

MCPHERSON TOWNSHIP

Financial Statement With Independent Auditors' Report

For the Year Ended December 31, 2017

MCPHERSON TOWNSHIP
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For the Year Ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
McPherson Township
McPherson, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of **McPherson Township**, 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 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

As described in Note 1, the financial statement is prepared by **McPherson Township** on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of

accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matters 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 **McPherson Township** 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 **McPherson Township** as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

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 schedules of regulatory basis receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement; however, are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2016 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 2 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2016 basic financial statement upon which we rendered an unmodified opinion dated April 25, 2017. The 2016 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2016 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statement. The 2016 comparative information was subjected to the auditing

McPherson Township

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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. In our opinion, the 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note 1.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

May 29, 2018

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

Fund	Beginning Unencumbered Cash	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
General Fund	\$ 8,745	-	6,127	5,481	9,391	-	9,391
Special Purpose Funds							
Road Fund	25,011	-	359,818	373,205	11,624	-	11,624
Fire Fund	-	-	173,646	167,982	5,664	-	5,664
Special Machinery Fund	50,083	-	142	37,439	12,786	-	12,786
Total Reporting Entity	<u>\$ 83,839</u>	<u>-</u>	<u>539,733</u>	<u>584,107</u>	<u>39,465</u>	<u>-</u>	<u>39,465</u>
Composition of Cash					Checking and Money Market Account	\$	<u>39,465</u>

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

MCPHERSON TOWNSHIP
Notes to Financial Statement
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McPherson Township has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statement is presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from those estimates.

Financial Reporting Entity

The Township is a municipal corporation governed by an elected three-member board. A related municipal entity is an entity established to benefit the Township and/or its constituents. The Township has no related municipal entities.

Basis of Presentation – Fund Accounting

The accounts of the Township are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

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

Regulatory Basis Fund Types

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

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Basis of Accounting

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis 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.

MCPHERSON TOWNSHIP
Notes to Financial Statement
December 31, 2017

The Township 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 Township to use the regulatory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the Township are not presented in the financial statement. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, and temporary notes are not presented in the financial statement.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

Reimbursements

The Township records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under KMAAG regulatory basis of accounting.

NOTE 2 – BUDGETARY INFORMATION

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

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.

MCPHERSON TOWNSHIP
Notes to Financial Statement
December 31, 2017

- c. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
- d. 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 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

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

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

A legal operating budget is not required for capital project funds, trust funds, and the following special purpose fund: Special Machinery Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 3 – DEPOSITS AND INVESTMENTS

McPherson Township follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary statement of receipts, expenditures and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the Township. The statute requires banks eligible to hold the Township's funds have a main or branch bank in the county in which the Township 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 Township has no other policies that would further limit interest rate risk.

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

Concentration of Credit Risk

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

MCPHERSON TOWNSHIP
Notes to Financial Statement
December 31, 2017

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State statutes require the Township's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Township does not use "peak periods". All deposits were legally secured at December 31, 2017.

At December 31, 2017, the Township's carrying amount of deposits was \$39,465 and the bank balance was \$40,898. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, all was covered by federal depository insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The Township had no investments at December 31, 2017.

NOTE 4 – LITIGATION

McPherson Township is a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material financial impact on the affected funds of the Township.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

McPherson Township's expenditures in the road and bridge fund exceeded budget authority by \$22,705, which is a violation of K.S.A. 79-2935.

NOTE 6 – RISK MANAGEMENT

McPherson Township carries commercial insurance for risks of loss, including property, general liability, contractors' equipment, automobile, linebacker and workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – COMPENSATED ABSENCES

Full-time employees receive two weeks of paid vacation and five days of paid sick leave. Vacation and sick leave cannot be carried over from year to year.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Township 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.

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Notes to Financial Statement
December 31, 2017

NOTE 9 – LONG-TERM DEBT

McPherson Township has entered into capital lease agreements for equipment. The leases contain a fiscal funding clause.

