

SOUTHWIND EXTENSION DISTRICT #10

Iola, Kansas

Independent Auditors' Report and
Financial Statement with
Supplemental Information

For the Year Ended December 31, 2012

SOUTHWIND EXTENSION DISTRICT #10
Iola, Kansas

December 31, 2012

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwind Extension District #10
Iola, Kansas

Report on the Financial Statements

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Southwind Extension District #10, a municipality, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 2 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

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 2 of the financial statement, the financial statement is prepared by Southwind Extension District #10 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 Southwind Extension District #10 as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Southwind Extension District #10 as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory Required 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- regulatory basis- actual and budget (Schedule 1 as listed in the table of contents) and the schedule of regulatory basis receipts and expenditures-actual and budget (Schedule 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. The reconciliation of cash disbursements with expenditures and the schedule of receipts, disbursements, and cash balances (Schedules 3 and 4 as listed in the table of contents) are presented for additional analysis and are not a required part of the basic financial statement. 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.

Other 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 analysis of changes in general capital assets and the schedule of insurance policies and fidelity bonds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The analysis of changes in general capital assets and the schedule of insurance policies and fidelity bonds (Schedules 5 and 6 as listed in the table of contents) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The 2011 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2012 basic financial statement upon which we rendered an unmodified opinion dated December 6, 2012 basic

financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 basic financial statement or to the 2011 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 basic financial statement as a whole, on the basis of accounting described in Note 1.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

April 16, 2014
Chanute, Kansas

SOUTHWIND EXTENSION DISTRICT #10

Iola, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash December 31, 2012
General Fund	\$ 159,408.08	\$ 605,001.10	\$ 569,036.49	\$ 195,372.69	\$ 3,941.62	\$ 199,314.31
Total Reporting Entity	\$ 159,408.08	\$ 605,001.10	\$ 569,036.49	\$ 195,372.69	\$ 3,941.62	\$ 199,314.31

Composition of Cash:

Community National Bank Checking Account.....	\$ 199,314.31
Total Cash.....	\$ 199,314.31

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Southwind Extension District #10 is a municipal corporation governed by an elected four-member executive board. The District has developed criteria to determine whether outside agencies with activities which benefit the residents of the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope the public service, and significant operational or financial relationships with the District.

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been include as a component unit in these financial statements.

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 Southwind Extension District #10 for the year of 2012:

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis 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 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 regulatory basis of accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Budgetary Information

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

1. Preparation of the budget for the succeeding calendar year on or before August 1, of each year.
2. Publication in the local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25, of each year.

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 ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for 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 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 municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds or trust funds.

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

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, 2012.

At year-end, the carrying amount of the Extension District's deposits was \$199,314.31 and the bank balance was \$221,962.52. 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. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences

The Extension District's policies regarding vacation and sick leave permit agents to earn twenty-two days of vacation per year, with a maximum accumulation of thirty-eight days, and to earn twelve days of sick leave per year, with a maximum accumulation of 150 days.

Other full time employees earn vacation at the rate of 5 days after one year employment; 10 days after two years employment; and 15 days after ten years of employment. Sick leave is earned up to twelve sick days per year for those who work at least twelve days per month. No vacation may be carried over to the next year.

4. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS (Continued)

Upon resignation, employees may be paid for 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 estimated a liability for vacation benefits as of December 31, 2012 as \$0.00, and has not estimated a liability for sick pay which has been earned, but not taken by Extension District employees, inasmuch as the amount cannot be reasonably estimated.

5. 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.

6. 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
 Regulatory Basis
 (Budgeted Funds Only)
 For the Year Ended December 31, 2012

Funds	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General	\$ 631,500.00	\$ 569,036.49	\$ (62,463.51)

