajor Governmental Funds
April 30, 2018

	Special Revenue Funds							Total Nonmajor Governmental Funds	
	Social Security	IMRF	Emergency Management	Motor Fuel Tax	Insurance	Workmen's Compensation	Capital Development		ITEP Eagle Trail
ASSETS									
Cash and cash equivalents	\$ 245,591	\$ 178,653	\$ 20,804	\$ 72,198	\$ 304,023	\$ 219,097	\$ 123,501	\$ -	\$ 1,163,867
Due from other funds	-	-	-	-	-	-	60,627	-	60,627
Total assets	<u>\$ 245,591</u>	<u>\$ 178,653</u>	<u>\$ 20,804</u>	<u>\$ 72,198</u>	<u>\$ 304,023</u>	<u>\$ 219,097</u>	<u>\$ 184,128</u>	<u>\$ -</u>	<u>\$ 1,224,494</u>
LIABILITIES & FUND BALANCES									
Liabilities:									
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,627	\$ 60,627
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,627</u>	<u>60,627</u>
Fund balances:									
Restricted:									
Other purposes	245,591	178,653	20,804	72,198	304,023	219,097	-	-	1,040,366
Committed	-	-	-	-	-	-	184,128	-	184,128
Unassigned	-	-	-	-	-	-	-	(60,627)	(60,627)
Total fund balances	<u>245,591</u>	<u>178,653</u>	<u>20,804</u>	<u>72,198</u>	<u>304,023</u>	<u>219,097</u>	<u>184,128</u>	<u>(60,627)</u>	<u>1,163,867</u>
Total liabilities and fund balances	<u>\$ 245,591</u>	<u>\$ 178,653</u>	<u>\$ 20,804</u>	<u>\$ 72,198</u>	<u>\$ 304,023</u>	<u>\$ 219,097</u>	<u>\$ 184,128</u>	<u>\$ -</u>	<u>\$ 1,224,494</u>

CITY OF NEWTON, ILLINOIS
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances - Modified Cash Basis
Nonmajor Governmental Funds
For the Year Ended April 30, 2018

	Special Revenue Funds							Total Nonmajor Governmental Funds	
	Social Security	IMRF	Emergency Management	Motor Fuel Tax	Insurance	Workmen's Compensation	Capital Development		ITEP Eagle Trail
REVENUES									
Property taxes	\$ 147,508	\$ 147,508	\$ 2,950	\$ -	\$ 146,132	\$ 49,171	\$ 26,124	\$ -	\$ 519,393
Revenue from the use of property and equipment	-	-	-	-	-	-	8,277	-	8,277
Interest and investment earnings	878	661	150	211	1,357	841	404	-	4,502
Operating grants and contributions	-	-	-	72,459	-	-	-	-	72,459
Miscellaneous	-	-	-	-	-	-	1,726	-	1,726
Total revenues	<u>148,386</u>	<u>148,169</u>	<u>3,100</u>	<u>72,670</u>	<u>147,489</u>	<u>50,012</u>	<u>36,531</u>	<u>-</u>	<u>606,357</u>
EXPENDITURES									
Current:									
General government	9,350	9,255	-	-	29,383	763	-	-	48,751
Public safety	31,047	49,655	6,012	-	100,262	8,459	-	-	195,435
Transportation and public works	8,039	13,137	-	50,660	34,922	5,774	-	-	112,532
Community development	-	-	-	-	-	-	74,865	-	74,865
Culture and recreation	11,859	10,770	-	-	21,475	3,404	-	-	47,508
Capital outlay	-	-	-	-	-	-	5,218	20,874	26,092
Total expenditures	<u>60,295</u>	<u>82,817</u>	<u>6,012</u>	<u>50,660</u>	<u>186,042</u>	<u>18,400</u>	<u>80,083</u>	<u>20,874</u>	<u>505,183</u>
Excess (deficiency) of revenues over (under) expenditures	88,091	65,352	(2,912)	22,010	(38,553)	31,612	(43,552)	(20,874)	101,174
OTHER FINANCING SOURCES									
Operating transfers in	-	-	-	-	-	-	84,842	-	84,842
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,842</u>	<u>-</u>	<u>84,842</u>
Net change in fund balances	88,091	65,352	(2,912)	22,010	(38,553)	31,612	41,290	(20,874)	186,016
Fund balances - beginning	<u>157,500</u>	<u>113,301</u>	<u>23,716</u>	<u>50,188</u>	<u>342,576</u>	<u>187,485</u>	<u>142,838</u>	<u>(39,753)</u>	<u>977,851</u>
Fund balances - ending	<u>\$ 245,591</u>	<u>\$ 178,653</u>	<u>\$ 20,804</u>	<u>\$ 72,198</u>	<u>\$ 304,023</u>	<u>\$ 219,097</u>	<u>\$ 184,128</u>	<u>\$ (60,627)</u>	<u>\$ 1,163,867</u>

