

**ROSE HILL RECREATION COMMISSION
ROSE HILL, KANSAS**

**COMPONENT UNIT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2012**

George, Bowerman, & Noel, P.A.
Certified Public Accountants

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Statement 1	
Summary of Cash Receipts, Expenditures and Unencumbered Cash.....	3
Notes to Financial Statements.....	4
SUPPLEMENTARY INFORMATION	
Schedule 1	
Schedule of Expenditures - Actual and Budget	11
Schedule 2	
Schedule of Cash Receipts and Expenditures - Actual and Budget – For:	
General Fund.....	12
Employee Benefit/Special Liability Fund.....	13

George, Bowerman, & Noel, P.A.

Certified Public Accountants
Management Consultants
Tax Advisors

Paul R. Bowerman
Gary L. George

Epic Center 301 N. Main, Suite 1350 Wichita, Kansas 67202 Telephone (316) 262-6277 Fax (316) 265-6150

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rose Hill Recreation Commission
Rose Hill, Kansas

We have audited the summary statement of cash receipts, expenditures, and unencumbered cash balances of the Rose Hill Recreation Commission (a component unit of Rose Hill Unified School District No. 394), as of and for the year ended June 30, 2012. This financial statement is the responsibility of the Rose Hill Recreation Commission's management. Our responsibility is to express an opinion of 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 in Note 1, the Rose Hill Recreation Commission has prepared its financial statement 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 effects on the financial statement of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial 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 the Rose Hill Recreation Commission as of June 30, 2012, or the respective changes in financial position and changes in cash flows, where applicable, for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of the Rose Hill Recreation Commission as of June 30, 2012, and the aggregate cash receipts and expenditures for the year then ended, on the basis of accounting as described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures – actual and budget, and individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit Guide*. Such information is the responsibility of management and was derived from and relate 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 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.

George, Bowerman & Noel, P.A.

Wichita, Kansas
February 25, 2013

ROSE HILL RECREATION COMMISSION

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

For the year ended June 30, 2012

	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Canceled Encum- brances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
General Fund	\$ 229,565	\$ --	\$ 292,893	\$ 326,839	\$ 195,619	\$ 11,188	\$ 206,807
Special Revenue Fund: Employee Benefit/Special Liability	<u>20,142</u>	<u>--</u>	<u>50,700</u>	<u>50,636</u>	<u>20,206</u>	<u>--</u>	<u>20,206</u>
Total Component Unit	<u>\$ 249,707</u>	<u>\$ --</u>	<u>\$ 343,593</u>	<u>\$ 377,475</u>	<u>\$ 215,825</u>	<u>\$ 11,188</u>	<u>\$ 227,013</u>

Composition of cash:

Rose Hill Bank, Rose Hill, Kansas:

Interest bearing checking account

\$ 126,436

Money Market savings account

100,377

226,813

Petty cash

200\$ 227,013

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

ROSE HILL RECREATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Rose Hill Recreation Commission (Commission) is a municipal corporation formed under the laws of the State of Kansas to establish, operate and maintain a recreational system in Rose Hill, Kansas. The Commission is comprised of five board members, two appointed by the Board Members of Unified School District No. 394, Rose Hill, Kansas, two appointed by the City Council of the City of Rose Hill, Kansas, and one is appointed by those four appointed Commission members. The Commission may not acquire real property or issue debt without the approval of the Board of Unified School District No. 394. In addition, the Commission must certify its annual budget to Unified School District No. 394 for levying of property taxes. Due to the significance of its operational and financial relationships with Unified School District No. 394, the Commission is a component unit of that entity.

Fund descriptions

The accounts of the Commission are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In accordance with state statutes and Commission resolutions, those funds presented in this report are as follows:

Governmental fund types

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

Special revenue funds – used to account for the proceeds of specified revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The special revenue fund maintained by the Commission is the Employee Benefit/Special Liability Fund, which is used to account for liability insurance costs, the employer portion of payroll tax costs and other benefits provided to employees of the Commission.

Basis of accounting

The financial statements are presented on the statutory basis of accounting. The statutory basis is a 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, 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.

