

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS**

Statutory Basis Financial Statements and  
Independent Auditors' Report with  
Supplemental Information and  
Federal Compliance Section

For the Fiscal Year Ended June 30, 2011

**BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS**

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**BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS**

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# Diehl Banwart Bolton

*Certified Public Accountants PA*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Unified School District #508  
Baxter Springs, Kansas 66713

We have audited the accompanying financial statements of the Unified School District #508, Baxter Springs, Kansas, as of June 30, 2011, and for the fiscal year then ended, which collectively comprise the basic financial statements of the District as listed in the Table of Contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative information for the fiscal year ended June 30, 2010, has been derived from the District's June 30, 2010, financial statements and in our report dated January 15, 2011, we expressed an unqualified opinion on the primary government financial statements prepared in accordance with the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, 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 in Note 1, the District prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting practices generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Unified School District #508, Baxter Springs, Kansas, as of June 30, 2011, or the results of its operations, for the fiscal year then ended. Further, the District has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Board of Education  
Unified School District #508  
Baxter Springs, Kansas

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of Unified School District #508, Baxter Springs, Kansas, as of June 30, 2011, and its cash receipts and expenditures, and budgetary comparisons, for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with **Government Auditing Standards**, we have also issued reports dated January 26, 2012, on our consideration of the District's internal control structure and on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the District. The accompanying Schedule of Expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

*Diehl Banwart Bolton CPA's PA*

DIEHL, BANWART, BOLTON, CPAs PA

January 26, 2012  
Pittsburg, Kansas

UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

Funds	Beginning Unencumbered Cash Balances	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus Encumbrances and Accounts Payable	Cash Balances	
							2011	2010
<b>GOVERNMENTAL TYPE FUNDS</b>								
General Fund	(\$723,325)	-	\$7,124,802	\$7,112,854	(\$711,377)	\$138,266	(\$573,110)	(\$661,441)
Special Revenue Funds								
Supplemental General	(235,395)	-	2,000,668	1,831,000	(65,727)	4,677	(61,051)	(235,395)
4 Yr Old At Risk	-	-	58,216	58,216	-	-	-	-
K - 12 At Risk	1	-	1,150,149	1,150,150	-	109	109	40,427
Bilingual	504	-	-	-	504	-	504	504
Capital Outlay	1,100,000	-	848,050	452,769	1,495,281	2,498	1,497,779	1,204,328
Driver Education	20,974	-	5,476	8,428	18,022	-	18,022	20,974
Food Service	238,481	-	539,052	515,323	262,211	26,935	289,146	262,619
Professional Development	7,511	-	8,702	8,806	7,408	-	7,408	7,511
Special Education	292,378	-	1,063,443	1,059,258	296,564	3,396	299,959	292,640
Vocational Education	2,174	-	239,772	241,946	-	-	-	8,865
KPERS Special Retirement	-	-	379,770	379,770	-	-	-	-
Contingency Reserve	554,428	-	45,573	-	600,001	-	600,001	554,428
Student Materials	190,141	-	69,929	44,145	215,925	16,750	232,675	214,522
Title II	648	-	64,627	64,627	648	1,708	2,356	7,277
Title I	-	-	296,650	296,650	-	196	196	716
Title IID ARRA	-	-	-	-	-	-	-	4,897
Educational Technology Grant	6	-	-	6	-	-	-	6
ESOL	-	-	2,407	2,407	-	-	-	-
Title I ARRA	1,305	-	110,874	109,679	2,500	866	3,366	3,168
School Preparedness Grant	750	-	-	-	750	-	750	750
Rural Low Incom Schools	-	-	27,329	27,329	-	-	0	33
Education	6,925	-	-	-	6,925	-	6,925	6,925
District Activity Funds	6,655	-	138,980	131,677	13,958	-	13,958	6,655
Debt Service Fund	-	-	-	-	-	-	-	-
Bond and Interest	1,313	-	-	-	1,313	-	1,313	1,313
<b>EXPENDABLE TRUST</b>								
Special Grants	10,070	-	3,310	3,332	10,048	-	10,048	10,070
Abernathy Trust	29,458	-	141,394	18,516	152,336	-	152,336	29,481
<b>NON-EXPENDABLE TRUST</b>								
Taylor Scholarship Fund	185,168	-	3,295	5,750	182,713	-	182,713	185,168
Hartzell Scholarship Fund	6,130	-	24	-	6,154	-	6,154	6,130
Total Reporting Entity	\$1,696,300	-	\$14,322,493	\$13,522,637	\$2,496,156	\$195,401	\$2,691,557	\$1,972,571

