

MEADOWLARK EXTENSION DISTRICT #7

Seneca, Kansas

FINANCIAL STATEMENT

WITH

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

MEADOWLARK EXTENSION DISTRICT #7

**FINANCIAL STATEMENT
WITH
REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION
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INDEPENDENT AUDITOR'S REPORT

To the Board
Meadowlark Extension District #7
Seneca, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Meadowlark Extension District #7, as of and for the year ended December 31, 2017 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 2; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statement, the financial statement is prepared by the Meadowlark Extension District #7 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 2 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 Meadowlark Extension District #7, as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Meadowlark Extension District #7, as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 2.

Other Matters

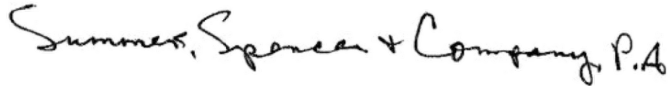
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures - actual and budget and individual fund schedule of regulatory basis 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, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 2.

The 2016 actual column presented in the individual fund schedule of regulatory basis receipts and expenditures – actual and budget (Schedule 2 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The Meadowlark Extension District #7’s basic financial statement for the year ended December 31, 2016 (not presented herein), was audited by Clubine and Rettele, Chartered who merged with Summers, Spencer & Company, P.A. as of November 1, 2017, and whose report dated June 9, 2017, expressed an unmodified opinion on the basic financial statement. The 2016 basic financial statement and the other auditor’s report are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services>.

The report of the other auditors dated June 9, 2017, stated that the individual fund schedule of regulatory basis receipts and expenditures - actual and budget for the year ended December 31, 2016 was subjected to the auditing procedures applied in the audit of the 2016 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 2016 basic financial statement or to the 2016 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in their opinion, was fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2016, on the basis of accounting described in Note 2.

A handwritten signature in cursive script that reads "Summers, Spencer & Company, P.A.".

Summers, Spencer & Company, P.A.
Salina, Kansas
September 26, 2018

MEADOWLARK EXTENSION DISTRICT #7

Statement 1

Summary Statement of Receipts, Expenditures, and Unencumbered Cash (Regulatory Basis)
For the Year Ended December 31, 2017

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	<u>\$ 257,541</u>	<u>\$ -</u>	<u>\$ 1,085,766</u>	<u>\$ 978,849</u>	<u>\$ 364,458</u>	<u>\$ -</u>	<u>\$ 364,458</u>

Composition of Cash
Checking Accounts

\$ 364,458

MEADOWLARK EXTENSION DISTRICT #7

Notes to the Financial Statement For the Year Ended December 31, 2017

Note 1 – Municipal Financial Reporting Entity

The Meadowlark Extension District #7, is a sub-division of Jackson, Jefferson and Nemaha County Extension Councils and the Research and Extension Department of Kansas State University, formed under K.S.A 2-623 through 2-628. The District was formed under an operational agreement to combine the extension programs for each county into one extension program.

Fund Descriptions. The following type of fund comprises the financial activities of the District for the year ended December 31, 2017:

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

Note 2 - Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The *Kansas Municipal Audit and Accounting Guide (KMAAG)* regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

The District 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 District to use the regulatory basis of accounting.

Note 3 – Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but a least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures

MEADOWLARK EXTENSION DISTRICT #7

Notes to the Financial Statement For the Year Ended December 31, 2017

compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

Note 4 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposits with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

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

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District'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 District, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has not designated a "peak period." All deposits were legally secured at December 31, 2017.

At December 31, 2017, the District's carrying amount of deposits was \$364,458 and the bank balance was \$443,636. The bank balance was held by one bank resulting in a concentration of credit risk. Deposits covered by federal depository insurance was \$250,000 and remaining \$193,436 was collateralized with securities held by the pledging financial institution's agent in the District's name.

