

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY

FINANCIAL STATEMENTS
(with Independent Auditors' Report thereon)

For the Year Ended December 31, 2011

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
FINANCIAL STATEMENTS
Year Ended December 31, 2011

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Kramer & Associates CPAs, LLC

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INDEPENDENT AUDITORS' REPORT

To the Council Members
K-State Research and Extension, Leavenworth County
Leavenworth, Kansas

We have audited the accompanying financial statements of K-State Research and Extension, Leavenworth County (the Extension), as of and for the year ended December 31, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Extension's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Extension's financial statements for the year ended December 31, 2010. In our report dated May 2, 2011 on these financial statements, we expressed an adverse opinion as to the presentation on the basis of generally accepted accounting principles and an unqualified opinion as to the presentation on the statutory basis of accounting prescribed by the State of Kansas.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, K-State Research and Extension, Leavenworth County, has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the K-State Research and Extension, Leavenworth County, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of K-State Research and Extension, Leavenworth County, as of December 31, 2011, and its cash receipts and expenditures, and budgetary comparisons for the year then ended, on the basis of accounting described in Note 1.

This report is intended solely for the information of the Council Members and committees thereto, management, others within the entity, the Kansas Division of Accounts and Reports, the Kansas State University Agricultural Experiment Station and Cooperative Extension Service, and Leavenworth County, Kansas and is not intended and should not be used by anyone other than these specified parties.

KRAMER & ASSOCIATES CPAs, L.L.C.

Kramer & Associates CPAs, LLC
Leavenworth, Kansas
May 7, 2012

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
 SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
 Year Ended December 31, 2011

Funds	Beginning unencumbered cash balance	Prior year canceled encumbrances	Cash receipts	Expenditures	Ending unencumbered cash balance	Outstanding encumbrances and accounts payable	Ending cash balance
Governmental type funds:							
General fund	\$ 191,887	\$ -	\$ 315,799	\$ 303,082	\$ 204,604	\$ -	\$ 204,604
Total reporting entity	\$ 191,887	\$ -	\$ 315,799	\$ 303,082	\$ 204,604	\$ -	\$ 204,604

Composition of cash:	
Checking	\$ 129,409
Savings	75,195
Total cash	\$ 204,604

The accompanying notes are an integral part of the financial statements.

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
 SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
 Year Ended December 31, 2011

Funds	Original budget	Adjustment for qualifying budget credits	Total budget for comparison	Expenditures chargeable to current year	Variance - over (under)
Governmental type funds:					
General fund	\$ 399,200	\$ -	\$ 399,200	\$ 303,082	\$ (96,118)

The accompanying notes are an integral part of the financial statements.

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 GENERAL FUND*
 Year Ended December 31, 2011

	Prior year actual	Current year		
		Actual	Budget	Variance - over (under)
Cash receipts:				
Appropriations - County	\$ 280,287	\$ 226,287	\$ 226,287	\$ -
Kansas State University				
Salaries paid directly to agents	32,410	49,426	49,426	-
Educational service fees	49,174	33,922	90,000	(56,078)
Interest and other income	144	6,164	-	6,164
Total cash receipts	362,015	315,799	\$ 365,713	\$ (49,914)
Expenditures subject to budget:				
Salaries				
Paid by Council	128,419	126,650	\$ 135,467	\$ (8,817)
Paid by Kansas State University	32,410	49,426	41,533	7,893
Payroll taxes and benefits	43,439	37,697	57,000	(19,303)
Printing, audit, and bond liability	11,680	6,588	7,500	(912)
Telephone	9,923	4,793	6,200	(1,407)
Rent, heat, and lights	12,135	9,600	12,000	(2,400)
Supplies, stationary, and postage	7,900	8,809	12,000	(3,191)
Equipment - auto	31,260	8,849	12,000	(3,151)
Miscellaneous	10,020	6,748	-	6,748
Travel	7,214	8,387	12,000	(3,613)
Subsistence	1,139	1,713	4,000	(2,287)
Educational services	39,949	33,822	99,500	(65,678)
Total expenditures subject to budget	335,488	303,082	\$ 399,200	\$ (96,118)
Receipts over (under) expenditures	26,527	12,717		
Unencumbered cash, beginning of year	165,360	191,887		
Unencumbered cash, end of year	\$ 191,887	\$ 204,604		

* This fund is not statutorily required to be budgeted. See Note 2a.

The accompanying notes are an integral
 part of the financial statements.

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2011

1. Summary of significant accounting policies

a. Reporting entity

K-State Research and Extension, Leavenworth County (the Extension), in cooperation with Kansas State University, provides technical assistance, information and education that improves family, farm, and community life. The Extension is governed by a nine-member Executive Board elected by the 24 publicly elected members of the Leavenworth County Extension Council. The Extension is a separate legal entity from Leavenworth County and management has determined that the Extension is a component unit of Leavenworth County, Kansas. No component units of the Extension are presented.

b. Basis of accounting

1. Statutory basis of accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The Extension 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 Extension to use the statutory basis of accounting.

