

NEWTON RECREATION COMMISSION

NEWTON, KANSAS

Special Financial Statements

June 30, 2012

Newton Recreation Commission

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Newton Recreation Commission
Newton, Kansas 67114

We have audited the accompanying special purpose financial statements of the Newton Recreation Commission, a component unit of the Unified School District No. 373, Newton, Kansas, as of and for the year ended June 30, 2012. These component unit financial statements are the responsibility of the Newton Recreation Commission. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the Commission's 2011 financial statements and, in our report dated September 13, 2011, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with the 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 opinion.

As described more fully in Note 1, the Commission has prepared these financial statements using 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, is presumed to be material.

In our opinion, because of the Commission's policy to prepare its financial statements on the basis of accounting 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 Newton Recreation Commission as of June 30, 2012, or the changes in 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 the Newton Recreation Commission as of June 30, 2012 and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants
October 5, 2012

Newton Recreation Commission

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH

Year ended June 30, 2012

<u>FUNDS</u>	Unencumbered Cash Balance <u>6-30-2011</u>	<u>Receipts</u>	<u>Expenditures</u>	Unencumbered Cash Balance <u>6-30-2012</u>	Accounts Payable and <u>Encumbrances</u>	Cash Balance <u>6-30-2012</u>
General Fund	\$ 894,314	1,526,838	1,366,378	1,054,774	-	1,054,774
Employee Benefit and Liability Insurance Fund	<u>50,400</u>	<u>215,000</u>	<u>205,177</u>	<u>60,223</u>	-	<u>60,223</u>
	<u>\$ 944,714</u>	<u>1,741,838</u>	<u>1,571,555</u>	<u>1,114,997</u>	-	<u>1,114,997</u>

Composition of Cash Balance

First Bank of Newton

NOW account

Money market account

Certificate of deposit

\$ 1,432

912,466

200,599

1,114,497

White Eagle Credit Union

Savings

25

Petty Cash

475\$ 1,114,997

Newton Recreation Commission

SUMMARY OF EXPENDITURES-
ACTUAL AND BUDGET

Year ended June 30, 2012

	Certified <u>Budget</u>	Expenditures Chargeable to <u>Current Year</u>	Variance Over <u>(Under)</u>
General	\$ 2,502,200	1,366,378	(1,135,822)
Employee Benefit and Liability Insurance Fund	<u>278,000</u>	<u>205,177</u>	<u>(72,823)</u>
	<u>\$ 2,780,200</u>	<u>1,571,555</u>	<u>(1,208,645)</u>

Newton Recreation Commission

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-
ACTUAL AND BUDGET

Year ended June 30, 2012

(With comparable actual totals for the prior year ended June 30, 2011)

	2011 <u>Actual</u>	2012		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
GENERAL FUND				
Receipts				
Appropriations from Unified				
School District No. 373	\$ 976,299	1,031,300	1,110,200	(78,900)
Interest	7,446	4,624	10,000	(5,376)
Program	69,977	78,291	72,500	5,791
Fisher Field	43,950	55,650	54,000	1,650
Sports	85,340	91,366	87,000	4,366
Wellness Center	155,769	155,461	152,000	3,461
Aquatics	74,658	73,459	65,500	7,959
Donations, sales, and other	17,268	36,687	28,000	8,687
	<u>1,430,707</u>	<u>1,526,838</u>	<u>1,579,200</u>	<u>(52,362)</u>
Expenditures				
Administration	270,506	260,761	388,700	(127,939)
Program	78,819	80,666	75,540	5,126
Fisher Field	42,938	51,739	49,000	2,739
Sports	113,173	111,772	104,730	7,042
Wellness Center	116,388	94,118	95,235	(1,117)
Aquatics	165,645	148,916	146,350	2,566
Capital improvement	192,105	293,275	1,299,845	(1,006,570)
Building maintenance	181,290	176,561	177,700	(1,139)
Field maintenance	165,787	148,570	165,100	(16,530)
	<u>1,326,651</u>	<u>1,366,378</u>	<u>2,502,200</u>	<u>(1,135,822)</u>
Receipts over (under) expenditures	104,056	160,460		
Unencumbered cash, beginning	<u>790,258</u>	<u>894,314</u>		
Unencumbered cash, ending	<u>\$ 894,314</u>	<u>1,054,774</u>		

See notes to financial statements

Newton Recreation Commission

STATEMENT OF CASH RECEIPTS AND EXPENDITURES-
ACTUAL AND BUDGET

Year ended June 30, 2012

(With comparable actual totals for the prior year ended June 30, 2011)

	2011 <u>Actual</u>	2012		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
EMPLOYEE BENEFIT AND LIABILITY INSURANCE FUND				
Receipts				
Appropriations from Unified School District No. 373	\$ 218,000	215,000	215,000	-
Expenditures				
Employee benefits	207,750	191,494	260,500	(69,006)
Insurance	15,067	13,683	17,500	(3,817)
	<u>222,817</u>	<u>205,177</u>	<u>278,000</u>	<u>(72,823)</u>
Receipts over (under) expenditures	(4,817)	9,823		
Unencumbered cash, beginning	<u>55,217</u>	<u>50,400</u>		
Unencumbered cash, ending	<u>\$ 50,400</u>	<u>60,223</u>		

Newton Recreation Commission

SUMMARY OF EXPENDITURES

Year ended June 30, 2012

(With comparable actual totals for the prior year ended June 30, 2011)

