

**OSAGE COUNTY CONSERVATION DISTRICT
OSAGE COUNTY, KANSAS**

**REGULATORY BASIS FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT**

For the Year Ended December 31, 2012

**ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KS 66846**

OSAGE CONTY CONSERVATION DISTRICT
OSAGE COUNTY, KANSAS

REGULATORY BASIS FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

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Independent Auditors' Report

Osage County Conservation District
Board of Supervisors
Lyndon, Kansas

We have audited the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Cash balance- Regulatory basis of the Osage County Conservation District, Lyndon, Kansas as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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. 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 includes 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 the U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the Osage County Conservation District prepared this financial statement 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 the U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the 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 Osage County Conservation District as of December 31, 2012, or the changes in its financial position or cash flows 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 Osage County Conservation District, as of December 31, 2012, and the aggregate receipts and disbursements for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants

November 13, 2013

Osage County Conservation District
 Combined Statement of Cash Receipts, Cash Disbursements and Cash Balances
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Operations Fund</u>	<u>Business Fund</u>	<u>Total</u>
Beginning Cash Balance, January 1, 2012	\$ 92,690	\$ 154,432	\$ 247,122
Cash Receipts:			
State of Kansas	69,445	0	69,445
Appropriations-county	25,000	0	25,000
WPAPS	0	144,493	144,493
Retail sales	0	53,455	53,455
Equipment rental and sales	0	32,150	32,150
Interest	735	430	1,165
Other	1,234	4,084	5,318
Total Cash Receipts	<u>96,414</u>	<u>234,612</u>	<u>331,026</u>
Total Available Cash	189,104	389,044	578,148
Cash Disbursements:			
Salaries, benefits and taxes	80,186	0	80,186
Travel	4,382	5,626	10,008
Information & education	0	5,154	5,154
Office	1,490	1,329	2,819
Annual meeting	0	2,262	2,262
Dues and fees	611	179	790
Insurance	120	1,961	2,081
Equipment and building	0	17,315	17,315
Cost of resale items	0	48,882	48,882
WRAPS	0	91,392	91,392
Other	0	122	122
Total Cash Disbursements	<u>86,789</u>	<u>174,222</u>	<u>261,011</u>
Ending Cash Balance, December 31, 2012	102,315	214,822	317,137
Outstanding Encumbrances and Accounts payable	6,484	12,050	18,534
Ending Unencumbered Cash, Dec. 31, 2012	<u>\$ 95,831</u>	<u>\$ 202,772</u>	<u>\$ 298,603</u>
Composition of Cash:			
Checking account	86,366	193,691	280,057
Certificate of deposits	15,949	21,117	37,066
Petty cash	0	14	14
Total Cash	<u>\$ 102,315</u>	<u>\$ 214,822</u>	<u>\$ 317,137</u>

The accompanying notes are an integral part of this statement.

Osage County Conservation District
Osage County, Kansas

Notes to the Financial Statement
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Osage County Conservation District (District) has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the District's accounting policies are described below.

Financial Reporting Entity

The Osage County Conservation District is a municipality organized under the provisions of K.S.A. 2-1901. It is governed by an elected five member board of supervisors.

Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds, which are used to record the District's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes. The following types of funds comprise the financial activities of the District.

Operations Fund - Accounts for county moneys (i.e., general fund and tax levies), state moneys (i.e., matching funds), and other receipts not accounted for in another fund.

Business Fund - Accounts for operations that are financed and operated in a manner similar to private business enterprises.

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 cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis disbursements 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.

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.

Osage County Conservation District
Osage County, Kansas

Notes to the Financial Statement
December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

The District deposits were not adequately secured at all times in accordance with K.S.A. 9-1402.

Management is not aware of any other items of noncompliance with Kansas statutes

State and Federal Aid Compliance

The District receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass through aid. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the governmental agency. Any disallowed claim resulting from such audit could become a liability of the General Fund. However, in the opinion of management, any such disallowed claim would not have a material effect on the financial statement of the District at December 31, 2012.

NOTE 3 – CASH AND DEPOSITS

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.

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 entirely 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%. All deposits were not legally secured at December 31, 2012.

Cash balances from all funds are combined and invested, to the extent possible in interest bearing accounts and certificates of deposit. All investments are stated at cost. Earnings from these investments, unless specifically designated, are allocated to the general fund. All investments are held in the District's name.

At year-end the carrying amount of the District's deposits, excluding petty cash funds, was \$317,123. Actual bank statement balances were \$317,453. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. Of the bank balance, \$287,066 was covered by FDIC insurance and the remaining \$30,387 was unsecured. The district held no investments on December 31, 2012.

Osage County Conservation District
Osage County, Kansas

Notes to the Financial Statement
December 31, 2012

NOTE 4 – STATE AND COUNTY APPROPRIATIONS

The District's general fund receives a substantial amount of support from Osage County and the State of Kansas. During 2012, Osage County provided \$25,000 to the District. The State of Kansas provided matching appropriations of \$24,281. In addition, the State funded a technician position and reimbursed the District \$45,164. This combined support represents 98% of the District's general operating receipts and should this support be terminated or modified, it would materially affect the operations of the district.

NOTE 5 - 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. 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. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4419 and 74-49,210 establishes the KPERs member-employee contribution rates. Effective July 1, 2009, KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the contribution rates for KPERs employers.

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 7 – OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences

The District's manager receives twelve hours per month of annual leave. A maximum of 240 hours may be accumulated with any excess amounts being forfeited at the end of each calendar year. Upon termination, the employee is reimbursed for annual leave up to the maximum of 240 hours at the employee's hourly rate. Eight hours of sick leave is earned each month. A maximum of 300 hours may be accumulated. Any unused hours over the 300 hours are reimbursed at \$5 per hour at year end. Upon termination, sick leave is reimbursed at the employee's hourly rate for the first 150 hours. Any remaining sick pay is then reimbursed at \$5 per hour. The costs of accumulated compensated absences are not recorded as the benefits are accumulated, but rather at the time such benefits are paid. Benefits are paid from the fund that correspond to the employees' duties.

Osage County Conservation District
Osage County, Kansas

Notes to the Financial Statement
December 31, 2012

NOTE 8 – RELATED PARTY TRANSACTIONS

The District was the pass through for the State of Kansas WRAPS grants. Of the projects reimbursed to landowner/operators, \$30,024 was approved for members of the board and immediate family members.

NOTE 9 – WRAPS GRANTS

The District has been awarded WRAPS grants for the last several years. These projects are intended to preserve land and promote best management practices. The District received a grant (2010-W-007) in 2010 in the amount of \$37,000. During 2012, the final disbursements were approved for this grant. The District received a grant (2011-W009) in 2011 in the amount of \$140,000. During 2012, disbursements began under this grant and at December 31, 2012 the District had \$81,083 of remaining funds for projects. The District received a grant (2012-W014) in 2012 in the amount of \$70,449. As of December 31, 2012, the District had not disbursed any of these proceeds.