

KECHI TOWNSHIP

SEDGWICK COUNTY, KANSAS

Financial Statement

For the year ended December 31, 2012

Kechi Township, Sedgwick County, Kansas

CONTENTS

December 31, 2012

	<u>Page</u>
<b><u>Financial Section</u></b>	
Independent Auditor's Report	1-2
Summary Statement of Receipts, Expenditures and Unencumbered Cash	Statement 1 3
Notes to Financial Statement	4-8
<b><u>Supplementary Information</u></b>	
Summary of Expenditures - Actual and Budget	Schedule 1 9
Schedule of Receipts and Expenditures - Actual and Budget	Schedule 2
General Fund	10
Road Fund	11
Cemetery Fund	12
Special Machinery Fund	13

# Knudsen Monroe Company LLC

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Kechi Township

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Kechi Township, Kansas, a municipal financial reporting entity 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. 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 Township'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 Township'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 Township 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 Township 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 the Township 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 2012 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 2012 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 2012 basic financial statement. The 2012 information has been subjected to the auditing procedures applied in the audit of the 2012 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 2012 basic financial statement or to the 2012 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 2012 basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2011 actual column presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and is not a required part of the 2011 basic financial statement upon which we rendered an unmodified opinion dated December 31, 2014. The 2011 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://da.ks.gov/ar/muniserv/>. Such 2011 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 2011 basic financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 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 2011 basic financial statement or to the 2011 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 2011 comparative information is fairly stated in all material respects in relation to the 2011 basic financial statement as a whole, on the basis of accounting described in Note 1.

*Kruschman, Manwe & Company LLC*

Certified Public Accountants  
Newton, Kansas

January 2, 2015

## Kechi Township

SUMMARY OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH  
Regulatory Basis  
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 6,886	28,340	13,856	21,370	-	21,370
Special Purpose Funds						
Road Fund	82	157,137	156,459	760	-	760
Cemetery Fund	200,011	149,493	120,697	228,807	-	228,807
Special Machinery Fund	130,941	7,600	-	138,541	-	138,541
Total Special Purposes Funds	331,034	314,230	277,156	368,108	-	368,108
<b>Total Reporting Entity</b>	<u>\$ 337,920</u>	<u>342,570</u>	<u>291,012</u>	<u>389,478</u>	<u>-</u>	<u>389,478</u>

## Composition of Cash:

## Intrust Bank

Cash in bank, General	\$ 32,023
Cash in bank, Cemetery	53,829
Certificates of Deposit	<u>303,626</u>

## Total Reporting Entity

\$ 389,478

Kechi Township

NOTES TO FINANCIAL STATEMENT

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Financial Reporting Entity

The Kechi Township is a municipal financial reporting entity governed by a three member board. The financial statement presents all funds that are administered and controlled by the board.

Regulatory Basis Fund Types

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

Special Purpose fund - used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specific purposes.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

The Township 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 Township 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 on or before August 5th of the proposed budget and notice of public hearing on the budget.
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 .

Kechi Township

NOTES TO FINANCIAL STATEMENT

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts 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 such budget amendments for the year 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 regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the 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, and certain special purpose funds as noted in the presentation of the appropriate Schedule 2.

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

Reimbursements

The Township 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 accounting.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The Township's cash deposits were not adequately secured during the year ended December 31, 2012.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Township. The statute requires banks eligible to hold the Township's funds have a main or branch bank in the county in which the Township 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 Township has no other policies that would further limit interest rate risk.

Kechi Township

NOTES TO FINANCIAL STATEMENT

December 31, 2012

3. DEPOSITS AND INVESTMENTS (Continued)

K.S.A. 12-1675 limits the Township'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 Township has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the Township 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 Township's deposits may not be returned to it. State statutes require the Township'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 not legally secured at December 31, 2012.

