

**ROSE HILL RECREATION COMMISSION
ROSE HILL, KANSAS**

FINANCIAL STATEMENT

WITH

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

George, Bowerman, & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rose Hill Recreation Commission
Rose Hill, Kansas

Report on Financial Statement

We have audited the accompanying fund summary statement of regulatory basis cash receipts, expenditures and unencumbered cash balances of the Rose Hill Recreation Commission (a related municipal entity of Rose Hill Unified School District No. 394), as of and for the year ended June 30, 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 to meet the financial reporting requirements of the State of Kansas, 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 1 of the financial statement, the financial statement is prepared by the Rose Hill Recreation Commission to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

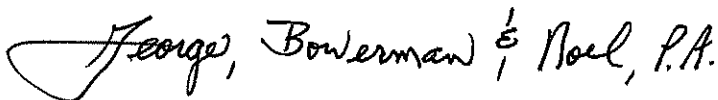
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Rose Hill Recreation Commission as of June 30, 2017, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Rose Hill Recreation Commission as of June 30, 2017, and the aggregate cash receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of 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 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 1.



Wichita, Kansas
February 6, 2018

ROSE HILL RECREATION COMMISSION
SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

For the year ended June 30, 2017

	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Canceled Encum- brances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
General Fund	\$ 352,811	\$ —	\$ 400,802	\$ 342,953	\$ 410,660	\$ 8,099	\$ 418,759
Special Revenue Fund:							
Employee Benefit/Special							
Liability	<u>15,509</u>	<u>—</u>	<u>54,926</u>	<u>45,025</u>	<u>25,410</u>	<u>—</u>	<u>25,410</u>
Total Reporting Entity	<u>\$ 368,320</u>	<u>\$ —</u>	<u>\$ 455,728</u>	<u>\$ 387,978</u>	<u>\$ 436,070</u>	<u>\$ 8,099</u>	<u>\$ 444,169</u>

Composition of cash:

Rose Hill Bank, Rose Hill, Kansas:
Interest bearing checking account
Money Market savings account

\$ 341,226
102,743

443,969
Petty cash 200

\$ 444,169

The accompanying notes are an integral
part of the financial statement.

ROSE HILL RECREATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Rose Hill Recreation Commission (Commission) is a municipal corporation formed under the laws of the State of Kansas to establish, operate and maintain a recreational system in Rose Hill, Kansas. The Commission is comprised of five board members, two appointed by the Board Members of Unified School District No. 394, Rose Hill, Kansas, two appointed by the City Council of the City of Rose Hill, Kansas, and one is appointed by those four appointed Commission members. The Commission may not acquire real property or issue debt without the approval of the Board of Unified School District No. 394. In addition, the Commission must certify its annual budget to Unified School District No. 394 for levying of property taxes. Due to the significance of its operational and financial relationships with Unified School District No. 394, the Commission is a related municipal entity of Unified School District No. 394.

Fund descriptions

The accounts of the Commission are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In accordance with state statutes and Commission resolutions, those funds presented in this report are as follows:

Governmental fund types

General fund – used to account for all financial resources except those required to be accounted for in another fund.

Special purpose funds – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes. The special purpose fund maintained by the Commission is the Employee Benefit/Special Liability Fund, which is used to account for liability insurance costs, the employer portion of payroll tax costs and other benefits provided to employees of the Commission.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 such 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 Commission 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 (GAAP) allowing the Commission to use the regulatory basis of accounting.

Budgetary principles

The Commission is required by state statute to adopt annual budgets for the General and the Employee Benefit/Special Liability Funds on or before August 1 for the ensuing year. The Commission is required to certify its adopted budget to Unified School District No. 394 which shall levy a tax sufficient to raise the amount required by such budget on all the taxable tangible property within the taxing district. The Commission may amend the budget by transferring budgeted amounts from one object or purpose to another however, expenditures may not legally exceed the total amount of the adopted budget of individual funds.

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 July 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before July 10th.
3. Public hearing on or before July 20th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 1st and certification of the adopted budget to Unified School District No. 394.

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. This process requires a notice of public hearing to amend the budget to 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 budget amendments for the year ended June 30, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

All legal annual operating budgets are prepared using the 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 the prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

Cash and investments

Cash balances in all funds are considered in determining the amount to be invested. All investment earnings are credited to the General Fund.

Cash deposits are reported at their carrying amount, which reasonably estimates fair value.