	Salaries & Wages	Supplies	Contractual Services	Other Services	Employee Benefits	Capital Outlay	2012 Total	2011 Total
<u>GENERAL FUND</u>								
Administration	\$ 173,864	26,117	50,467	10,313	-	-	260,761	270,506
Program	52,765	14,840	11,167	1,894	-	-	80,666	78,819
Fisher Field	24,956	-	16,049	10,734	-	-	51,739	42,938
Sports	60,826	28,811	20,331	1,804	-	-	111,772	113,173
Wellness Center	83,200	4,912	5,178	828	-	-	94,118	116,388
Aquatics	108,141	32,327	6,213	2,235	-	-	148,916	165,645
Capital improvement	-	-	21,735	-	-	271,540	293,275	192,105
Building maintenance	76,341	26,623	72,827	770	-	-	176,561	181,290
Field maintenance	<u>96,602</u>	<u>28,213</u>	<u>17,724</u>	<u>6,031</u>	<u>-</u>	<u>-</u>	<u>148,570</u>	<u>165,787</u>
	<u>\$ 676,695</u>	<u>161,843</u>	<u>221,691</u>	<u>34,609</u>	<u>-</u>	<u>271,540</u>	<u>1,366,378</u>	<u>1,326,651</u>
<u>EMPLOYEE BENEFIT AND LIABILITY INSURANCE FUND</u>								
Administration	\$ <u>-</u>	<u>-</u>	<u>13,683</u>	<u>-</u>	<u>191,494</u>	<u>-</u>	<u>205,177</u>	<u>222,817</u>

Newton Recreation Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Newton Recreation Commission is a component unit of the Unified School District No. 373, Newton, Kansas. The Commission is composed of a five member board. Two of the members are appointed by the City, two are appointed by Unified School District No. 373, and one is appointed by the other four members. These financial statements include only the activity of the Commission for the year ended June 30, 2012.

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 types of funds comprise the financial activities of the Commission for the year ending June 30, 2012:

Governmental Funds

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

Special Revenue Fund - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for good 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 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 Commission to use the statutory basis of accounting.

Newton Recreation Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, 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 generally accepted accounting principles (GAAP), 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 GAAP. Capital assets that account for the land, building, and equipment owned by the Commission are not presented in the financial statements. Also, long-term debt obligations such as compensated absences are not presented in the financial statements.

2. BUDGETARY INFORMATION

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

Per KSA 12-1927, a recreation commission must:

- (a) Not later than August 1, certify its budget to the sponsoring city or school district.
- (b) Not less than 10 days prior to the certifying date, the Commission is required to hold a public hearing on the budget.
- (c) At least 10 days prior to the public hearing date, the Commission is required to publish the budget.

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 the year ended June 30, 2012.

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.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as the purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

Unified School District No. 373, Newton, Kansas is the tax levying body for the Commission.

Newton Recreation Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Commission. The statute requires banks eligible to hold the Commission's funds have a main or branch bank in the county in which the Commission is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Commission has no investment policy that would further limit interest rate risk.

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

As of June 30, 2012, the Commission's investments included savings and time deposits with a fair value of \$1,113,065, which are not subject to investment rating.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. State statutes require the Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Commission has not designated peak periods. All deposits were legally secured at June 30, 2012.

At June 30, 2012, the carrying amount of the Commission's deposits was \$1,114,522. The bank balance totaled \$1,160,172. Of the bank balance, \$250,025 was covered by FDIC insurance with the remaining \$910,147 collateralized with securities held by the pledging financial institutions' agents in the Commission's name.

4. ACTIVITY CENTER BUILDING LEASE

The Commission is currently leasing the activity center building from the City of Newton. The lease agreement is dated December 19, 1979, for a term of one year. In the absence of written notification, the lease automatically renews for a like term. The lease payment was one dollar for the term of the lease.

Newton Recreation Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

5. DEFINED BENEFIT PENSION PLAN

The Newton Recreation Commission participates in 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, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4.0 to 6.0% 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 by statute was 7.34% at June 30, 2012. The Newton Recreation Commission contributions to KPERS for the years ending June 30, 2012, 2011, and 2010, were \$40,416, \$40,662, and \$33,446 respectively, equal to the statutory required contributions for each year.

6. COMPENSATED ABSENCES

All personnel earn vacation time per the following schedule:

- Completion of one through five years - two weeks
- After five years - three weeks
- After ten years - four weeks

Unused vacation time has not been recorded as a liability in the accompanying financial statements.

All full time employees accrue sick leave at the rate of four hours per pay period. Unused sick leave may be accrued from year to year, except that the maximum accrual shall not exceed 720 hours. At the discretion of the employee, sick leave accumulated in excess of 480 hours is paid to the employee once each year at fifty percent of the employee's hourly pay rate.

Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded as a liability in the accompanying financial statements.

Newton Recreation Commission

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

7. COMMITMENT AND CONTINGENCIES

During the year ended June 30, 2004, the Commission entered into an agreement with Unified School District No. 373 and the City of Newton to provide funding for improvements to certain Newton athletic facilities. Under terms of the agreement the entities will levy additional taxes, approximately 1.2 mills from the Commission, for improvements and future maintenance of these facilities. Funds generated by the levy will be paid in the form of rental payments to the Newton Public Building Commission (a component unit of the City of Newton) which has issued \$2,685,000 in revenue bonds to fund the initial improvements. The cost to the Commission for the year ended June 30, 2012 was \$236,161.

8. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to June 30, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through October 5, 2012, which is the date at which the financial statements were available to be issued.