At December 31, 2012, the Township's carrying amount of deposits was \$389,478 and the bank balance was \$392,353. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$338,726 was covered by federal depository insurance. The remaining \$53,627 was not collateralized with securities held by a pledging financial institution in the Township's name.

4. LONG-TERM DEBT

Changes in long-term liabilities for the Township for the year ended December 31, 2012 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance 12/31/12</u>	<u>Interest Paid</u>
<b>Lease Purchase</b>									
Cat Backhoe Loader	4.85%	09/27/10	\$ 50,079	10/15/14	<u>\$ 38,580</u>	<u>-</u>	<u>12,133</u>	<u>26,447</u>	<u>1,940</u>

Current maturities of long-term debt and interest for the next two years through maturity are as follows:

	<u>Year ending December 31</u>		
	<u>2013</u>	<u>2014</u>	<u>Total</u>
<b>Lease Purchase</b>			
Principal	\$ 12,762	13,685	26,447
Interest	<u>1,312</u>	<u>389</u>	<u>1,701</u>
Total	<u>\$ 14,074</u>	<u>14,074</u>	<u>28,148</u>

Kechi Township

NOTES TO FINANCIAL STATEMENT

December 31, 2012

5. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Regulatory Authority</u>	<u>Amount</u>
General	Special Machinery	K.S.A. 80-122	<u>\$ 7,600</u>

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to 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 benefit provisions. KPERS issues a publicly available financial report (only one is issued) 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. 74-4919 and K.S.A. 74-4921 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 of 4% of covered salary, (5% of covered salary as of January 1, 2014) 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 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.

7. CLAIMS AND JUDGMENTS

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to volunteers; and natural disasters. The Township has purchased commercial insurance for these potential risks. There were no settlements that exceeded insurance coverage in the past year.

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

Kechi Township

NOTES TO FINANCIAL STATEMENT

December 31, 2012

8. MANAGERIAL DATE OF REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through January 2, 2015, which is the date at which the financial statement was available to be issued.

KECHI TOWNSHIP  
REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012

Kechi Township

SUMMARY OF EXPENDITURES – ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Total for the Prior Year Ended December 31, 2011)

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
General	\$ 32,500	-	32,500	13,856	(18,644)
Road	252,093	-	252,093	156,459	(95,634)
Cemetery	<u>128,000</u>	<u>-</u>	<u>128,000</u>	<u>120,697</u>	<u>(7,303)</u>
Expenditures subject to current budget	<u>\$ 412,593</u>	<u>-</u>	<u>412,593</u>	291,012	<u>(121,581)</u>
Add expenditures of unbudgeted funds					
Special Machinery				<u>-</u>	
Total expenditures, primary government				<u>\$ 291,012</u>	

Kechi Township

General Fund

SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET  
 Regulatory Basis  
 For the Year Ended December 31, 2012  
 (With Comparative Actual Total for the Prior Year Ended December 31, 2011)

	2011 Actual	2012		Variance Over (Under)
		Actual	Budget	
<b>GENERAL FUND</b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 18,237	18,196	25,145	(6,949)
Delinquent tax	512	467	200	267
Vehicle tax	3,144	2,890	1,214	1,676
Recreational vehicle tax	45	25	22	3
16/20M vehicle tax	39	39	24	15
State assessment tax	7,805	6,723	-	6,723
	<u>29,782</u>	<u>28,340</u>	<u>26,605</u>	<u>1,735</u>
<b>EXPENDITURES</b>				
Personnel services	6,951	-	-	-
Insurance	9,144	50	20,000	(19,950)
Operating expenses	4,249	6,206	7,500	(1,294)
Materials and supplies	76	-	5,000	(5,000)
Transfer to Special Machinery	12,080	7,600	-	7,600
	<u>32,500</u>	<u>13,856</u>	<u>32,500</u>	<u>(18,644)</u>
Receipts over (under) expenditures	(2,718)	14,484		
UNENCUMBERED CASH, beginning	<u>9,604</u>	<u>6,886</u>		
UNENCUMBERED CASH, ending	<u>\$ 6,886</u>	<u>21,370</u>		

