

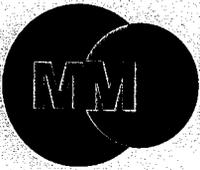
WALNUT CREEK EXTENSION DISTRICT #2
Financial Statement with Independent Auditor's Report
For the Year Ended December 31, 2012

MAPES & MILLER LLP
Certified Public Accountants
Quinter, Kansas

WALNUT CREEK EXTENSION DISTRICT #2
Financial Statement with Independent Auditor's Report
For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Walnut Creek Extension District #2
Dighton, Kansas 67839

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balance of Walnut Creek Extension District #2, a municipality, as of and for the year ended December 31, 2012, 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. 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 Walnut Creek Extension District #2, 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 Walnut Creek Extension District #2, as of December 31, 2012, 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 Walnut Creek Extension District #2, as of December 31, 2012, 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.

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

Mapes & Miller LLP

CERTIFIED PUBLIC ACCOUNTANTS

September 16, 2013

WALNUT CREEK EXTENSION DISTRICT #2
 Summary Statement of Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General Fund	\$ 213,614	344,803	358,536	199,881	0	199,881
Total Reporting Entity	\$ 213,614	344,803	358,536	199,881	0	199,881

Composition of Cash:

Nekoma State Bank of LaCrosse, LaCrosse, KS NOW Account	\$ 22,616
First State Bank, Ness City, KS Super Checking Account	103,822
First National Bank, Dighton, KS Money Market Account	63,443
First State Bank of Ransom, Ransom, KS Certificate of Deposit	10,000
Total Reporting Entity	\$ 199,881

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

WALNUT CREEK EXTENSION DISTRICT #2
Notes to the Financial Statement
December 31, 2012

1. **Summary of Significant Accounting Policies**

Financial Reporting Entity

Walnut Creek Extension District #2 was formed on July 1, 1996, under an operational agreement to combine the extension programs of Lane, Ness and Rush counties. It is governed by a twelve-member board, consisting of four members from each county. Board members are elected and serve a four-year term. The regulatory financial statement presents the Walnut Creek Extension District #2 (the municipality).

Regulatory Basis Fund Types

The following type of fund comprises the financial activities of Walnut Creek Extension District #2 for the year ended December 31, 2012:

General Fund – the chief operating fund. 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 revenues 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 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.

3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for 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 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 December 31, 2012.

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 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, 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 municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds and certain special purpose funds.

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

2. Deposits and Investments

K.S.A. 9-1401 establishes the depositories that 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 the 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 of 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 the 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 legally secured at December 31, 2012.

At December 31, 2012, the District's carrying amount of deposits was \$199,881, and the bank balance was \$211,456. The bank balance was held by four banks resulting in a concentration of risk. The bank balance of \$211,456 was covered by FDIC 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's had no investments at December 31, 2012.

3. Defined Benefit Pension Plan

Plan description. Walnut Creek Extension District #2 participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefits 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 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish 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 the KPERS 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 employer contribution rates 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 employer contribution rates.

4. Other Long-Term Obligations

Compensated Absences

Vacation Leave is earned by all full-time employees from the date of their employment. Office professional employees earn vacation leave as followings:

<u>Employment Period</u>	<u>Annual Leave</u>
Less than 5 years	12 days
5 – 10 years	15 days
10 or more years	18 days

Only 12 days of vacation leave time may be carried over from year to year. Unused vacation leave is paid upon resignation, termination or retirement of an employee.

Full time employees earn 1 day per month of sick leave. Sick leave may be accrued up to 30 days. Unused sick leave is paid only upon retirement of an employee.

5. 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; injuries to employees; and natural disasters. The District purchased commercial insurance for these potential risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past three fiscal years.

6. Other Post Employment Benefits

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

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

Regulatory-Required Supplementary Information

WALNUT CREEK EXTENSION DISTRICT #2
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

SCHEDULE 1

Fund	Certified Budget	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Governmental Type Funds:				
General Fund	\$ 582,500	582,500	358,536	(223,964)

WALNUT CREEK EXTENSION DISTRICT #2
 General Fund
 Schedule of Receipts and Expenditures- Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

SCHEDULE 2

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
Receipts			
Taxes	\$ 332,587	336,496	(3,909)
Educational Services	11,789	6,000	5,789
Kansas State University	0	113,256	(113,256)
Other Receipts	427	2,000	(1,573)
	<u>344,803</u>	<u>457,752</u>	<u>(112,949)</u>
Total Receipts			
Expenditures			
Printing, Audit, and Insurance	8,732	15,500	(6,768)
Telephone	7,328	9,000	(1,672)
Rent and Utilities	8,487	16,000	(7,513)
Supplies, Stationary and Postage	21,296	22,000	(704)
Equipment	6,617	20,000	(13,383)
Miscellaneous	8,565	6,000	2,565
Travel	21,173	28,000	(6,827)
Subsistence	5,663	8,000	(2,337)
Salaries and Wages	177,901	305,000	(127,099)
Employee Benefits	61,915	73,700	(11,785)
Educational Program Support	6,579	8,000	(1,421)
Capital Outlay	24,280	71,300	(47,020)
	<u>358,536</u>	<u>582,500</u>	<u>(223,964)</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(13,733)		
Unencumbered Cash Balance, Beginning	213,614		
	<u>199,881</u>		
Unencumbered Cash Balance, Ending	\$		