2. 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, 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 Extension are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

1. Summary of significant accounting policies (continued)

c. Cash and investments

Cash consists of checking and savings accounts.

Cash balances in all funds are considered in determining the amount to be invested and further, unless specifically designated, all investment income is credited to the general fund.

d. Inventories and prepaid expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

e. Fund descriptions

In governmental accounting, 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 type of fund comprises the financial activities of the Extension for the year ended December 31, 2011:

1. Governmental funds

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

f. Ad Valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various Counties. The County Appraiser annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. In accordance with Kansas statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. One-half of the property taxes are due December 20th, prior to the fiscal year for which they are budgeted, and the second half is due May 10th. The Extension draws available funds from the County at designated times throughout the year.

g. Prior year partial comparative information

The financial statements include prior year partial comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas prescribed basis of accounting. Accordingly, such information should be read in conjunction with the Extension's financial statements for the year ended December 31, 2010, from which such partial information was derived.

2. Stewardship, compliance, and accountability

a. Budgetary information

The budget for the Extension is submitted to and becomes part of the budget for Leavenworth County, Kansas. All statutory requirements for publication, public hearings and adoption of the final budget are accomplished for the Extension as part of the budget process of the County. The Extension interlocal is exempt from the budget law (K.S.A. 79-2935).

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted 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 10 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 under audit.

The statutes permit management to transfer 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 statutory 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 Extension for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year-end.

Annual budgets are adopted by the Executive Board and are approved by the Leavenworth County Commission. Original appropriations are modified as necessary and all significant changes are approved by the Executive Board.

b. Compliance with Kansas Statutes

Management is not aware of any statutory violations for the period covered by the audit.

3. Deposits and investments

As of December 31, 2011, the Extension had no investments.

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

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

Concentration of credit risk. State statutes place no limit on the amount the Extension 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 Extension's deposits may not be returned to it. State statutes require the Extension'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 legally secured at December 31, 2011.

At December 31, 2011, the Extension's carrying amount of deposits was \$204,604 and the bank balance was \$219,560. The bank balance was held by one bank resulting in a concentration of credit risk. The total bank balance 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 Extension 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.

4. Long-term debt

Issue	Interest rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Payments	Balance End of Year	Interest Paid
Capital leases payable:									
Copier	12.755%	Oct. 2006	\$ 17,057	Oct. 2011	\$ 3,995	\$ -	\$3,995	\$ -	\$ 259

5. Operating leases

The Extension entered into a lease agreement for its office facility on March 1, 2010. Terms of the lease included monthly payments of \$300 for two years. The lease was automatically renewed for another two years in May 2011 and will expire in February 2014. During 2011, rental expense under this lease agreement was \$3,600.

a. Future minimum rental payments required under the operating leases as of December 31, 2011 are as follows:

2012	\$3,600
2013	<u>3,300</u>
Total	<u>\$6,900</u>

6. Risk management

The K-State Research and Extension, Leavenworth County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Extension carries commercial insurance. Settlements of claims did not exceed coverage in the year ended December 31, 2011.

7. Defined benefit plan

a. Plan description

The Extension contributes to 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 66603-3869) or by calling 1-888-275-5737.

b. Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6% for employees hired after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State 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 bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 is 7.74% and for calendar year 2010 was 7.14%.

The Extension's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$1,893, \$2,370, and \$4,980, respectively, equal to the required contributions for each year as set forth by the legislature.

8. Other post employment benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Extension 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 Extension under this program.

9. Compensated absences

All regular employees are eligible for annual leave benefits in varying annual amounts depending upon years of service. Employees are allowed to accumulate and carry forward a maximum amount of annual leave ranging from 144 to 240 hours depending on their years of service. Eligible part time employees receive pro-rated annual leave. Annual leave is payable upon termination of employment, not to exceed the maximum accumulation.

Sick leave is accumulated to full time employees at the rate of 8 hours per month. Eligible part time employees working more than 1,040 hours per year accumulate sick leave on a pro-rated basis. Twenty percent of accumulated sick leave is payable upon termination of employment. Retiring employees who have completed at least eight years of service and have accumulated 800 hours or more of sick leave will be compensated for a portion of that accumulation, depending on their years of service.

The Extension's policy is to recognize the costs of compensated absences when actually paid to employees.

10. Educational receipts and expenditures

Cash receipts and expenditures in this category represent fees collected for specific services which require special equipment or personnel such as soil testing services and other educational services. None of these amounts collected represent tax monies.