## Kechi Township

## Special Purpose Funds

## SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Total for the Prior Year Ended December 31, 2011)

	2011 Actual	2012		Variance Over (Under)
		Actual	Budget	
<b>ROAD FUND</b>				
<b>RECEIPTS</b>				
Ad valorem property tax	\$ 78,016	86,374	146,858	(60,484)
Delinquent tax	519	395	500	(105)
Vehicle tax	4,153	4,125	3,432	693
Recreational vehicle tax	60	30	65	(35)
16/20M vehicle tax	61	58	70	(12)
County gasoline tax	57,675	56,351	-	56,351
Interest income	772	19	-	19
Other income	1,957	9,785	-	9,785
	<u>143,213</u>	<u>157,137</u>	<u>150,925</u>	<u>6,212</u>
<b>EXPENDITURES</b>				
Personnel services	62,057	54,453	80,400	(25,947)
Insurance	11,794	19,720	10,000	9,720
Operating expenses	50,474	57,259	46,693	10,566
Materials and supplies	16,295	10,954	80,000	(69,046)
Machines and equipment	29,586	12,133	35,000	(22,867)
Interest expense	2,574	1,940	-	1,940
	<u>172,780</u>	<u>156,459</u>	<u>252,093</u>	<u>(95,634)</u>
Receipts over (under) expenditures	(29,567)	678		
UNENCUMBERED CASH, beginning	<u>29,649</u>	<u>82</u>		
UNENCUMBERED CASH, ending	<u>\$ 82</u>	<u>760</u>		

Kechi Township

Special Purpose Funds

SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL AND BUDGET  
 Regulatory Basis  
 For the Year Ended December 31, 2012  
 (With Comparative Actual Total for the Prior Year Ended December 31, 2011)

	2011 Actual	2012		Variance Over (Under)
		Actual	Budget	
<b>CEMETERY FUND</b>				
<b>RECEIPTS</b>				
Charges for services	\$ 36,395	38,490	20,000	18,490
Rent income	2,650	2,650	-	2,650
Lot sales	65,700	79,650	85,000	(5,350)
Permits	2,585	2,281	2,500	(219)
Interest income	69	672	1,800	(1,128)
Other income	-	25,750	-	25,750
	<u>107,399</u>	<u>149,493</u>	<u>109,300</u>	<u>40,193</u>
<b>EXPENDITURES</b>				
Personnel services	32,289	64,392	50,000	14,392
Operating expenses	-	25,970	60,000	(34,030)
Materials and supplies	12,627	14,714	5,000	9,714
Machines and equipment	20,599	15,621	10,000	5,621
Land purchase	-	-	3,000	(3,000)
	<u>65,515</u>	<u>120,697</u>	<u>128,000</u>	<u>(7,303)</u>
Receipts over expenditures	41,884	28,796		
UNENCUMBERED CASH, beginning	<u>158,127</u>	<u>200,011</u>		
UNENCUMBERED CASH, ending	<u>\$ 200,011</u>	<u>228,807</u>		

Kechi Township

Special Purpose Funds

SCHEDULE OF RECEIPTS AND EXPENDITURES – ACTUAL  
 Regulatory Basis  
 For the Year Ended December 31, 2012  
 (With Comparative Actual Total for the Prior Year Ended December 31, 2011)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>
<b><u>SPECIAL MACHINERY FUND</u></b>		
RECEIPTS		
Transfer from General Fund	\$ 12,080	7,600
EXPENDITURES		
	<u>-</u>	<u>-</u>
Receipts over expenditures	12,080	7,600
UNENCUMBERED CASH, beginning	<u>118,861</u>	<u>130,941</u>
UNENCUMBERED CASH, ending	<u>\$ 130,941</u>	<u>138,541</u>