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

Statement 1 (Continued)

UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

	Cash Balances	
	2011	2010
Composition of Cash		
General Checking NOW Accounts.....	\$2,486,231	\$1,772,117
Activity Checking Accounts.....	40,944	32,802
Petty Cash.....	2,500	2,500
Certificates of Deposit.....	182,713	185,168
Scholarships.....	6,154	6,130
Total Cash (See Note 8)	2,718,542	1,998,717
Less Agency Funds per Statement 4	(26,985)	(26,146)
Total Reporting Entity.....	<u>\$2,691,557</u>	<u>\$1,972,571</u>

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

UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS

Summary of Expenditures - Actual and Budget (Budgeted Funds Only)  
For the Fiscal Year Ended June 30, 2011

Funds	Certified Budget	Adjustment to Comply with Legal Maximum	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures		Variance - Favorable (Unfavorable)
					Charged to Current Year Budget	Budget	
<b>GOVERNMENTAL TYPE FUNDS</b>							
General Fund	\$6,921,640	(\$12,205)	\$203,419	\$7,112,854	\$7,112,854	-	-
Special Revenue Funds							
Supplemental General	1,831,000	-	-	1,831,000	1,831,000	-	-
4 Yr Old At Risk	58,216	-	-	58,216	58,216	-	-
K - 12 At Risk	1,080,541	-	-	1,080,541	1,080,150	391	391
Capital Outlay	1,435,650	-	-	1,435,650	452,769	982,881	982,881
Driver Education	22,872	-	-	22,872	8,428	14,444	14,444
Food Service	785,383	-	-	785,383	515,323	270,060	270,060
Professional Development	11,267	-	-	11,267	8,806	2,461	2,461
Special Education	1,192,378	-	-	1,192,378	1,059,258	133,120	133,120
KPERS Special Retirement	486,744	-	-	486,744	379,770	106,974	106,974
Vocational Education	157,500	-	-	157,500	156,946	554	554
Bilingual	504	-	-	504	-	504	504
Debt Service Funds							
Bond and Interest	-	-	-	-	-	-	-
	<u>\$13,983,695</u>						

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**GENERAL FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
<b>Cash Receipts</b>				
<b>Local Sources</b>				
Ad valorem tax	\$397,353	\$384,896	\$405,296	(\$20,400)
Delinquent tax	12,309	9,242	-	9,242
Motor vehicle tax	-	-	-	-
Other	182,261	203,419	-	203,419
<b>State Sources</b>				
General aid	5,293,353	5,448,702	5,588,373	(139,671)
Special ed aid	889,578	747,316	759,480	(12,164)
<b>Federal Sources</b>				
Education Jobs Fund	-	210,825	-	210,825
ARRA Stabilization	316,204	120,403	120,403	-
<b>Total Cash Receipts</b>	<b>7,091,058</b>	<b>7,124,802</b>	<b>\$6,873,552</b>	<b>\$251,250</b>
<b>Expenditures</b>				
Instruction	2,823,833	2,952,133	\$2,678,885	(\$273,248)
<b>Support Services</b>				
Student Support	150,224	164,750	151,582	(13,168)
Instructional Support	130,424	173,359	282,736	109,377
General Administration	496,476	552,454	459,751	(92,703)
School Administration	367,382	518,815	396,861	(121,954)
Operations and Maintenance	754,349	1,007,417	764,760	(242,657)
Other Support Services	-	-	-	-
Transportation	144,567	176,956	150,265	(26,691)

