

**NORTHWEST KANSAS GROUNDWATER
MANAGEMENT DISTRICT NO. 4**

Primary Government Financial Statement
With Independent Auditors' Report

For the Year Ended December 31, 2017

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
Primary Government Financial Statement With Independent Auditors' Report
For the Year Ended December 31, 2017

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Certified
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Northwest Kansas Groundwater Management District No. 4

Colby, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of **Northwest Kansas Groundwater Management District No. 4**, 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 **Northwest Kansas Groundwater Management District No. 4** 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 Northwest Kansas Groundwater Management District No. 4 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 **Northwest Kansas Groundwater Management District No. 4** 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 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.

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 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 March 2, 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 procedures applied in the audit of the 2016 basic financial statement and certain additional procedures,

Northwest Kansas Groundwater Management District No. 4

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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

February 07, 2018

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
 Summary Statement of Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2017

| Funds | Beginning Unencumbered Cash Balance | Prior Year Cancelled Encumbrances | Receipts | Expenditures | Ending Unencumbered Cash Balance | Add Encumbrances and Accounts Payable | Ending Cash Balance |
|-------------------------------|---|---|----------|---------------------------------|--|--|------------------------|
| Governmental Type Fund | | | | | | | |
| General Fund | \$ 168,599 | 3,831 | 446,717 | 465,950 | 153,197 | 30,609 | 183,806 |
| | | Composition of Cash | | | | | |
| | | | | Checking Accounts | | \$ | 15,806 |
| | | | | Money Market Account | | | 168,000 |
| | | | | Total Primary Government | | \$ | 183,806 |

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

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statement

December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northwest Kansas Groundwater Management District No. 4 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 District is a municipal corporation governed by an elected eleven-member board. This financial statement does not include the related municipal entity shown below. A related municipal entity is an entity established to benefit the District and/or its constituents.

Northwest Kansas Groundwater Conservation Foundation

The Foundation receives donations from the public and other funds from the District to assist in the acquisition of groundwater rights. Acquisition or disposition of real property by the Foundation must be approved by the District. Bond issuances must also be approved by the District. The Foundation's board is comprised of the same board members on the District's board. The District substantially funds the Foundation's operations by appropriating funds from its general operating budget and transferring them to the Foundation to meet its purpose of acquiring groundwater rights. Unaudited financial statements can be obtained by contacting the District office.

The District is the primary government as defined in GASB #61. The District's board of directors is elected by the public. The board has the authority to make decisions, levy taxes, influence operations and has the primary accountability in fiscal matters.

Basis of Presentation – Fund Accounting

The accounts of the District 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 type of fund comprises the financial activities of the District for the year ended December 31, 2017.

Regulatory Basis Fund Type

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

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

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statement

December 31, 2017

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.

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 District 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 District 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 District 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.

Reimbursements

The District 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 before any assessment can be made, the District's board must prepare a budget for the upcoming year to the eligible voters of the **Northwest Kansas Groundwater Management District No. 4** at a budget hearing. The budget hearing must be published in the newspaper in the District at least 28 days prior to the meeting. After the budget hearing, the Board will adopt the proposed budget by resolution as well as determine the amount of land assessment or user charge, or both, that will be needed to support the adopted budget.

The Board can increase the originally adopted budget for previously unbudgeted increases in revenue. There was one budget amendment for this year for the General Fund.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statement

December 31, 2017

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 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 3 – DEPOSITS AND INVESTMENTS

Northwest Kansas Groundwater Management District No. 4 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 District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the District in which the District is located, or in an adjoining District 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.

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 K.S.A. 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%. District does not use "peak periods". All deposits were legally secured at December 31, 2017.

At December 31, 2017, the District's carrying amount of deposits was \$183,806 and the bank balance was \$186,439. 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 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.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statement

December 31, 2017

NOTE 4 – LITIGATION

Northwest Kansas Groundwater Management District No. 4 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 District.

NOTE 5 – RISK MANAGEMENT

Northwest Kansas Groundwater Management District No. 4 carries commercial insurance for risks of loss, including commercial property, general liability, inland marine, business automobile, workers compensation, and directors and officer's liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – OPERATING LEASES

The District entered into a lease agreement for a postage meter with Pitney Bowes Global Financial Services, LLC on February 20, 2016. The lease agreement is payable in quarterly payments of \$152 for 51 months. Payments of \$608 were made in 2017. Future scheduled payments to maturity are as follows:

| Year | Amount |
|------|--------|
| 2018 | \$ 608 |
| 2019 | 608 |
| 2020 | 152 |

NOTE 7 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

Northwest Kansas Groundwater Management District No. 4 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 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 for the period January 1, 2017 through

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Notes to Financial Statement
December 31, 2017

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 City were \$25,086 for the year ended December 31, 2017.

Net Pension Liability

At December 31, 2017, the District's proportionate share of the collective net pension liability reported by KPERS was \$233,361. 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 County's proportion of the net pension liability was based on the ratio of the County'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 these financial statements.