Inventories and prepaid items

Inventories and prepaid items, which benefit future periods, are recorded as expenditures in the year of purchase.

Compensated absences

The earned time off (ETO) policy of the Commission provides for all full-time personnel to accrue 120 hours of ETO pay per year. ETO hours are earned at the rate of 10 hours per month for employees with continuous employment up to 5 years of service, 13.3 hours per month for employees with continuous employment for 5 to 10 years of service, 16.7 hours per month for employees with continuous employment for 10 to 15 years of service, and 20 hours per month for employees with over 20 years of continuous service. The maximum accumulated ETO hours shall not exceed 400 hours. Once an employee accumulates 400 hours of ETO leave, they may elect to be paid for up to 80 hours per year at one-half their normal hourly pay rate. At resignation or termination an employee shall be compensated for all unused ETO leave at their final rate of pay, subject to the maximum accumulation allowed.

Pension plan

All eligible full-time employees are members of the State of Kansas Public Employees' Retirement System, which is a cost-sharing multi-employer state wide defined benefit pension plan. The Commission is required to contribute the pension costs which are determined annually by the system's actuary.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk management

The Commission 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 Commission carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

2. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Commission. The statute requires banks eligible to hold the Commission's funds to have a main or branch bank in the county in which the Commission is located, or in an adjoining county if such institution has been designated as an official depository, and the bank provides 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 Federal Depository Insurance (FDIC) coverage. The Commission has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Commission's investment of idle funds to time deposits, open accounts and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; non-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. All investments must be insured, registered or held by the Commission or its agent in the Commission's name. The Commission has no investment policy that would further limit its investment choices.

Concentration of credit risk

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

The Commission's allocation of investments as of June 30, 2017 is as follows:

<u>Deposits/Investments</u>	<u>Percentage of Investments</u>
The Rose Hill State Bank – interest bearing deposits	100%

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State statutes require the Commission'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. All deposits were legally secured at June 30, 2017.

2. DEPOSITS AND INVESTMENTS (continued)

The Commission's deposits at June 30, 2017 consisted of a money market checking and a money market savings account. At year-end, the carrying amount of the Commission's deposits was \$443,969 and the bank deposit balances were \$451,254. Of the bank balances, \$250,000 was covered by Federal Depository Insurance Coverage and \$201,254 was collateralized with securities held by the pledging financial institution's agents in the municipality's name. The fair value of the pledged securities was \$217,721 at June 30, 2017.

3. COMPENSATED ABSENCES

Changes in compensated absence liabilities for the Commission for the year ended June 30, 2017 were as follows:

<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>
\$ 7,368	\$ 8,772	\$12,228	\$ 3,912

The compensated absence liability is based on the vested earned time off hours at current employee pay rates. The compensated absence liability is liquidated from the Commission's General Fund.

4. PENSION PLAN

Plan description

The Commission 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. 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 at www.kpers.or or by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603 or by calling 1-888-275-5737.

Contributions

K.S.A. 74-4919 and K.S.A. 74-4920 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

4. PENSION PLAN (continued)

established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member-employees' 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 provide 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 the annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate through March 31, 2016 with a 0% moratorium until June 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 9.18% and 8.46%, respectively, for the fiscal year ended June 30, 2017. The actuarially determined employer contribution rate and the statutory contribution rate was 9.18% for the fiscal year ended December 31, 2016.

The Commission's contributions to KPERS for the years ending June 30, 2017, 2016 and 2015 were \$10,723, \$12,270 and \$12,532, respectively, equal to the statutory required contributions for each year.

Net Pension Liability

At June 30, 2017, the Commission's proportionate share of the collective net pension liability reported by KPERS was \$99,292. 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 Commission's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS for the fiscal year ended June 30, 2017. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in the 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 publically available on the website at www.kpers.org or can be obtained as described above.

5. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Commission is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level premium regardless of age. There are currently no retirees included in the group health insurance plan of the Commission. The affects of this postemployment benefit are not quantified in the accompanying financial statement and management believes any impact on the financial statement is not significant.