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
GENERAL FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Current Year			Variance - Favorable (Unfavorable)
	Actual	Actual	Budget	
Expenditures (Continued)				
Operating Transfers to				
4 Yr Old At Risk	22,737	-	25,000	\$25,000
K-12 At Risk	189,142	-	225,000	225,000
Capital Outlay	370,989	552,878	335,650	(217,228)
Bilingual Education	-	-	-	-
Food Service	87,628	-	90,000	90,000
Special Education	824,866	949,697	900,000	(49,697)
Vocational Education	59,641	16,415	47,500	31,085
Drivers Education	3,387	-	4,500	4,500
Contingency Reserve	-	45,573	325,250	279,677
ESOL		2,407	-	(2,407)
Student Materials	74,190	-	83,900	83,900
Professional Development	8,602	-	-	-
Subtotal Expenditures	6,870,265	7,112,854	6,921,640	
Adjustments to Budget				
Adjustment to Comply with Legal Maximum Budget	-	-	(12,205)	(12,205)
Adjustment for Reimbursed Expenses	-	-	203,419	203,419
Total Expenditures Subject to Budget	6,870,265	7,112,854	\$7,112,854	-
Receipts Over (Under) Expenditures	220,793	11,948		
Unencumbered Cash, Beginning	(946,134)	(723,325)		
Cancelled Prior Year Encumbrance	2,016	-		
Unencumbered Cash, Ending	(\$723,325)	(\$711,377)		

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
SUPPLEMENTAL GENERAL FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad Valorem	\$508,077	\$488,907	\$561,264	(\$72,357)
Delinquent tax	16,951	17,575	-	17,575
Motor vehicle tax	74,883	75,547	60,569	14,978
State Sources				
Supplemental aid	1,070,806	1,418,639	1,224,141	194,498
Federal Sources				
ARRA Stabilization	350,972	-	-	-
<b>Total Cash Receipts</b>	<b>2,021,689</b>	<b>2,000,668</b>	<b>\$1,845,974</b>	<b>\$154,694</b>
Expenditures				
Instruction	377,553	277,468	\$657,352	\$379,884
Support Services				
Student Support	-	-	-	-
General Administration	27,716	216	-	(216)
School Administration	89,533	-	-	-
Operations and Maintenance	149,344	35,619	175,000	139,381
Operating Transfers to Other Funds				
Food Service	-	70,000	110,000	40,000
Professional Development	2,406	8,702	-	(8,702)
K-12 At Risk	883,667	1,080,149	855,432	(224,717)
4 yr old At Risk	32,263	58,216	33,216	(25,000)
Student Materials	36,225	58,265	-	(58,265)
Special Education	315,403	109,520	-	(109,520)
Vocational Education	170,890	132,844	-	(132,844)
<b>Total Expenditures Subject to Budget</b>	<b>2,085,000</b>	<b>1,831,000</b>	<b>\$1,831,000</b>	<b>-</b>
Receipts Over (Under) Expenditures	(63,311)	169,668		
Unencumbered Cash, Beginning	(172,084)	(235,395)		
Unencumbered Cash, Ending	<u>(\$235,395)</u>	<u>(\$65,727)</u>		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**4 YR OLD AT RISK FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating Transfer from				
General Fund	\$22,737	-	\$25,000	\$25,000
Supplemental General	32,263	58,216	33,216	25,000
<b>Total Cash Receipts</b>	<b>55,000</b>	<b>58,216</b>	<b>\$58,216</b>	<b>\$50,000</b>
Expenditures				
Instruction	55,000	58,216	\$58,216	-
Support Services	-	-	-	-
<b>Total Expenditures</b>	<b>55,000</b>	<b>58,216</b>	<b>\$58,216</b>	<b>-</b>
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	-		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**K -12 AT RISK FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating Transfer from:				
General Fund	\$189,142	-	\$225,000	(\$225,000)
Supplemental General Fund	883,667	1,080,149	855,432	
Total Cash Receipts	1,072,809	1,080,149	\$1,080,432	(\$225,000)
Expenditures				
Instruction	1,072,808	1,080,150	\$1,080,541	\$391
Support Services	-	-	-	-
Total Expenditures	1,072,808	1,080,150	\$1,080,541	\$391
Receipts Over (Under) Expenditures	1	(1)		
Unencumbered Cash, Beginning	-	1		
Unencumbered Cash, Ending	\$1	-		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**BILINGUAL FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating transfer from General Fund	-	-	-	-
Total Cash Receipts	-	-	-	-
Expenditures				
Instruction	-	-	\$504	\$504
Support Services	-	-	-	-
Total Expenditures	-	-	\$504	\$504
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	504	504		
Unencumbered Cash, Ending	\$504	\$504		