Note 5 - Salary Funding

Pursuant to the Memorandum of Understanding between Kansas State University College of Agriculture and Applied Science and the Meadowlark Extension Council, the Council reimburses University for salaries, payroll taxes and benefits not funded by the University. Professional staff of the Council are on the University's payroll and receive University employee benefits.

The Council prepares monthly financial statements and submits them to the University for their review. The monthly statements report the total extension agent salaries as an expenditure and includes the University's portion as a receipt titled KSU salaries. The value of the KSU salaries for 2017 is \$110,856.

Note 6 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The District participates in the Kansas Public Employees Retirement System (KPERs), a cost-

MEADOWLARK EXTENSION DISTRICT #7

Notes to the Financial Statement For the Year Ended December 31, 2017

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. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium from the period of January 1, 2017 through September 30, 2017 for the Death and Disability Program) and statutory contribution rate was 8.46% and from October 1, 2017 to December 31, 2017 was 9.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the Meadowlark Extension District #7 were \$18,497 for the year ended December 31, 2017.

Net Pension Liability

At December 31, 2017, the Meadowlark Extension District #7's proportionate share of the collective net pension liability reported by KPERS was \$171,280. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The Meadowlark Extension District #7's proportion of the net pension liability was based on the ratio of the Meadowlark Extension District #7's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

Note 7 – Other Post-Employment Benefits

As provided by K.S.A. 12-5040, the District allows retirees under age 65 to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level premium, regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

MEADOWLARK EXTENSION DISTRICT #7

**Notes to the Financial Statement
For the Year Ended December 31, 2017**

Note 8 – Compensated Absences

The District provides compensation for absences for full-time and part-time employees. Full-time employees are those who work at least 40 hours per week, and part-time employee's average at least 20 hours per week. The District provides annual leave at the following rates:

<u>Years of Service</u>	<u>Full-Time</u>	<u>Part-Time</u>
0-5 Years	8 hours/month	4 hours/month
5-14 Years	12 hours/month	4 hours/month
> 14 Years	14 hours/month	7 hours/month
Maximum Accumulation	240 hours	140 hours

Vacation leave is available to be paid by a lump sum under certain circumstances. Should an employee leave the District, they shall receive payment for a maximum of 30 days accumulated. If an employee is terminated, no reimbursement will be given. Retiring employees may use their remaining leave balance, or request to be paid for the accumulated time at the date of retirement.

The District also provides sick leave, which is earned at the following rates:

<u>Years of Service</u>	<u>Full-Time</u>	<u>Part-Time</u>
1-24 Years	8 hours/month	4 hours/month
> 24 Years	12 hours/month	4 hours/month

MEADOWLARK EXTENSION DISTRICT #7

**Notes to the Financial Statement
For the Year Ended December 31, 2017**

Note 9 - Long-Term Debt

Changes in long-term liabilities for the District for the fiscal year ended December 31, 2017, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Capital Leases									
Holton office building	3.20%	5/11/2015	\$ 135,000	7/1/2022	\$ 100,082	\$ -	\$ 15,395	\$ 84,687	\$ 3,203
Oskaloosa office building	3.75%	5/23/2018	190,000	5/23/2025	-	-	-	-	-
Total capital leases			\$ 325,000		\$ 100,082	\$ -	\$ 15,395	\$ 84,687	\$ 3,203

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

	2018	2019	2020	Year 2021	2022-2024	2023 and thereafter	Total
Principal:							
Holton office building	\$ 15,888	\$ 16,396	\$ 16,921	\$ 17,462	\$ 18,021	\$ -	\$ 84,687
Oskaloosa office building	30,233	24,241	25,137	26,093	27,072	57,225	190,000
Total principal	\$ 46,120	\$ 40,637	\$ 42,057	\$ 43,555	\$ 45,093	\$ 57,225	\$ 274,688
Interest:							
Holton office building	\$ 2,710	\$ 2,202	\$ 1,677	\$ 1,135	\$ 577	\$ -	\$ 8,301
Oskaloosa office building	-	5,991	5,096	4,140	6,403	3,242	24,872
Total interest	\$ 2,710	\$ 8,193	\$ 6,773	\$ 5,275	\$ 6,980	\$ 3,242	\$ 33,173
Total principal and interest	\$ 48,830	\$ 48,830	\$ 48,830	\$ 48,830	\$ 52,072	\$ 60,467	\$ 307,861

MEADOWLARK EXTENSION DISTRICT #7

**Notes to the Financial Statement
For the Year Ended December 31, 2017**

Note 10 – Risk Management

The District 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 District continues to carry commercial insurance to protect itself from these risks of loss.

