RUSSELL RECREATION COMMISSION

Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2011

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Russell Recreation Commission
Russell, Kansas

We have audited the accompanying financial statements of **Russell Recreation Commission**, a component unit of the City of Russell, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of **Russell Recreation Commission's** management. Our responsibility is to express opinions 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 *Kansas Municipal Audit Guide*. Those standards 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 opinions.

As described more fully in Note 1, **Russell Recreation Commission** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose 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 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 **Russell Recreation Commission**, 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 each fund of **Russell Recreation Commission**, as of December 31, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

October 25, 2012

RUSSELL RECREATION COMMISSION
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Category							
General Fund	$ 220,575	-	151,619	234,110	138,084	1,106	139,190

Composition of Cash	Checking Account	$ 11,108
	Certificates of Deposit	128,082
	Total Reporting Entity	$ 139,190

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

RUSSELL RECREATION COMMISSION
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Fund	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	**Expenditures Chargeable to Current Year**	Variance Over (Under)
Governmental Fund Category					
General Fund	$ 228,500	-	228,500	**234,110**	5,610

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

RUSSELL RECREATION COMMISSION
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash Receipts				
Tax Appropriations	$ 128,761	**108,209**	129,000	(20,791)
Program Fees	16,377	**22,386**	20,000	2,386
Concessions	6,912	**7,396**	11,000	(3,604)
Gate Revenue	6,278	**4,802**	8,500	(3,698)
Tournament Entry Fees	5,300	**5,600**	7,500	(1,900)
Donations	-	**2,000**	-	2,000
Interest on Investments	2,663	**1,226**	1,000	226
Total Cash Receipts	166,291	**151,619**	177,000	(25,381)
Expenditures				
Salaries - Director	33,458	**35,000**	35,000	-
Salaries - Other	7,858	**14,966**	6,000	8,966
Salaries - Concessions	1,660	**2,377**	3,000	(623)
Health Insurance	1,435	**1,913**	5,000	(3,087)
KPERS Contributions	1,733	**3,315**	8,700	(5,385)
Workman's Compensation	1,177	**781**	1,000	(219)
Payroll Tax	3,921	**5,134**	5,000	134
Unemployment Tax	130	**1,432**	300	1,132
Accounting and Reporting	3,720	**8,175**	8,000	175
Automobile Expense	640	**2,312**	5,000	(2,688)
Awards	1,805	**444**	2,500	(2,056)
Concession Products	3,876	**4,402**	8,500	(4,098)
Concession Sales Tax	482	**567**	1,000	(433)
Insurance	783	**2,255**	2,000	255
Memorial Park Maintenance	17,848	**19,522**	17,000	2,522
Memorial Park Improvements	14,570	**68,477**	50,000	18,477
Capital Equipment	12,079	-	25,000	(25,000)
Office Expense	19,086	**19,208**	10,000	9,208
Program Expense	15,209	**37,653**	22,000	15,653
Tournament Expenses	1,228	**900**	3,000	(2,100)
Tournament Officials	5,857	**5,177**	10,000	(4,823)
Travel	-	-	500	(500)
Trails/Park Study	6,450	**100**	-	100
Total Expenditures	155,005	**234,110**	228,500	5,610
Cash Receipts Over Expenditures	11,286	**(82,491)**		
Unencumbered Cash - Beginning	209,289	**220,575**		
Unencumbered Cash - Ending	$ 220,575	**138,084**		

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Russell Recreation Commission has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Reporting Entity

The Recreation Commission is authorized by K.S.A. 12-1922 under an agreement with the City of Russell, Kansas to provide a system of public recreation and playgrounds. The governing body of the Recreation Commission consists of five members appointed by the City of Russell, Kansas. These financial statements consist of all the funds of the Recreation Commission. The Recreation Commission receives funding from local and state governmental sources and must comply with the requirements of these funding sources.

The Recreation Commission is a component unit of the City of Russell, Kansas. The Recreation Commission is controlled by or dependent on the City of Russell, Kansas. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. These financial statements include only the funds of the Recreation Commission.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Basis of Presentation - Fund Accounting

The accounts of the Recreation Commission are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following category of funds comprises the financial activities of the Recreation Commission for the year ended December 31, 2011.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be reported in another fund.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Recreation Commission 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 Recreation Commission to use the statutory basis of accounting.

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 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 Recreation Commission 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.

Budgetary Information
Kansas statutes require that an annual operating budget be legally adopted for the general fund and special revenue funds (unless specifically exempted by statute). Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget.

a. Prior to certification of the budget to the City of Russell, Kansas, the Recreation Commission will meet to answer questions and objections of taxpayers relating to the proposed budget or for amendments to the proposed budget.

b. Publication in local newspaper of the proposed budget notice of public hearing on the budget 10 days prior to meeting.

c. Public hearing to be held not less than 10 days prior to the date on which the Recreation Commission is required to certify its budget to the City of Russell, Kansas.

d. Adoption of the final budget to the City of Russell, Kansas no later than August 1st.

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 this year.

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 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 Recreation Commission for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expenditure authority lapses at year-end.

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.

Deposits and Investments

The Recreation Commission follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

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

K.S.A. 12-1675 limits the Recreation Commission's investments 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 Recreation 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 Recreation 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 Recreation Commission's deposits may not be returned to it. State statutes require the Recreation 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 City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Recreation Commission does not use "peak periods". All deposits were legally secured at December 31, 2011.

At December 31, 2011, the Recreation Commission's carrying amount of deposits was $139,190 and the bank balance was $140,888. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, all 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 Recreation Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The Recreation Commission had no investments at December 31, 2011.

Compensated Absences

The director has a provision in his contract that states he is to receive 40 hours of sick leave and vacation per year. Any hours remaining at year end are lost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined Benefit Pension Plan

Plan Description

The Recreation Commission 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.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. 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 basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74%. The Recreation Commission's employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were $2,524, $1,733, and $1,859, respectively, equal to the required contributions for each year as set forth by the legislature.

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Reimbursements

The Recreation Commission records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursement as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – LITIGATION

Russell Recreation Commission is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Recreation Commission.

NOTE 3 – RISK MANAGEMENT

Russell Recreation Commission carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile and work compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 4 – RELATED PARTY TRANSACTIONS

The following related party transactions were identified for 2011. Related party transactions do not include compensation arrangements, expense allowances and reimbursements, and similar items incurred in the ordinary course of operations and, accordingly, such items are not included below.

Atlas Screenprinting
Dave Oste is owner of the Company and was a board member in 2011:

T-Shirts	$ 7,481

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures, including encumbrances of the Recreation Commission exceeded the adopted budget of expenditures, which is a violation of K.S.A. 79-2935.