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
CAPITAL OUTLAY FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad valorem tax	-	-	-	-
Delinquent tax	61	156	-	156
Motor vehicle tax	-	-	-	-
Interest on idle funds	7,190	8,724	-	8,724
Other	22,171	286,293	-	286,293
Operating Transfer from Other Funds				
General	370,989	552,878	335,650	217,228
<b>Total Cash Receipts</b>	<b>400,410</b>	<b>848,050</b>	<b>\$335,650</b>	<b>\$512,400</b>
Expenditures				
Instruction	53,038	104,739	\$248,632	\$143,893
Support Services				
Operations & Maintenance	-	133,698	186,658	52,960
Transportation	-	-	-	-
Facility Acquisition and Construction Services	266,863	214,333	1,000,360	786,027
<b>Total Expenditures</b>	<b>319,901</b>	<b>452,769</b>	<b>\$1,435,650</b>	<b>\$982,881</b>
Receipts Over (Under) Expenditures	80,509	395,281		
Unencumbered Cash, Beginning	1,019,491	1,100,000		
Unencumbered Cash, Ending	<u>\$1,100,000</u>	<u>\$1,495,281</u>		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**DRIVER EDUCATION FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	-	-	-	-
State Sources				
State aid	2,600	5,476	3,500	1,976
Operating Transfer from General	3,387	-	4,500	(4,500)
<b>Total Cash Receipts</b>	<b>5,987</b>	<b>5,476</b>	<b>\$8,000</b>	<b>(\$2,524)</b>
Expenditures				
Instruction	5,663	8,379	\$22,872	\$14,493
Support Services Operations and Maintenance	324	49	-	(49)
<b>Total Expenditures</b>	<b>5,987</b>	<b>8,428</b>	<b>\$22,872</b>	<b>\$14,444</b>
Receipts Over (Under) Expenditures	(0)	(2,952)		
Unencumbered Cash, Beginning	20,974	20,974		
Unencumbered Cash, Ending	<b>\$20,974</b>	<b>\$18,022</b>		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**FOOD SERVICE FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
<b>Cash Receipts</b>				
Local Sources				
Students	\$110,165	\$104,288	\$123,898	(\$19,610)
Adults	7,766	12,460	8,404	4,056
Other	8,455	6,579	-	6,579
State Sources				
Food service aid	5,528	5,593	4,682	911
Federal Sources				
Child nutrition aid	318,435	340,131	319,918	20,213
Operating Transfer from Other Funds				
General Fund	87,628	-	90,000	(90,000)
Supplemental General	-	70,000	-	70,000
<b>Total Cash Receipts</b>	<b>537,977</b>	<b>539,052</b>	<b>\$546,902</b>	<b>(\$7,850)</b>
<b>Expenditures</b>				
Support Services				
Operations and Maintenance	20,317	-	\$100,000	\$100,000
Operation and Non instructional Services				
Food Service Operations	483,833	515,323	685,383	170,060
<b>Total Expenditures</b>	<b>504,150</b>	<b>515,323</b>	<b>\$785,383</b>	<b>\$270,060</b>
Receipts Over (Under) Expenditures	33,827	23,730		
Unencumbered Cash, Beginning	204,654	238,481		
Unencumbered Cash, Ending	<u>\$238,481</u>	<u>\$262,211</u>		

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
PROFESSIONAL DEVELOPMENT FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	-	-	-	-
State Sources				
Professional Development Aid	-	-	-	-
Operating Transfer from				
General	\$8,602	-	-	-
Supplemental General	2,406	8,702	-	8,702
<b>Total Cash Receipts</b>	<b>11,008</b>	<b>8,702</b>	<b>-</b>	<b>\$8,702</b>
Expenditures				
Support Services				
Instructional Support Staff	11,008	8,806	\$11,267	\$2,461
Other Support Services	-	-	-	-
<b>Total Expenditures</b>	<b>11,008</b>	<b>8,806</b>	<b>\$11,267</b>	<b>\$2,461</b>
Receipts Over (Under) Expenditures	-	(103)		
Unencumbered Cash, Beginning	7,511	7,511		
<b>Unencumbered Cash, Ending</b>	<b>\$7,511</b>	<b>\$7,408</b>		