Note 11 – Subsequent Events

On May 23, 2018, the District entered into an agreement to lease a building for a total of \$190,000. See Note 9 for additional information. Management has evaluated events and transactions occurring after December 31, 2017 through September 26, 2018, which is the date the financial statement was available to be issued.

MEADOWLARK EXTENSION DISTRICT #7

**REGULATORY – REQUIRED
SUPPLEMENTARY INFORMATION
December 31, 2017**

MEADOWLARK EXTENSION DISTRICT #7

Schedule 1

**Summary of Expenditures, Actual and Budget – Regulatory Basis
For the Year Ended December 31, 2017**

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment For Qualifying Budget Credits</u>	<u>Total Budget For Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance- Over (Under)</u>
General Fund	\$ 1,167,494	\$ -	\$ 1,167,494	\$ 978,849	\$ (188,645)

MEADOWLARK EXTENSION DISTRICT #7

Schedule 2

**Summary of Receipts and Expenditures – Actual and Budget (Regulatory Basis)
For the Year Ended December 31, 2017
(with Comparative Actual Totals for the Prior Year Ended December 31, 2016)**

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenue				
Ad Valorem Tax	\$ 731,202	\$ 835,898	\$ 845,402	\$ (9,504)
Delinquent Tax	8,416	8,730	-	8,730
Motor Vehicle Tax	90,019	97,146	85,905	11,241
Recreational Vehicle Tax	1,548	1,681	1,517	164
16/20M Vehicle Tax	5,858	5,946	5,965	(19)
Commercial Vehicle	5,396	6,252	5,780	472
Watercraft Tax	1,719	1,915	1,815	100
Excise Tax	9	3	-	3
Kansas State University	113,292	110,856	110,916	(60)
Interest	509	592	1,000	(408)
Educational Services Reimbursements	16,658	13,833	30,000	(16,167)
Other	2,609	2,914	1,500	1,414
Total Cash Receipts	<u>977,235</u>	<u>1,085,766</u>	<u>\$ 1,089,800</u>	<u>\$ (4,034)</u>
Expenditures				
Audit, Bond, Insurance, Legal Fees	17,014	17,760	\$ 18,300	\$ (540)
Telephone	16,452	16,698	16,500	198
Rent and Utilities	3,782	3,683	6,500	(2,817)
Supplies, Stationary and Postage	25,129	21,254	35,500	(14,246)
Repairs and Maintenance	6,827	30,216	80,550	(50,334)
Educational Program Support	19,554	11,233	30,000	(18,767)
Travel	19,924	24,479	33,000	(8,521)
Subsistence	6,894	7,770	8,500	(730)
Salaries and Wages	598,282	628,525	668,546	(40,021)
Employee Benefits	154,977	169,652	180,000	(10,348)
Capital Outlay	38,974	12,348	45,000	(32,652)
Lease Principal	14,918	15,395	18,598	(3,203)
Lease Interest	3,680	3,203	-	3,203
Miscellaneous	14,778	16,633	26,500	(9,867)
Total Expenditures	<u>941,185</u>	<u>978,849</u>	<u>\$ 1,167,494</u>	<u>\$ (188,645)</u>
Receipts Over (Under) Expenditures	36,050	106,917		
Unencumbered Cash, Beginning	<u>221,491</u>	<u>257,541</u>		
Unencumbered Cash, Ending	<u>\$ 257,541</u>	<u>\$ 364,458</u>		