

**SOUTHWIND EXTENSION DISTRICT #10**

Iola, Kansas

Independent Auditors' Report  
With Supplemental Information

For the Year Ended December 31, 2011

**SOUTHWIND EXTENSION DISTRICT #10**  
Iola, Kansas

December 31, 2011

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**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Southwind Extension District #10  
Iola, Kansas

We have audited the summary statement of cash receipts, expenditures, and unencumbered cash balances of Southwind Extension District #10 as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Southwind Extension District #10's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in 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 that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Extension District has prepared this financial statement 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 regulatory 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 statement 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 Southwind Extension District #10, as of December 31, 2011, the changes in its financial position, or where applicable, its cash flows for the year then ended.

In our opinion, the financial statement referred above present fairly, in all material respects, the cash and unencumbered cash balances of the Southwind Extension District #10, as of December 31, 2011, and its cash receipts and expenditures for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement that collectively comprise Southwind Extension District #10's basic financial statement. The Summary of Expenditures – Actual and Budget, Schedule of Cash Receipts and Expenditures – Actual and Budget, Reconciliation of Cash Disbursements with Expenditures, Analysis of Changes in General Capital Assets, Schedule of Cash Receipts, Disbursements, and Cash Balances, and Schedule of Insurance Policies and Fidelity Bonds (Schedules 1, 2, 3, 4, 5, and 6 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statements of Southwind Extension District #10. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements taken as a whole.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

December 6, 2012  
Chanute, Kansas

**SOUTHWIND EXTENSION DISTRICT #10**

Iola, Kansas

Summary of Cash Receipts, Expenditures, and Unencumbered Cash

For the Year Ended December 31, 2011

Funds	Beginning	Cash	Expenditures	Ending	Add Encumbrances	Ending Cash	Ending Cash
	Unencumbered Cash Balance	Receipts		Unencumbered Cash Balance	and Accounts Payable	December 31, 2011	December 31, 2010
General Fund	\$ 76,341.94	\$ 571,437.36	\$ 488,371.22	\$ 159,408.08	\$ 2,927.22	\$ 162,335.30	\$ 77,470.71
Total Reporting Entity	\$ 76,341.94	\$ 571,437.36	\$ 488,371.22	\$ 159,408.08	\$ 2,927.22	\$ 162,335.30	\$ 77,470.71
Composition of Cash:							
Community National Bank							
						\$ 162,335.30	\$ 77,472.71
						-	(2.00)
						\$ 162,335.30	\$ 77,470.71

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

## **SOUTHWIND EXTENSION DISTRICT #10**

Iola, Kansas

Notes to the Financial Statement  
December 31, 2011

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement and supplemental information of the Southwind Extension District #10 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 Extension District's accounting policies follow. Note 1 describes how the Extension District's accounting policies differ from generally accepted accounting policies.

#### Reporting Entity

Southwind Extension District #10 is a municipal corporation governed by an elected four-member executive board. These financial statements present Southwind Extension District #10 (the primary government). It was formed on July 1, 2010 when Allen County Extension Council and Neosho County Extension Council agreed to join together to form the Extension District. Bourbon County Extension Council became part of the District in 2011.

#### Basis of Presentation – Fund 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 types of funds comprise the financial activities of the Southwind Extension District #10 for the year of 2011:

### **GOVERNMENTAL FUNDS**

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

#### Basis of Presentation – Statutory Basis of Accounting

The statutory basis of accounting, as used in preparation of this statutory basis financial statement and supplemental information, 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 or 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 the cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The Extension 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 Extension District to use the statutory basis of accounting.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### Departures 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 expense, liabilities such as deferred revenue and 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 District 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 statement.

### Property and Equipment

The accounting and reporting treatment used for property and equipment under the cash basis and budget laws of Kansas require that property and equipment be recorded as an expenditure during the year of purchase. Southwind Extension District #10 maintains an internal list of property and equipment, and is required by statute to be reviewed by the executive board annually, to verify existence.

