

EQUUS BEDS GROUNDWATER MANAGEMENT  
DISTRICT NO. 2

HALSTEAD, KANSAS

Financial Statement

For the Year Ended December 31, 2017

Equus Beds Groundwater Management District No. 2

CONTENTS

December 31, 2017

		<u>Page</u>
Independent Auditor's Report		1-2
Summary Statement of Receipts, Expenditures and Unencumbered Cash – Regulatory Basis	Statement 1	3
Notes to Financial Statement		4-7
 <b><u>Regulatory-Required Supplementary Information</u></b>		
Summary of Expenditures – Actual and Budget Regulatory Basis	Schedule 1	8
Schedule of Receipts and Expenditures – Actual and Budget Regulatory Basis	Schedule 2	9

# Knudsen Monroe & Company LLC

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Equus Beds Groundwater Management District No. 2  
Halstead, Kansas 67056

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Equus Beds Groundwater Management District No. 2, Halstead, Kansas (District), 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.

### ***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 that 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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

As described in Note 1 of the financial statement, the financial statement is prepared by the District on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District 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 District 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 schedule 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.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the District as of and for the year ended December 31, 2016 (not presented herein), and have issued our report thereon dated February 13, 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>. The 2016 actual column (2016 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures – actual and budget for the year ended December 31, 2017 (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. 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 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 basic financial statement as a whole for the year ended December 31, 2016, on the basis of accounting described in Note 1.

*Knudsen, Monroe & Company, LLC*

Certified Public Accountants

Newton, Kansas  
March 1, 2018

## Equus Beds Groundwater Management District No. 2

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
Regulatory Basis

For the Year Ended December 31, 2017

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Governmental Fund						
General	\$ 266,632	405,045	448,832	222,845	9,233	232,078

**Composition of Cash:**

The Halstead Bank:

Checking accounts	\$ 82,078
Certificates of deposit	<u>150,000</u>
Total Cash	<u>\$ 232,078</u>

Equus Beds Groundwater Management District No. 2

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Equus Beds Groundwater Management District No. 2 (District) was formed in 1974 as authorized by K.S.A. 82a-1020, et seq., to promote conservation and local management of the groundwater reserves found in the Equus Beds aquifer. The Equus Beds aquifer is located in south-central Kansas in an approximately 1,400-square-mile area within Harvey, Sedgwick, McPherson, and Reno counties.

The District is a local government entity primarily funded through property assessments and governed by a locally elected board of directors.

Regulatory Basis Fund Types

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

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.

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

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 budget amendments for the year 2017.

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2017.

3. 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 deposit 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. As of December 31, 2017, the District's investment balance included only certificates of deposit held at a local bank, which are not subject to investment rating.

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 City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not use "peak periods". All deposits were legally secured at December 31, 2017.

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2017

3. DEPOSITS AND INVESTMENTS (continued)

At December 31, 2017, the carrying amount of the District's deposits, including certificates of deposit, was \$232,078 and the bank balance was \$269,508. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$19,508 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District 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 District had no investments at December 31, 2017.

4. DEFINED BENEFIT PENSION PLAN

Plan Description

The District participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERs issues a publically 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](http://www.kpers.org) or by writing to KPERs (611 South 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 for the period January 1, 2017 through September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the District were \$19,632 for the year ended December 31, 2017.



NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2017

4. DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability

At December 31, 2017, the District's proportionate share of the collective net pension liability reported by KPERS was \$178,783. 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 District's proportion of the net pension liability was based on the ratio of the District's contributions to KPERS, relative to the total employer and nonemployer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in 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](http://www.kpers.org) or can be obtained as described above.

5. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Other Employee Benefits

All employees earn 10 days of paid time off (PTO) per year for the first three years of employment; 15 days after three years of employment; 20 days after six years of employment; 25 days after 12 years of employment; 30 days after 18 years of employment; and 35 days after 24 years of employment. The maximum carryover is two-times their applicable annual accrual. Unused PTO is paid to employees upon termination. Unused PTO has not been recorded as a liability in the accompanying financial statement.

6. CONTINGENCIES

During the ordinary course of its operations, the District is a party to potential claims, legal actions and complaints. It is the opinion of the District's management and legal counsel that these matters are not anticipated to have a material effect on the District's financial statement.

7. RISK MANAGEMENT

The District is exposed to various risks of losses relating to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains coverage from commercial insurance companies in order to effectively manage risk. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

8. MANAGEMENT'S DATE OF REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through March 1, 2018, which is the date at which the financial statement was available to be issued.

Equus Beds Groundwater Management District No. 2

REGULATORY REQUIRED  
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2017

## Equus Beds Groundwater Management District No. 2

SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET  
Regulatory Basis

For the Year Ended December 31, 2017

Funds	Certified Budget	Adjustment for Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General Fund	\$ 535,021	-	535,021	448,832	(86,189)

## Equus Beds Groundwater Management District No. 2

SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET  
Regulatory BasisFor the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Actual	Budget	Variance - Over (Under)
<b>GENERAL FUND</b>				
Receipts				
Water user fees and assessments	\$ 345,786	368,039	355,000	13,039
Sales, service fees and other	28,138	34,471	46,000	(11,529)
Interest	<u>1,031</u>	<u>2,535</u>	<u>500</u>	<u>2,035</u>
Total revenues	<u>374,955</u>	<u>405,045</u>	<u>401,500</u>	<u>3,545</u>
Expenditures				
Salaries and benefits	258,259	280,636	303,321	(22,685)
Transportation	10,284	10,464	21,500	(11,036)
Administration	60,772	91,839	97,700	(5,861)
Water management projects	<u>50,863</u>	<u>65,893</u>	<u>112,500</u>	<u>(46,607)</u>
Total expenditures	<u>380,178</u>	<u>448,832</u>	<u>535,021</u>	<u>(86,189)</u>
Receipts over (under) expenditures	(5,223)	(43,787)		
Unencumbered cash, Beginning	<u>271,855</u>	<u>266,632</u>		
Unencumbered cash, Ending	<u>\$ 266,632</u>	<u>222,845</u>		