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

UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
SPECIAL EDUCATION FUND

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	\$875	\$4,226	-	\$4,226
State Sources				
Operating Transfers from Other Funds				
General	824,866	949,697	900,000	49,697
Supplemental General	315,403	109,520	-	109,520
<b>Total Cash Receipts</b>	<b>1,141,144</b>	<b>1,063,443</b>	<b>\$900,000</b>	<b>\$163,443</b>
Expenditures				
Instruction	926,511	988,461	\$1,129,836	\$141,375
Support Services				
Transportation	72,255	70,797	62,542	(8,255)
<b>Total Expenditures</b>	<b>998,766</b>	<b>1,059,258</b>	<b>\$1,192,378</b>	<b>\$133,120</b>
Receipts Over (Under) Expenditures	142,378	4,186		
Unencumbered Cash, Beginning	150,000	292,378		
Unencumbered Cash, Ending	\$292,378	\$296,564		

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
VOCATIONAL EDUCATION FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	\$5,269	\$862	-	\$862
Federal Sources				
Carl Perkins	8,689	4,651	-	\$4,651
Operating Transfer from				
General Fund	59,641	16,415	47,500	(31,085)
Supplemental General	170,890	132,844	110,000	22,844
<b>Total Cash Receipts</b>	<b>244,490</b>	<b>154,772</b>	<b>\$157,500</b>	<b>(\$2,728)</b>
Expenditures				
Instruction	242,316	156,946	\$157,500	\$554
<b>Total Expenditures</b>	<b>242,316</b>	<b>156,946</b>	<b>\$157,500</b>	<b>\$554</b>
Receipts Over (Under) Expenditures	2,174	(2,174)		
Unencumbered Cash, Beginning	-	2,174		
Unencumbered Cash, Ending	\$2,174	-		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**KPERS SPECIAL RETIREMENT FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State Sources				
State Aid	\$434,593	\$379,770	\$486,744	(\$106,974)
Total Cash Receipts	434,593	379,770	\$486,744	(\$106,974)
Expenditures				
KPERS Retirement Contribution	434,593	379,770	\$486,744	\$106,974
Total Expenditures	434,593	379,770	\$486,744	\$106,974
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	-		

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
CONTINGENCY RESERVE FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfer from General Fund	\$361,829	\$45,573
Total Cash Receipts	361,829	45,573
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	361,829	45,573
Unencumbered Cash, Beginning	192,598	554,428
Unencumbered Cash, Ending	<u>\$554,428</u>	<u>\$600,001</u>

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
STUDENT MATERIALS FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Other	\$11,138	\$11,664
Operating Transfer from:		
General Fund	74,190	-
Supplemental General Fund	36,225	58,265
Total Cash Receipts	121,552	69,929
Expenditures		
Instruction	33,482	44,145
Total Expenditures	33,482	44,145
Receipts Over (Under) Expenditures	88,070	25,784
Unencumbered Cash, Beginning	102,071	190,141
Unencumbered Cash, Ending	<u>\$190,141</u>	<u>\$215,925</u>

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
TITLE II FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$64,601	\$64,627
Total Cash Receipts	64,601	64,627
Expenditures		
Instruction	64,601	64,627
General Administration	-	-
Operating transfer to : Title V	-	-
Total Expenditures	64,601	64,627
Receipts Over (Under) Expenditures	(0)	-
Unencumbered Cash, Beginning	648	648
Unencumbered Cash, Ending	\$648	\$648