### Use of Estimates

Estimates and assumptions are used by management in preparing the financial statements. Those estimates and assumptions affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported receipts and expenses.

### 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 as revenues. In the financial statements and budget comparisons presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the Extension District 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.

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### 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 Extension District was in compliance with the cash basis laws of Kansas. As shown in Schedule 1, the Extension District 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 Extension District. The statute requires banks eligible to hold the Extension District's funds have a main branch or branch bank in the county in which the Extension District is located or in an adjoining county if such institution has been designated as an official depository, and the bank 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 Extension District has no other policies that would further limit interest rate risk.

K.S.A 12-1675 limits the Extension 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 Extension District 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 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 Extension District's deposits may not be returned to it. State statutes require the Extension District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2011.

At year-end, the carrying amount of the Extension District's deposits was \$162,335.30 and the bank balance was \$186,289.21. The bank balance was held by one bank resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance.

### **4. LONG-TERM LIABILITIES**

Changes in long-term liabilities for the District for the year ended December 31, 2011 were as follows:

	Balance Beginning of Year	Net Change	Balance End of Year
Compensated Absences	\$ 861.50	\$ (789.24)	\$ 72.26
Total Long-Term Liabilities	<u>\$ 861.50</u>	<u>\$ (789.24)</u>	<u>\$ 72.26</u>

## **5. COMPENSATED ABSENCES**

The Extension District's policies regarding vacation and sick leave permit agents to accumulate twenty-two days of vacation per year, with a maximum accumulation of thirty-eight days, and to accumulate twelve days of sick leave per year. Other full time employees are allowed twelve days of vacation per year and up to twelve sick days per year; part time employees are allowed six days of vacation per year.

Upon resignation, all employees may be paid up to 176 hours of accumulated vacation leave. Upon resignation, accumulated sick leave is cancelled. Upon retirement, all employees may be paid for accumulated vacation and up to 480 hours of accumulated sick leave, based upon years of service and their accumulated hours. Policies prohibit payment for vacation time in lieu of time off.

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

1. The Extension District'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 District has accrued a liability for vacation benefits in footnote 4, and has not accrued a liability for sick pay which has been earned, but not taken by Extension District employees, inasmuch as the amount cannot be reasonably estimated.

## **6. RISK MANAGEMENT**

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

## **7. SUBSEQUENT EVENTS**

The Extension District evaluated events and transactions occurring subsequent to year end and there were no subsequent events requiring recognition in the financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure.

## SUPPLEMENTAL INFORMATION

**SOUTHWIND EXTENSION DISTRICT #10**  
 Summary of Expenditures - Actual and Budget  
 (Budgeted Funds Only)  
 For the Year Ended December 31, 2011

Funds	Total Certified Budget	Qualifying Adjustments for Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
Governmental Type Funds:					
General	\$ 423,409.00	\$ 94,380.00	\$ 517,789.00	\$ 488,371.22	\$ (29,417.78)