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 (GAAP) allowing the 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, cash disbursements, 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 and 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 land, buildings, and equipment owned by the municipality 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 principles

The Commission is required by state statute to adopt annual budgets for the General and the Employee Benefit/Special Liability Funds on or before August 1 for the ensuing year. The Commission is required to certify its adopted budget to Unified School District No. 394 which shall levy a tax sufficient to raise the amount required by such budget on all the taxable tangible property within the taxing district. The Commission may amend the budget by transferring budgeted amounts from one object or purpose to another however, expenditures may not legally exceed the total amount of the adopted budget of individual funds.

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 July 1st.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before July 10th.
3. Public hearing on or before July 20th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 1st and certification of the adopted budget to Unified School District No. 394.

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. This process requires a notice of public hearing to amend the budget to 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 budget amendments for the year ended June 30, 2012.

Kansas 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 cash 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 a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year- end.

Cash and investments

Cash balances in all funds are considered in determining the amount to be invested. All investment earnings are credited to the General Fund.

Cash deposits are reported at their carrying amount, which reasonably estimates fair value.

Inventories and prepaid items

Inventories and prepaid items, which benefit future periods, are recorded as expenditures in the year of purchase.

Compensated absences

The earned time off (ETO) policy of the Commission provides for all full-time personnel to accrue 120 hours of ETO pay per year. ETO hours are earned at the rate of 10 hours per month for employees with continuous employment up to 5 years of service, 13.3 hours per

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

month for employees with continuous employment for 5 to 10 years of service, 16.7 hours per month for employees with continuous employment for 10 to 15 years of service, and 20 hours per month for employees with over 20 years of continuous service. The maximum accumulated ETO hours shall not exceed 400 hours. Once an employee accumulates 400 hours of ETO leave, they may elect to be paid for up to 80 hours per year at one-half their normal hourly pay rate. At resignation or termination an employee shall be compensated for all unused ETO leave at their final rate of pay, subject to the maximum accumulation allowed.

Pension plan

All eligible full-time employees are members of the State of Kansas Public Employees' Retirement System, which is a cost-sharing multi-employer state wide defined benefit pension plan. The Commission is required to contribute the pension costs which are determined annually by the system's actuary.

Risk management

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

2. 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 to have a main or branch bank in the county in which the Commission is located, or in an adjoining county if such institution has been designated as an official depository, and the bank provides 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 Federal Depository Insurance (FDIC) coverage. The Commission has no other policies 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; non-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. All investments must be insured, registered or held by the Commission or its agent in the Commission's name. The 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 Commission may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

2. DEPOSITS AND INVESTMENTS (continued)

The Commission's allocation of investments as of June 30, 2012 is as follows:

<u>Deposits/Investments</u>	<u>Percentage of Investments</u>
The Rose Hill State Bank – interest bearing deposits	100%

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. All deposits were legally secured at June 30, 2012.

The Commission's deposits at June 30, 2012 consisted of a money market checking and a money market savings account. At year-end, the carrying amount of the Commission's deposits was \$226,813 and the bank deposit balances were \$226,608. The bank balances were held by one bank resulting in a concentration of credit risk. The bank balances were entirely covered by federal depository insurance at June 30, 2012.

3. COMPENSATED ABSENCES

Changes in compensated absence liabilities for the Commission for the year ended June 30, 2012 were as follows:

<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>
\$ 4,572	\$ 6,713	\$ 4,491	\$ 6,794

The compensated absence liability is based on the vested earned time off hours at current employee pay rates. The compensated absence liability is liquidated from the Commission's General Fund.

4. PENSION PLAN

Plan description

The 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 Avenue, Suite 100, Topeka, Kansas 66603-3803 or by calling 1-888-275-5737.

Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for participants employed prior to July 1, 2009 and at 6% for new participants employed on or after July 1, 2009. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates 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 Commission's contribution rate for the period from July 1, 2011 to December 31, 2011 was 7.74%, from January 1, 2012 to June 30, 2012 was 8.34% of covered payroll. Included in these rates is the contribution for Group Death and Disability Insurance of 1.0%. There was a moratorium on the collection of Group Death and Disability Insurance premiums from April 1, 2012 through June 30, 2012. The Commission's contributions to KPERS for the years ending June 30, 2012, 2011 and 2010 were \$7,848, \$5,982, and \$6,833, respectively, equal to the statutory required contributions for each year.

5. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Commission is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level premium regardless of age. There are currently no retirees included in the group health insurance plan of the Commission.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Commission makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Commission under this program.