SOUTHWIND EXTENSION DISTRICT #10
General Fund

Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts For the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Receipts				
Ad Valorem Tax	\$ 245,426.63	\$ 412,147.56	\$ 427,258.00	\$ (15,110.44)
Delinquent Tax	2,822.09	5,710.18	-	5,710.18
Motor Vehicle Tax	22,309.08	48,830.46	40,378.00	8,452.46
Recreational Vehicle Tax	116.12	183.67	574.00	(390.33)
16M-20M Truck Tax	567.84	981.42	952.00	29.42
In Lieu of Tax	349.89	390.95	-	390.95
Vehicle Rental Excise Tax	4.88	6.96	-	6.96
Bourbon County Appropriations	58,674.00	-	-	-
Educational Services (Reimbursable)	27,552.16	21,181.00	30,000.00	(8,819.00)
Interest on Investments	1,161.86	1,352.90	-	1,352.90
Miscellaneous	1,531.78	756.00	-	756.00
KSU-Reimbursed Expense	94,380.00	113,460.00	113,256.00	204.00
Transfer from Bourbon County Extension Council	116,541.03	-	-	-
Total Receipts	571,437.36	605,001.10	\$ 612,418.00	\$ (7,416.90)
Expenditures				
Personnel				
Salaries and Wages	313,763.88	\$ 374,754.09	\$ 396,000.00	\$ (21,245.91)
FICA, Retirement, and Health Insurance	50,077.60	64,113.20	75,500.00	(11,386.80)
Contractual				
Printing, Audit, and Treasurer's Bond	6,391.59	8,105.41	15,000.00	(6,894.59)
Property Insurance	7,886.00	8,920.00	-	8,920.00
Registrations and Subscriptions	2,246.49	1,647.82	-	1,647.82
Telephone	1,294.22	6,347.69	4,000.00	2,347.69
Miscellaneous	1,395.08	1,008.75	-	1,008.75
Travel	18,730.58	19,704.80	21,000.00	(1,295.20)
Subsistence	10,398.56	4,850.60	7,500.00	(2,649.40)
Educational Program Support	-	4,813.99	9,500.00	(4,686.01)
Educational Services (Reimbursable)	25,724.77	20,137.59	35,000.00	(14,862.41)
Commodities				
Supplies, Stationery, and Postage	14,480.72	14,712.22	16,000.00	(1,287.78)
Equipment	35,981.73	39,920.33	12,000.00	27,920.33
Equipment Replacement Reserve	-	-	40,000.00	(40,000.00)
Total Expenditures	488,371.22	569,036.49	\$ 631,500.00	\$ (62,463.51)
Receipts Over (Under) Expenditures	83,066.14	35,964.61		
Unencumbered Cash, December 31, 2011	76,341.94	159,408.08		
Unencumbered Cash, December 31, 2012	\$ 159,408.08	\$ 195,372.69		

Schedule 3

SOUTHWIND EXTENSION DISTRICT #10

Reconciliation of Cash Disbursements with Expenditures
For the Year Ended December 31, 2012

	<u>General Fund</u>
Checks Issued By:	
Extension District	\$ 454,562.09
Kansas State University	<u>113,460.00</u>
Cash Disbursements	568,022.09
Plus: Accounts Payable, December 31, 2012	3,941.62
Less: Accounts Payable, December 31, 2011	<u>(2,927.22)</u>
Expenditures	<u><u>\$ 569,036.49</u></u>

Schedule 4**SOUTHWIND EXTENSION DISTRICT #10**Schedule of Receipts, Disbursements, and Cash Balances
For the Year Ended December 31, 2012

Receipts		
Ad Valorem Tax	\$	412,147.56
Delinquent Tax		5,710.18
Motor Vehicle Tax		48,830.46
Recreational Vehicle Tax		183.67
16M-20M Truck Tax		981.42
In Lieu of Tax		390.95
Vehicle Rental Excise Tax		6.96
Educational Services (Reimbursable)		21,181.00
Interest on Investments		1,352.90
Miscellaneous		756.00
Kansas State University-Reimbursed Expense		<u>113,460.00</u>
Total Receipts		<u>605,001.10</u>
Disbursements		
Personnel		
Salaries and Wages		372,979.69
FICA, Retirement, and Health Insurance		65,281.39
Contractual		
Printing, Audit, and Treasurer's Bond		8,086.63
Property Insurance		8,920.00
Registrations and Subscriptions		1,632.82
Telephone		6,347.69
Miscellaneous		1,019.61
Travel		20,360.98
Subsistence		4,759.23
Educational Program Support		4,823.89
Educational Services (Reimbursable)		19,543.60
Capital Outlay		<u>-</u>
Commodities		
Supplies, Stationery, and Postage		14,346.23
Equipment		<u>39,920.33</u>
Total Disbursements		<u>568,022.09</u>
Receipts Over (Under) Disbursements		36,979.01
Cash Balance, December 31, 2011		<u>162,335.30</u>
Cash Balance, December 31, 2012	\$	<u><u>199,314.31</u></u>

Schedule 5

SOUTHWIND EXTENSION DISTRICT #10

Analysis of Changes in General Capital Assets
For the Year Ended December 31, 2012

Beginning General Capital Assets	\$	212,669.14
Additions:		
Equipment Purchased		39,475.39
Deletions:		
Equipment Discarded, Sold or Traded		<u>(22,718.13)</u>
Ending General Capital Assets	\$	<u>229,426.40</u>

SOUTHWIND EXTENSION DISTRICT #10

Schedule of Insurance Policies and Fidelity Bond
December 31, 2012

	Policy Number	Date Expires	Amount
Continental Western Group			
Property	PEP 2864626 - 24	7/1/2013	
General Aggregate Limit			42,000.00
Each Occurance Limit (500 Deductable)			
90% Replacement Cost			
Cotinental Western Group			
General Liability Coverage	PEP 2864626 - 24	7/1/2013	
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 - 24	7/1/2013	
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 - 24	7/1/2013	
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 - 24	7/1/2013	
Aggregate Limit			1,000,000.00
Liability Limit Per Claim			1,000,000.00
Continental Western Group			
Worker's Compensation	WC 2864628 - 25	7/1/2013	
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



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, 2012, 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 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 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.

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.

Jarred, Gilmore & Phillips, PA
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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,



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

April 16, 2014
Chanute, Kansas