**Schedule 2**

**SOUTHWIND EXTENSION DISTRICT #10  
General Fund**

Schedule of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2011

	2011 Actual	2011 Budget	Variance - Over (Under)
Cash Receipts			
Ad Valorem Tax	\$ 245,426.63	\$ 295,619.00	\$ (50,192.37)
Delinquent Tax	2,822.09	-	2,822.09
Motor Vehicle Tax	22,309.08	-	22,309.08
Recreational Vehicle Tax	116.12	-	116.12
16M-20M Truck Tax	567.84	-	567.84
In Lieu of Tax	349.89	-	349.89
Vehicle Rental Excise Tax	4.88	-	4.88
Bourbon County Appropriations	58,674.00	-	58,674.00
Educational Services (Reimbursable)	27,552.16	20,000.00	7,552.16
Interest on Investments	1,161.86	200.00	961.86
Miscellaneous	1,531.78	-	1,531.78
Equipment Replacement	-	40,000.00	(40,000.00)
Kansas State University-Reimbursed Expense	94,380.00	75,504.00	18,876.00
Transfer from Bourbon County Extension Council	116,541.03	-	116,541.03
<b>Total Cash Receipts</b>	<b>571,437.36</b>	<b>\$ 431,323.00</b>	<b>\$ 140,114.36</b>
Expenditures			
Personnel			
Salaries and Wages	\$ 352,552.65	\$ 237,500.00	\$ 115,052.65
FICA, Retirement, and Health Insurance	11,288.83	44,000.00	(32,711.17)
Contractual			
Printing, Audit, and Treasurer's Bond	6,391.59	10,000.00	(3,608.41)
Property Insurance	7,886.00	-	7,886.00
Registrations and Subscriptions	2,246.49	-	2,246.49
Telephone	1,294.22	2,500.00	(1,205.78)
Miscellaneous	1,395.08	5,500.00	(4,104.92)
Travel	18,730.58	18,000.00	730.58
Subsistence	10,398.56	4,000.00	6,398.56
Educational Services (Reimbursable)	25,724.77	20,000.00	5,724.77
Commodities			
Supplies, Stationery, and Postage	14,480.72	10,000.00	4,480.72
Equipment	35,981.73	8,000.00	27,981.73
Equipment Replacement Reserve	-	63,909.00	(63,909.00)
<b>Total Certified Budget</b>		<b>423,409.00</b>	<b>64,962.22</b>
Adjustments for Qualifying			
Budget Credits		94,380.00	(94,380.00)
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>488,371.22</b>	<b>\$ 517,789.00</b>	<b>\$ (29,417.78)</b>
Cash Receipts Over (Under) Expenditures	83,066.14		
Unencumbered Cash, December 31, 2010	76,341.94		
Unencumbered Cash, December 31, 2011	<u>\$ 159,408.08</u>		

**Schedule 3****SOUTHWIND EXTENSION DISTRICT #10**Reconciliation of Cash Disbursements with Expenditures  
For the Year Ended December 31, 2011

	<u>General Fund</u>
Checks Issued By:	
Extension District	\$ 392,192.77
Kansas State University	<u>94,380.00</u>
Cash Disbursements	486,572.77
Plus: Accounts Payable, December 31, 2011	2,927.22
Less: Accounts Payable, December 31, 2010	<u>(1,128.77)</u>
Expenditures	<u><u>\$ 488,371.22</u></u>

**Schedule 4**

**SOUTHWIND EXTENSION DISTRICT #10**

Analysis of Changes in General Capital Assets  
For the Year Ended December 31, 2011

Beginning General Capital Assets	\$	132,271.44
Additions:		
Transferred from Bourbon County Extension Council		59,388.90
Equipment Purchased		33,808.80
Deletions:		
Equipment Discarded, Sold or Traded		<u>(12,800.00)</u>
Ending General Capital Assets	\$	<u><u>212,669.14</u></u>

**Schedule 5****SOUTHWIND EXTENSION DISTRICT #10**

Schedule of Cash Receipts, Disbursements, and Cash Balances  
For the Year Ended December 31, 2011

Receipts		
Ad Valorem Tax	\$	245,426.63
Delinquent Tax		2,822.09
Motor Vehicle Tax		22,309.08
Recreational Vehicle Tax		116.12
16M-20M Truck Tax		567.84
In Lieu of Tax		349.89
Vehicle Rental Excise Tax		4.88
Bourbon County Appropriations		58,674.00
Educational Services (Reimbursable)		27,552.16
Interest on Investments		1,161.86
Miscellaneous		1,531.78
Kansas State University-Reimbursed Expense		94,380.00
Transfer from Bourbon County Extension Council		116,541.03
		<hr/>
Total Receipts		571,437.36
		<hr/>
Disbursements		
Personnel		
Salaries and Wages		352,552.65
FICA, Retirement, and Health Insurance		10,120.64
Contractual		
Printing, Audit, and Treasurer's Bond		6,655.84
Property Insurance		7,886.00
Registrations and Subscriptions		2,246.49
Telephone		1,294.22
Miscellaneous		1,417.05
Travel		17,671.44
Subsistence		10,398.56
Educational Services (Reimbursable)		25,733.32
Commodities		
Supplies, Stationery, and Postage		14,614.83
Equipment		35,981.73
		<hr/>
Total Disbursements		486,572.77
		<hr/>
Receipts Over (Under) Disbursements		84,864.59
Cash Balance, December 31, 2010		77,470.71
		<hr/>
Cash Balance, December 31, 2011	\$	162,335.30
		<hr/> <hr/>