MCPHERSON TOWNSHIP
Notes to Financial Statements
December 31, 2017

Changes in long-term liabilities for the Township for the 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									
Caterpillar Motor Grader	2.67%	9/14/2015	\$ 130,142	9/14/2020	\$ 106,320	-	25,300	81,020	2,874
John Deere Farm Loader	5.01%	3/28/2016	69,898	3/15/2022	69,878	-	-	69,878	-
Total Contractual Indebtedness					<u>176,198</u>	<u>-</u>	<u>25,300</u>	<u>150,898</u>	<u>2,874</u>

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

	YEAR					
	2018	2019	2020	2021	2022	Total
Principal						
Caterpillar Motor Grader	\$ 25,984	26,686	28,350	-	-	81,020
John Deere Farm Loader	14,560	12,912	13,505	14,126	14,775	69,878
Total Principal	40,544	39,598	41,855	14,126	14,775	150,898
Interest						
Caterpillar Motor Grader	2,190	1,488	766	-	-	4,444
John Deere Farm Loader	1,551	2,541	1,948	1,327	678	8,045
Total Interest	3,741	4,029	2,714	1,327	678	12,489
Total Principal and Interest	\$ 44,285	43,627	44,569	15,453	15,453	163,387

MCPHERSON TOWNSHIP

Regulatory-Required Supplementary Information

MCPHERSON TOWNSHIP
Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2017

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Funds					
General Fund	\$ 5,505	-	5,505	5,481	(24)
Special Purpose Funds					
Road Fund	350,500	-	350,500	373,205	22,705
Fire Fund	170,520	-	170,520	167,982	(2,538)

MCPHERSON TOWNSHIP**General Fund**

Schedule 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	
Receipts				
Taxes and Shared Revenues	\$ 6,709	6,127	4,970	1,157
Reimbursed Expense	60	-	-	-
Total Receipts	<u>6,769</u>	<u>6,127</u>	<u>4,970</u>	<u>1,157</u>
Expenditures				
Salaries and Wages	255	1,250	-	1,250
Employee Benefits	262	1,900	-	1,900
Supplies	390	334	-	334
Insurance	780	1,496	-	1,496
Professional Services	700	300	5,505	(5,205)
Miscellaneous	220	201	-	201
Total Expenditures	<u>2,607</u>	<u>5,481</u>	<u>5,505</u>	<u>(24)</u>
Receipts Over (Under) Expenditures	4,162	646		
Unencumbered Cash - Beginning	<u>4,583</u>	<u>8,745</u>		
Unencumbered Cash - Ending	<u>\$ 8,745</u>	<u>9,391</u>		

MCPHERSON TOWNSHIP**Road Fund**

Schedule 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 (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenues	\$ 332,228	355,818	356,903	(1,085)
Sale of Assets	-	4,000	-	4,000
Miscellaneous	530	-	50	(50)
Total Receipts	<u>332,758</u>	<u>359,818</u>	<u>356,953</u>	<u>2,865</u>
Expenditures				
Salaries and Wages	97,143	98,935	65,000	33,935
Employee Benefits	8,213	19,546	12,500	7,046
Road Maintenance	56,192	47,659	66,000	(18,341)
Road Materials	97,824	151,034	62,000	89,034
Insurance	12,963	14,021	15,000	(979)
Capital Outlay	-	-	130,000	(130,000)
Professional Fees	1,500	8,228	-	8,228
Contractual Services	9,820	32,597	-	32,597
Miscellaneous	1,777	1,185	-	1,185
Transfers Out	30,000	-	-	-
Total Expenditures	<u>315,432</u>	<u>373,205</u>	<u>350,500</u>	<u>22,705</u>
Receipts Over (Under) Expenditures	17,326	(13,387)		
Unencumbered Cash - Beginning	<u>7,685</u>	<u>25,011</u>		
Unencumbered Cash - Ending	<u>\$ 25,011</u>	<u>11,624</u>		

MCPHERSON TOWNSHIP**Fire Fund**

Schedule 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 Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenues	\$ 103,539	173,646	<u>173,751</u>	<u>(105)</u>
Expenditures				
McPherson City Fire Contract	<u>109,770</u>	167,982	<u>170,520</u>	<u>(2,538)</u>
Receipts Over (Under) Expenditures	(6,231)	5,664		
Unencumbered Cash - Beginning	5,931	-		
Prior Year Cancelled Encumbrance	<u>300</u>	<u>-</u>		
Unencumbered Cash - Ending	\$ <u>-</u>	<u>5,664</u>		

MCPHERSON TOWNSHIP
Special Machinery Fund
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2017
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Actual
Receipts		
Transfers In	\$ 30,000	-
Interest Income	297	142
Total Receipts	<u>30,297</u>	<u>142</u>
Expenditures		
Lease Payment	28,174	28,174
Capital Outlay	-	9,265
Total Expenditures	<u>28,174</u>	<u>37,439</u>
Receipts Over (Under) Expenditures	2,123	(37,297)
Unencumbered Cash - Beginning	47,460	50,083
Prior Year Cancelled Encumbrance	<u>500</u>	<u>-</u>
Unencumbered Cash - Ending	<u><u>\$ 50,083</u></u>	<u><u>12,786</u></u>