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**TITLE I FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$312,508	\$296,650
Total Cash Receipts	312,508	296,650
Expenditures		
Instruction	312,508	296,650
Total Expenditures	312,508	296,650
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**TITLE IID ARRA FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
ARRA Federal Aid	\$6,530	-
Total Cash Receipts	6,530	-
Expenditures		
Instruction	6,530	-
Total Expenditures	6,530	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**EDUCATIONAL TECHNOLOGY GRANT FUND**  
Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	-	-
Total Cash Receipts	-	-
Expenditures		
Instruction	-	6
Total Expenditures	-	6
Receipts Over (Under) Expenditures	-	(6)
Unencumbered Cash, Beginning	6	6
Unencumbered Cash, Ending	<u>\$6</u>	<u>-</u>

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**ESOL FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	-	-
Operating transfer from:		
General fund	-	2,407
Total Cash Receipts	-	2,407
Expenditures		
Instruction	-	2,407
Total Expenditures	-	2,407
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**TITLE I ARRA FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$46,262	\$110,874
Total Cash Receipts	46,262	110,874
Expenditures		
Instruction	69,957	109,679
Total Expenditures	69,957	109,679
Receipts Over (Under) Expenditures	(23,695)	1,195
Unencumbered Cash, Beginning	25,000	1,305
Unencumbered Cash, Ending	<u>\$1,305</u>	<u>\$2,500</u>

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
SCHOOL PREPAREDNESS GRANT**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
State Sources		
Grant	\$750	-
Total Cash Receipts	750	-
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	750	-
Unencumbered Cash, Beginning	-	750
Unencumbered Cash, Ending	\$750	\$750

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**RURAL LOW INCOME SCHOOLS FUND**  
Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$27,646	\$27,329
Total Cash Receipts	27,646	27,329
Expenditures		
Instruction	27,646	27,329
Total Expenditures	27,646	27,329
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
EDUCATION FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Other	-	-
Total Cash Receipts	-	-
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	6,925.00	6,925.00
Unencumbered Cash, Ending	<u>\$6,925.00</u>	<u>\$6,925.00</u>

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
BOND AND INTEREST FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad valorem tax	-	-	-	-
Delinquent tax	-	-	-	-
Motor vehicle tax	-	-	-	-
State Sources				
State aid	-	-	-	-
Total Cash Receipts	-	-	-	-
Expenditures				
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total Expenditures	-	-	-	-
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	1,313	1,313		
Unencumbered Cash, Ending	\$1,313	\$1,313		

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**SPECIAL GRANTS FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Other grants	\$8,242	\$3,310
Other	-	-
Total Cash Receipts	8,242	3,310
Expenditures		
Scholarships	7,810	3,332
Total Expenditures	7,810	3,332
Receipts Over (Under) Expenditures	432	(22)
Unencumbered Cash, Beginning	9,638	10,070
Unencumbered Cash, Ending	<u>\$10,070</u>	<u>\$10,048</u>

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**ABERNATHY TRUST FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Abernathy trust	\$90,000	\$140,000
Other	-	1,394
Total Cash Receipts	<u>90,000</u>	<u>141,394</u>
Expenditures		
Grant Expenditures	<u>144,722</u>	<u>18,516</u>
Total Expenditures	<u>144,722</u>	<u>18,516</u>
Receipts Over (Under) Expenditures	(54,722)	122,878
Unencumbered Cash, Beginning	<u>84,180</u>	<u>29,458</u>
Unencumbered Cash, Ending	<u><u>\$29,458</u></u>	<u><u>\$152,336</u></u>

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**TAYLOR SCHOLARSHIP TRUST FUND**

Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Donations	-	-
Interest	5,054	3,295
Total Cash Receipts	5,054	3,295
Expenditures		
Scholarships	5,850	5,750
Total Expenditures	5,850	5,750
Receipts Over (Under) Expenditures	(796)	(2,455)
Unencumbered Cash, Beginning	185,963	185,168
Unencumbered Cash, Ending	<u>\$185,168</u>	<u>\$182,713</u>

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**HARTZELL SCHOLARSHIP TRUST FUND**  
Statement of Cash Receipts and Expenditures - Actual  
For the Fiscal Year Ended June 30, 2011  
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Donations	-	-
Interest	31	24
Total Cash Receipts	31	24
Expenditures		
Scholarships	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	31	24
Unencumbered Cash, Beginning	6,099	6,130
Unencumbered Cash, Ending	<u>\$6,130</u>	<u>\$6,154</u>