CITY OF NEWTON, ILLINOIS
Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended April 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Final Budget</u>
			<u>Basis</u>	<u>Over (Under)</u>
REVENUES				
Property taxes	\$ 81,000	\$ 81,000	\$ 79,066	\$ (1,934)
Intergovernmental:				
Sales tax	613,000	613,000	686,081	73,081
Income tax	280,000	280,000	301,781	21,781
Replacement tax	41,000	41,000	38,786	(2,214)
Township road and bridge	59,000	59,000	62,227	3,227
Licenses and permits	20,000	20,000	23,244	3,244
Fees and fines	76,605	76,605	68,635	(7,970)
Charges for services	94,750	94,750	78,861	(15,889)
Interest and investment earnings	3,320	3,320	5,583	2,263
Operating grants and contributions	2,090	2,090	5,705	3,615
Miscellaneous	8,000	8,000	18,181	10,181
Total revenues	<u>1,278,765</u>	<u>1,278,765</u>	<u>1,368,150</u>	<u>89,385</u>
EXPENDITURES				
Current:				
General government	171,835	171,835	253,587	81,752
Public safety	673,700	673,700	720,858	47,158
Transportation and public works	177,715	177,715	189,962	12,247
Social services	26,550	26,550	26,719	169
Culture and recreation	235,980	235,980	236,112	132
Debt service:				
Principal	115,000	115,000	115,000	-
Interest	35,185	35,185	35,185	-
Capital outlay	5,000	5,000	3,897	(1,103)
Total expenditures	<u>1,440,965</u>	<u>1,440,965</u>	<u>1,581,320</u>	<u>140,355</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(162,200)</u>	<u>(162,200)</u>	<u>(213,170)</u>	<u>(50,970)</u>
OTHER FINANCING SOURCES				
Operating transfers in	162,200	162,200	165,161	2,961
Total other financing sources	<u>162,200</u>	<u>162,200</u>	<u>165,161</u>	<u>2,961</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(48,009)</u>	<u>\$ (48,009)</u>
Fund balance - beginning			<u>687,358</u>	
Fund balance - ending			<u>\$ 639,349</u>	

CITY OF NEWTON, ILLINOIS
Budgetary Comparison Schedule - Modified Cash Basis
TIF Fund
For the Year Ended April 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Final Budget</u>
			<u>Basis</u>	<u>Over (Under)</u>
REVENUES				
Property taxes	\$ 330,000	\$ 330,000	\$ 361,004	\$ 31,004
Interest and investment earnings	600	600	1,156	556
Miscellaneous	-	-	2,499	2,499
Total revenues	<u>330,600</u>	<u>330,600</u>	<u>364,659</u>	<u>34,059</u>
EXPENDITURES				
Current:				
Community development	326,600	326,600	168,475	(158,125)
Capital outlay	4,000	4,000	119,116	115,116
Total expenditures	<u>330,600</u>	<u>330,600</u>	<u>287,591</u>	<u>(43,009)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	77,068	<u>\$ 77,068</u>
Fund balance - beginning			<u>104,694</u>	
Fund balance - ending			<u>\$ 181,762</u>	

City of Newton, Illinois
Notes to Other Information
April 30, 2018

Note 1: Budgets, Appropriation Ordinance, and Budgetary Accounting

The City adopts its budget in accordance with a basis of accounting utilized by that fund. Annual appropriated budgets are adopted for general, special revenue, and proprietary funds. All annual appropriations lapse at fiscal year end. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to adoption, the City prepares and submits to the City Council a proposed operating budget, for the fiscal year commencing May 1st. The operating budget includes both proposed expenditures and the expected revenue for the fiscal year.
2. Public hearings are conducted at an advertised location to obtain taxpayer comments on the appropriations ordinance.
3. Prior to July 31, the appropriations ordinance is legally enacted through passage of an ordinance.
4. The Annual Appropriation Ordinance was adopted on July 18, 2017.
5. Numerous transfers were made between line items in the Appropriation Ordinance during fiscal year 2018.
6. Budget amounts reflected in the financial statements are the amounts as originally adopted on April 18, 2017.

Note 2: Individual Fund Disclosures

No funds had an excess of expenditures over appropriations for the year ended April 30, 2018.

Note 3: Encumbrances

Encumbrance accounting is not used by the City.