6. FACILITY LEASE AGREEMENT

On June 30, 2008, the Commission entered into a lease agreement with the Rose Hill USD No. 394 (District) to lease the facility located at 400 South Rose Hill Road, Rose Hill, Kansas, for the period of 10 years at \$1 per year. The lease provides that any additions or improvements to the structure, which are made by the Commission, will remain part of the structure and will remain at the end of the lease term. In addition, the Commission is responsible for all utilities at the facility and shall be responsible for maintaining the facility, including maintaining a liability policy of not less than \$1,000,000 for any activities undertaken by the Commission with the District named as an additional insured. The District is responsible for maintaining the area around the building and shall insure the facility and its improvements against fire, wind, hail and other extended coverage. The Commission is responsible for maintaining insurance on the contents of the facility.

The agreement may be terminated by twelve months written notice from either party. In the event the Commission has expended funds for improvement of the facility, the life of such improvements is longer than the term of the lease, and the lease is terminated at the request of the Commission or for cause based on default of the Commission, the Commission may not ask the District for reimbursement for the proportionate unused life of any improvements. If, however, the agreement is terminated prior to its original term at the request of the District without cause on behalf of the Commission, then the Commission shall be entitled to ask the District to reimburse the proportionate unused life of any improvements made to the structure.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2013, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ROSE HILL RECREATION COMMISSION

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(BUDGETED FUNDS ONLY)

For the year ended June 30, 2012

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
General Fund	\$ 522,615	\$ -	\$ 522,615	\$ 326,839	\$ 195,776
Special Revenue Fund:					
Employee Benefit/Special Liability	50,700	-	50,700	50,636	64

ROSE HILL RECREATION COMMISSION

GENERAL FUND

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
- ACTUAL AND BUDGET

	<u>Year ended June 30, 2012</u>		
	<u>Actual</u>	<u>Budget</u>	Variance favorable (unfavorable)
Cash receipts:			
Appropriation from USD No. 394	\$ 192,750	\$ 200,000	\$ (7,250)
Programs	55,779	55,000	779
Advertising	1,635	2,000	(365)
Fundraising	3,341	3,000	341
Donations and Grant Income	1,166	-	1,166
Facility rental	5,597	4,500	1,097
Membership fees	26,872	26,000	872
Miscellaneous	4,142	1,000	3,142
Interest received	<u>1,611</u>	<u>1,500</u>	<u>111</u>
Total cash receipts	<u>292,893</u>	<u>\$ 293,000</u>	<u>\$ (107)</u>
Expenditures:			
Administrative	122,570	\$ 140,000	\$ 17,430
Facilities and maintenance	30,873	25,000	(5,873)
Programs	69,951	60,000	(9,951)
Organization contributions	5,181	4,000	(1,181)
Insurance	2,539	3,000	461
Fundraising	3,725	3,000	(725)
Miscellaneous	1,287	2,500	1,213
Capital outlay	<u>90,713</u>	<u>285,115</u>	<u>194,402</u>
Total expenditures	<u>326,839</u>	<u>\$ 522,615</u>	<u>\$ 195,776</u>
Expenditures over cash receipts	(33,946)		
Unencumbered cash balance, beginning of year	<u>229,565</u>	<u>\$ 229,615</u>	<u>\$ (50)</u>
Unencumbered cash balance, end of year	<u>\$ 195,619</u>		

ROSE HILL RECREATION COMMISSION
EMPLOYEE BENEFIT/SPECIAL LIABILITY FUND
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
- ACTUAL AND BUDGET

	<u>Year ended June 30, 2012</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance favorable (unfavorable)</u>
Cash receipts:			
Appropriation from USD No. 394	\$ 50,700	\$ 30,558	\$ 20,142
Expenditures:			
Health and dental insurance	29,623	\$ 25,000	\$ (4,623)
KPERS retirement	7,848	10,000	2,152
FICA and Medicare	10,609	12,000	1,391
Officers liability insurance	883	1,000	117
Workers compensation insurance	1,534	2,500	966
Unemployment insurance	<u>139</u>	<u>200</u>	<u>61</u>
Total expenditures	<u>50,636</u>	<u>\$ 50,700</u>	<u>\$ 64</u>
Cash receipts over expenditures	64		
Unencumbered cash balance, beginning of year	<u>20,142</u>	<u>\$ 20,142</u>	<u>\$ -</u>
Unencumbered cash balance, end of year	<u>\$ 20,206</u>		