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 8 – COMPENSATED ABSENCES

Vacation

Northwest Kansas Groundwater Management District No. 4's policy regarding vacation for full-time employees is as follows:

| <u>Years Worked</u> | <u>Amount Earned</u> |
|---------------------|----------------------|
| 0-2 | 1.00 day/month |
| 2-5 | 1.25 days/month |
| 5-10 | 1.50 days/month |
| 10 and over | 2.00 days/month |

The maximum accrual for vacation shall be no more than 24 days for full-time employees. Upon termination of employment under any circumstances, the employee will be reimbursed for any unused vacation at the employee's pay scale at the time of termination. The potential liability for vacation at December 31, 2017 was \$19,230. This is reflected in the financial statement.

Sick Leave

The District's policy for sick leave permits a full-time employee to earn sick leave at the rate of one day per calendar month worked with no accumulation limit. Sick leave is not paid upon termination of employment. The potential liability for sick leave at December 31, 2017 was \$217,820. This is not reflected in the financial statement.

Discretionary Leave

Two days of discretionary leave is earned per calendar year. There is no carryover allowed.

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4

Regulatory-Required Supplementary Information

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2017

| Fund | Certified Budget | Adjustment for Qualifying Budget Credits | Total Budget for Comparison | Expenditures Chargeable to Current Year | Variance Over (Under) |
|-------------------------------|---------------------|--|-----------------------------------|--|-----------------------------|
| Governmental Type Fund | | | | | |
| General Fund | \$ 645,732 | - | 645,732 | 465,950 | (179,782) |

NORTHWEST KANSAS GROUNDWATER MANAGEMENT DISTRICT NO. 4
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 | | | | |
| County Assessments | \$ 494,245 | 444,349 | 469,915 | (25,566) |
| Interest Income | 751 | 1,522 | - | 1,522 |
| Reimbursements | 593 | 846 | - | 846 |
| Total Receipts | <u>495,589</u> | <u>446,717</u> | <u>469,915</u> | <u>(23,198)</u> |
| Expenditures | | | | |
| Postage | 3,024 | 4,309 | 5,000 | (691) |
| Printing | 1,563 | 2,581 | 5,200 | (2,619) |
| Dues | 1,350 | 400 | 2,000 | (1,600) |
| Subscriptions | 3,572 | 3,225 | 3,700 | (475) |
| Insurance | 10,035 | 9,713 | 12,800 | (3,087) |
| Telephone | 4,090 | 4,088 | 5,600 | (1,512) |
| Salaries and Benefits | 334,683 | 344,951 | 352,000 | (7,049) |
| Travel | 12,332 | 10,021 | 15,000 | (4,979) |
| Vehicles | 3,655 | 5,366 | 4,775 | 591 |
| Contracted Services | 56,785 | 44,200 | 23,800 | 20,400 |
| Publications | 790 | 858 | 1,000 | (142) |
| Co-op Programs | 769 | 487 | 2,000 | (1,513) |
| Administrative | 4,706 | 5,135 | 9,900 | (4,765) |
| New Equipment | 1,260 | 1,160 | 12,900 | (11,740) |
| Reserve for Contingency | 650 | 1,117 | 156,417 | (155,300) |
| Facility | 22,925 | 28,339 | 33,640 | (5,301) |
| Total Expenditures | <u>462,189</u> | <u>465,950</u> | <u>645,732</u> | <u>(179,782)</u> |
| Receipts Over (Under) Expenditures | 33,400 | (19,233) | | |
| Unencumbered Cash - Beginning | 135,199 | 168,599 | | |
| Prior Year Cancelled Encumbrances | - | 3,831 | | |
| Unencumbered Cash - Ending | <u>\$ 168,599</u> | <u>153,197</u> | | |



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Colby, Kansas 67701-2342

Certified
Public
Accountants

February 07, 2018

To the Board of Directors and Management
Northwest Kansas Groundwater Management District No. 4
Colby, Kansas

Management Letter

In planning and performing our audit of the primary government financial statement of **Northwest Kansas Groundwater Management District No. 4** as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the District's internal control to be material weaknesses.

- **Northwest Kansas Groundwater Management District No. 4** does not have proper segregation of duties necessary to establish a good system of internal control. We understand that the size of the District's accounting and administrative staff and related budget constraints preclude management from hiring additional personnel to achieve proper segregation of duties. However, limited segregation can and should be implemented to reduce the risk of errors or fraud. Where possible, duties should be segregated. Involvement by the Board can also mitigate the risk of errors or fraud. The Board should remain involved in the financial affairs of the District to provide oversight and independent review functions.
- We booked material encumbrances in the amount of \$30,609 for the year ended December 31, 2017. We would like to take this opportunity to explain encumbrances. An encumbrance is a commitment related to unperformed contracts for goods and services. Commitments could include purchase orders, board approval of expenditures and written contracts that are entered into before the end of the year. These should be recorded as a current year expense in the District's financials. We recommend that the District record the encumbrances on a spreadsheet and keep the listing with the District's reports and records when the encumbrance is approved. If the encumbrance is not recorded, the board could make a financial decision based upon incorrect facts and possibly create a budget violation.

Northwest Kansas Groundwater Management District No. 4

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February 07, 2018

We would like to express our appreciation for the opportunity to perform the December 31, 2017 audit for **Northwest Kansas Groundwater Management District No. 4** and to the employees for the cooperation and assistance given to us during the audit.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and State of Kansas, and is not intended to be, and should not be, used by anyone other than these specified parties.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants