

**PARSONS RECREATION
COMMISSION**

Independent Auditors' Report and
Financial Statement with
Supplemental Information

For the Year Ended June 30, 2013

PARSONS RECREATION COMMISSION

June 30, 2013

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Parsons Recreation Commission
Parsons, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Parsons Recreation Commission, a municipality, as of and for the year ended June 30, 2013, 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.

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 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 Parsons Recreation Commission to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Parsons Recreation Commission as of June 30, 2013, 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 Parsons Recreation Commission as of June 30, 2013, 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 balances (basic financial statement) as a whole. The summary of expenditures-actual and budget-regulatory basis and individual fund schedules of receipts and expenditures-actual and budget-regulatory basis (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, is 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.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

August 29, 2013
Chanute, Kansas

Statement 1

PARSONS RECREATION COMMISSION
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash
 Regulatory Basis
 For the Year Ended June 30, 2013

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash June 30, 2013
General	\$ 282,285.29	\$ 472,975.08	\$ 499,145.96	\$ 256,114.41	\$ 14,670.63	\$ 270,785.04
Special Purpose Funds: Employee Benefits	119,874.62	66,132.86	38,513.92	147,493.56	622.20	148,115.76
Total Reporting Entity	\$ 402,159.91	\$ 539,107.94	\$ 537,659.88	\$ 403,607.97	\$ 15,292.83	\$ 418,900.80
Composition of Cash:						
	Cash on Hand					\$ 170.00
	General Checking Account					83,245.04
	Activity Checking Accounts					102,379.31
	Certificates of Deposit					233,106.45
	Total Cash and Investments					\$ 418,900.80

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

PARSONS RECREATION COMMISSION

Notes to Financial Statement
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement and schedules of the Parsons Recreation Commission have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies follow. Note 1 describes how the Commission's accounting policies differ from accounting policies generally accepted in the United States of America.

Financial Reporting Entity

The Parsons Recreation Commission (Commission) is a municipality of the State of Kansas organized under K.S.A. 12-1925 with a five-member Board of Commissioners. Two members being appointed by the City of Parsons, Kansas, two by USD #503, and one by the members of the Commission.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the Commission exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the Commission. Related municipal entities are not required to be included in the Commission's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The Commission has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds comprise the financial activities of the Parsons Recreation Commission, for the year of 2012-2013:

General fund – the chief operating 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 specified purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation – Regulatory Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. 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 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 municipality 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 municipality to use the regulatory basis of accounting.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than revenues. In the financial statement and budget comparison schedules presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the Commission treasurer and are often difficult to identify the exact expenditure which they are reimbursing. In funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

Pension Plan

Substantially all full-time Commission employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The Commission's policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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), debt service funds, and business funds. The Unified School District #503 has been designated as the taxing authority for the Commission. Although directory rather than mandatory, the statutes provide for the following timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before July 1st.
2. Publication in local newspaper on or before July 10th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before July 20th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget and certification submitted to the Unified School District on or on or before August 1st, but at least 10 days after the public hearing.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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 the 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 Commission 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 trust funds. Spending in funds which 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.

Compliance with Kansas Statutes

Statement 1 and Schedule 1 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statement 1, the Commission was in compliance with the cash basis laws of Kansas. As shown in Schedule 1, the Commission was in compliance with the budget laws of Kansas.

3. DEPOSITS AND INVESTMENTS

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

K.S.A 12-1675 limits the Commission's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Commission has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State statutes require the Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas Commission, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at June 30, 2013.

3. DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Commission's carrying amount of deposits was \$418,730.80 and the bank balance was \$429,576.11. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance the entire \$429,576.11 was covered by FDIC insurance.

4. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The Commission manages these risks of loss through the purchase of various insurance policies.

5. DEFINED BENEFIT PENSION PLAN

Plan Description

The Commission participates in the Kansas Public Employees Retirement System (KPERS). A cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports 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 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 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.

6. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Commission 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 City 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 Commission under this program.

7. COMPENSATED ABSENCES

Regular employees earn and accumulate vacation leave as follows:

- 0-4 years – 10 days
- 5-10 years – 15 days
- After Ten Full Years of Employment – 20 days

Upon being hired, the employee begins to accrue vacation each month. They are not eligible to take any leave until employed continuously for six months. Employees may not carry more than 10 vacation days over from one calendar year to the next. Upon termination, an employee shall be compensated for all unused vacation leave. The employee will be kept on the payroll until all accumulated leave has been used.

Regular employees earn and accumulate sick leave as follows:

- Upon Employment – 1 day per month or 12 days annually

Sick leave may be accumulated to a maximum of 60 days. Any unused sick leave at date of termination is lost if employee resigns or is dismissed. However, upon retirement an employee may receive 30% for accumulated sick leave.

The Commission accrues a liability for compensated absences which meet the following criteria:

1. The Commission's obligation relating to employees rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and, is material.

In accordance with the above criteria, the Commission has estimated a liability for vacation benefits which has been earned, but not taken by Commission employees of \$6,482.68. The Commission has not estimated a liability for sick leave earned, but not taken, by Commission employees, as the amounts cannot be reasonably estimated at this time.

8. SUBSEQUENT EVENTS

The Commission evaluated events and transactions occurring subsequent to year end, and there were no subsequent events requiring recognition in the financial statements. There were, however, nonrecognized subsequent events requiring disclosure. The Commission made building improvements by replacing flooring in the amount of \$42,000.00 July 2013, using current cash reserves.

SUPPLEMENTAL INFORMATION

Schedule 1

PARSONS RECREATION COMMISSION

Summary of Expenditures - Actual and Budget
Regulatory Basis

(Budgeted Funds Only)

For the Year Ended June 30, 2013

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General	\$ 496,000.00	\$ 25,516.66	\$ 521,516.66	\$ 499,145.96	\$ (22,370.70)
Special Purpose Funds:					
Employee Benefits	63,300.00	-	63,300.00	38,513.92	(24,786.08)

PARSONS RECREATION COMMISSION
GENERAL FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended June 30, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
Appropriations from				
USD #503	\$ 226,287.24	\$ 229,229.52	\$ 249,000.00	\$ (19,770.48)
Charges for Services				
Fees and Charges	186,633.23	194,322.82	205,000.00	(10,677.18)
Use of Money and Property				
Interest Income	2,222.41	1,797.70	2,000.00	(202.30)
Other Revenues				
Donations	170.00	400.00	-	400.00
Reimbursed Expense - Pool	16,000.00	11,391.20	-	11,391.20
Reimbursed Expense - Other	-	14,125.46	-	14,125.46
Miscellaneous	18,834.98	21,708.38	20,000.00	1,708.38
Total Receipts	450,147.86	472,975.08	\$ 476,000.00	\$ (3,024.92)
Expenditures				
Personal Services	257,604.46	276,741.02	\$ 293,000.00	\$ (16,258.98)
Contractual Services	75,625.10	94,658.94	90,000.00	4,658.94
Commodities	14,147.20	15,447.31	33,000.00	(17,552.69)
Capital Outlay	28,824.47	112,298.69	80,000.00	32,298.69
Total Certified Budget			496,000.00	3,145.96
Adjustments for Qualifying				
Budget Credits			25,516.66	(25,516.66)
Total Expenditures	376,201.23	499,145.96	\$ 521,516.66	\$ (22,370.70)
Receipts Over(Under) Expenditures	73,946.63	(26,170.88)		
Unencumbered Cash, Beginning	208,338.66	282,285.29		
Unencumbered Cash, Ending	<u>\$ 282,285.29</u>	<u>\$ 256,114.41</u>		

PARSONS RECREATION COMMISSION
EMPLOYEE BENEFITS FUND

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended June 30, 2013

(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Taxes and Shared Revenue				
Appropriations from				
USD #503	\$ 57,035.00	\$ 57,132.86	\$ 63,000.00	\$ (5,867.14)
Use of Money and Property				
Interest Income	-	-	450.00	(450.00)
Other Revenues				
Reimbursed Expense - Pool	8,592.80	9,000.00	-	9,000.00
Total Receipts	<u>65,627.80</u>	<u>66,132.86</u>	<u>\$ 63,000.00</u>	<u>(5,867.14)</u>
Expenditures				
Employee Benefits				
Health Insurance	13,082.42	11,875.83	\$ 17,300.00	\$ (5,424.17)
FICA/Medicare Taxes	13,154.66	13,203.50	20,000.00	(6,796.50)
Workmen's Compensation	3,625.00	3,753.00	5,000.00	(1,247.00)
Unemployment Taxes	-	100.88	6,000.00	(5,899.12)
KPEERS	7,864.27	8,715.99	11,000.00	(2,284.01)
Other Benefits	981.81	864.72	4,000.00	(3,135.28)
Total Expenditures	<u>38,708.16</u>	<u>38,513.92</u>	<u>\$ 63,300.00</u>	<u>\$ (24,786.08)</u>
Receipts Over(Under) Expenditures	26,919.64	27,618.94		
Unencumbered Cash, Beginning	92,954.98	119,874.62		
Unencumbered Cash, Ending	<u>\$ 119,874.62</u>	<u>\$ 147,493.56</u>		



Board of Directors
Parsons Recreation Commission
Parsons, Kansas

In planning and performing our audit of the financial statement of the Parsons Recreation Commission as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Parsons Recreation Commission'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 Parsons Recreation Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Parsons Recreation Commission'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 and other deficiencies that we consider to be significant deficiencies.

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 deficiency in Parsons Recreation Commission's internal control to be a material weakness:

Preparation of Financial Statements

In prior years, the auditor was considered the compensating control for preparation of the Commission's financial statements including footnotes. However, professional standards do not allow the auditor to be a compensating internal control for the Commission. The standard states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statements, including footnotes. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the staff does not have the ability to process and prepare the required financial statements, including footnotes. This would also include knowing if a required footnote disclosure was missing or not correctly stated. While we recognize that this condition is not unusual for a entity your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Commission should continually be aware of the financial reporting of the Recreation Commission and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

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General Ledger Adjustments

Upon arrival for fieldwork, our preliminary analytical review revealed that many cash accounts were in need of adjustments. We found many items entered into QuickBooks twice. This appears to stem from credit card deposits being automatically deposited into one bank account and apparently being posted to the books in two separate checking accounts. Management made the necessary adjustments, however, professional standards require us to report to you material adjustments made. Management is responsible for establishing and maintaining internal controls over the fair presentation of the financial statements. The Commission currently does not have a system of internal controls that would enable management to conclude the financial statements are complete and accurate. Management should consider additional training for current staff in the area of financial statement analysis and preparation.

Accounts Payable

K.S.A. 10-1117 requires management to maintain a record of indebtedness. This means that the Commission's expenses need to reflect accounts payable. The Commission's records only reflect cash disbursed and do not include in expenses any payables still owed. As a result, the Commission could inadvertently overspend cash available.

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

Very truly yours,



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

August 29, 2013
Chanute, Kansas