## SOUTHWIND EXTENSION DISTRICT #10

Schedule of Insurance Policies and Fidelity Bond  
December 31, 2011

	Policy Number	Date Expires	Amount
Continental Western Group			
Property	PEP 2864626 - 23	7/1/2012	
General Aggregate Limit			42,000.00
Each Occurance Limit (500 Deductable)			
90% Replacement Cost			
Cotinental Western Group			
General Liability Coverage	PEP 2864626 - 23	7/1/2012	
General Aggregate Limit			2,000,000.00
Products Completed Operations Aggregate Limit			2,000,000.00
Personal and Advertising Injury Limit			1,000,000.00
Each Occurance Limit			1,000,000.00
Damage Limit to Rented Premises (Per Premis)			100,000.00
Medical Expense Limit (Per Person)			5,000.00
Continental Western Group			
Commercial Auto Coverage	PEP 2864626 - 23	7/1/2012	
Liability			1,000,000.00
Auto Medical Payments			2,000.00
Uninsured Motorists			1,000,000.00
Physical Damage other than Collision			A.C.V.
Physical Damage - Specified Causes of Loss Coverage			A.C.V.
Physical Damage - Collision Coverage			A.C.V.
Physical Damafe - Towing and Labor			A.C.V.
Continental Western Group			
Commercial Inland Marine	PEP 2864626 - 23	7/1/2012	
Catastrophe Limit			5,000.00
Additional Debris Removal Expenses			5,000.00
Pollutant Cleanup and Removal			10,000.00
80% Replacement Cost			
Continental Western Group			
Public Officials Liability Coverage	PEP 2864626 - 23	7/1/2012	
Aggregate Limit			1,000,000.00
Liability Limit Per Claim			1,000,000.00
Continental Western Group			
Worker's Compensation	WC 2864628 - 24	7/1/2012	
Bodily Injury by Accident (Each Accident)			100,000.00
Bodily Injury by Disease (Policy Limit)			500,000.00
Bodily Injury by Disease (Each Employee)			100,000.00
Farmers Alliance Mutual Insurance Company			
Fidelity Bond	70979434	Continuous	200,000.00



Required Communications Under SAS No. 115

Board of Directors  
Southwind Extension District #10  
Iola, Kansas

In planning and performing our audit of the financial statements of Southwind Extension District #10 as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 deficiencies in Southwind Extension District #10's internal control to be material weaknesses:

Preparation of Financial Statements

Accounting standards state that the client must be able to accept responsibility and be able to identify a material misstatement when handed the financial statements, including footnotes. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the Extension District staff does not have the ability to process and prepare the required financial statements, including footnotes. While we recognize that this condition is not unusual for an entity your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

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Jarred, Gilmore & Phillips, PA  
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as receipt of cash, preparing the bank deposits, reconciling the bank account, and preparing cash payments.

We would remind the District board members responsible for approval and the signing of checks to be diligent in his/her responsibilities. All disbursements approved should have original invoices attached and should be reviewed thoroughly before approval.

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

Very truly yours,

A handwritten signature in cursive script that reads "Jarred, Gilmore & Phillips, PA".

JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

December 6, 2012  
Chanute, Kansas