5. OTHER POST EMPLOYMENT BENEFITS (continued)

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

6. FACILITY LEASE AGREEMENT

On June 30, 2008, the Commission entered into a lease agreement with the Rose Hill USD No. 394 (District) to lease the facility located at 400 South Rose Hill Road, Rose Hill, Kansas, for the period of 10 years at \$1 per year. The lease provides that any additions or improvements to the structure, which are made by the Commission, will remain part of the structure and will remain at the end of the lease term. In addition, the Commission is responsible for all utilities at the facility and shall be responsible for maintaining the facility, including maintaining a liability policy of not less than \$1,000,000 for any activities undertaken by the Commission with the District named as an additional insured. The District is responsible for maintaining the area around the building and shall insure the facility and its improvements against fire, wind, hail and other extended coverage. The Commission is responsible for maintaining insurance on the contents of the facility.

The agreement may be terminated by twelve months written notice from either party. In the event the Commission has expended funds for improvement of the facility, the life of such improvements is longer than the term of the lease, and the lease is terminated at the request of the Commission or for cause based on default of the Commission, the Commission may not ask the District for reimbursement for the proportionate unused life of any improvements. If, however, the agreement is terminated prior to its original term at the request of the District without cause on behalf of the Commission, then the Commission shall be entitled to ask the District to reimburse the proportionate unused life of any improvements made to the structure.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 6, 2018, the date on which the financial statements were available to be issued.

**REGULATORY REQUIRED
SUPPLEMENTARY INFORMATION**

ROSE HILL RECREATION COMMISSION

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET – REGULATORY BASIS
(BUDGETED FUNDS ONLY)

For the year ended June 30, 2017

	<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 - Favorable (Unfavorable)</u>
General Fund	\$ 589,453	\$ —	\$ 589,453	\$ 342,953	\$ 246,500
Special Purpose Fund:					
11 Employee Benefit/Special Liability	71,200	—	71,200	45,025	26,175

ROSE HILL RECREATION COMMISSION

GENERAL FUND

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
- ACTUAL AND BUDGET - REGULATORY BASIS

	Year ended June 30, 2017		
	<u>Actual</u>	<u>Budget</u>	Variance favorable (unfavorable)
Cash receipts:			
Appropriation from USD No. 394	\$ 290,000	\$ 290,000	\$ -
Programs	68,636	55,000	13,636
Advertising	2,225	2,000	225
Fundraising	1,037	2,500	(1,463)
Donations and Grant Income	800	-	800
Facility rental	5,769	5,800	(31)
Fitness Center	30,620	30,000	620
Miscellaneous	915	-	915
Interest received	<u>800</u>	<u>500</u>	<u>300</u>
Total cash receipts	<u>400,802</u>	<u>\$ 385,800</u>	<u>\$ 15,002</u>
Expenditures:			
Administrative	166,617	\$ 216,000	\$ 49,383
Facilities and maintenance	27,325	56,000	28,675
Programs	98,012	75,000	(23,012)
Organization contributions	2,700	3,000	300
Insurance	3,423	3,500	77
Fundraising	1,078	2,000	922
Miscellaneous	707	2,000	1,293
Capital outlay	<u>43,091</u>	<u>231,953</u>	<u>188,862</u>
Total expenditures	<u>342,953</u>	<u>\$ 589,453</u>	<u>\$ 246,500</u>
Cash receipts over expenditures	57,849		
Unencumbered cash balance, beginning of year	<u>352,811</u>	<u>\$ 353,653</u>	<u>\$ (842)</u>
Unencumbered cash balance, end of year	<u>\$ 410,660</u>		

ROSE HILL RECREATION COMMISSION
EMPLOYEE BENEFIT/SPECIAL LIABILITY FUND
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
– ACTUAL AND BUDGET – REGULATORY BASIS

	<u>Year ended June 30, 2017</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (unfavorable)</u>
Cash receipts:			
Appropriation from USD No. 394	<u>\$ 54,926</u>	<u>\$ 54,927</u>	<u>\$ (1)</u>
Expenditures:			
Health and dental insurance	16,761	\$ 36,000	\$ 19,239
KPERs retirement	10,592	15,000	4,408
FICA and Medicare	12,872	15,000	2,128
Officers liability insurance	1,232	1,700	468
Workers compensation insurance	3,396	3,500	104
Unemployment insurance	<u>172</u>	<u>–</u>	<u>(172)</u>
Total expenditures	<u>45,025</u>	<u>\$ 71,200</u>	<u>\$ 26,175</u>
Cash receipts over expenditures	9,901		
Unencumbered cash balance, beginning of year	<u>15,509</u>	<u>\$ 16,273</u>	<u>\$ (764)</u>
Unencumbered cash balance, end of year	<u>\$ 25,410</u>		