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

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**AGENCY FUNDS**  
Statement of Cash Receipts and Cash Disbursements  
For the Fiscal Year Ended June 30, 2011

	Beginning Cash Balances	Cash Receipts	Cash Disbursements	Ending Cash Balances
Agency Funds				
Student Organizations				
High School	\$20,347	\$87,984	\$88,221	\$20,109
Elementary Schools	3,603	63,483	62,488	4,598
Middle School	2,196	8,964	8,883	2,277
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Totals	<u>\$26,146</u>	<u>\$160,431</u>	<u>\$159,592</u>	<u>\$26,985</u>

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

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS  
DISTRICT ACTIVITY FUNDS**

Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Fiscal Year Ended June 30, 2011

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus Encumbrances and Accounts Payable	Cash Balances	
						2011	2010
Gate Receipts							
Middle School Activity	\$1,253	\$44,333	\$43,134	\$2,452	-	\$2,452	\$1,253
High School Activity	5,402	94,647	88,543	11,506	-	11,506	5,402
Total Gate Receipts	6,655	138,980	131,677	13,958	-	13,958	6,655
Totals	\$6,655	\$138,980	\$131,677	\$13,958	-	\$13,958	\$6,655

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

**BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Unified School District #508, Baxter Springs, Kansas (District), have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies follow. Note 1 describes how the District's accounting policies differ from accounting principles generally accepted in the United States of America.

Reporting Entity

The District is a municipal corporation governed by an elected seven-member board. These financial statements present USD #508 (the primary government). The District has developed criteria to determine whether outside agencies, with activities which benefit the members of the District, should be included within its financial reporting entity. This criteria include but are not limited to, whether the District exercises financial accountability, selection of governing authority, designation of management, ability to significantly influence operations, scope of public service and special financing relationships. Based on the above criteria, the District has determined that no outside agency meets the criteria; therefore, no outside agency has been included as a component unit in these financial statements.

Basis of Presentation - Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the District:

GOVERNMENTAL FUNDS

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

Special Revenue Funds -- 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)  
Basis of Presentation - Fund Accounting - (Continued)

GOVERNMENTAL FUNDS - (Continued)

Debt Service Fund -- to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments, which are general obligations of the District.

FIDUCIARY FUNDS

Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Non-Expendable Trust Funds and Agency Funds.

Basis of Presentation - Special Financial Statements

These financial statements are presented on 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 increased. For an interfund transfer, 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 inter-fund 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 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 municipality to use the statutory basis of accounting.

Departures From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue, 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 accounting principles generally accepted in the United States of America. Capital assets that account for the 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.

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

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), debt service funds and enterprise 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 fiscal year on or before August 1.
2. Publication in the local newspaper of the proposed budget and a 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 the publication of a notice of hearing.
4. Adoption of the final budget on or before August 25.

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. The General Fund budget was amended on May 2, 2011. The amended General Fund budget was reduced to the legal maximum based on enrollment.

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 cash basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of 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 fiduciary funds and the following special revenue funds:

- Grant Fund (K.S.A. 72-8210)
- Federal Funds (K.S.A. 12-1663)
- Contingency Reserve Fund (K.S.A. 72-6426)
- Student Materials Fund (K.S.A. 72-8250)

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.

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

Compensated Absences

Full time employees receive twelve days of sick leave at the beginning of the school year. An employee may accumulate up to 70 days of sick leave. Upon KPERs retirement or death of the employee, the District pays \$70 per day of accumulated unused sick leave. No other payments are made for unused sick leave.

Full time, twelve-month employees accrue 20 days of vacation each year on June 30, which is to be taken within twelve months after year end.

The District determines a liability for compensated absences when the following conditions are met:

1. The District's obligation relating to the employee's rights to receive compensation for future absences is attributable to employee's 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 to the financial statements.

In accordance with the above criteria, the District has determined a liability for accrued sick pay totaling \$45,430 as of June 30, 2011. However, the liability is not shown as a current liability, inasmuch as it is not expected to be paid from current resources.

Termination and Post Employment Benefits

No termination benefits are provided to District employees when employment with the District ends except for the accrued compensated absences as discussed in Note 1 and early retirement benefits.

A retirement benefit is available when an employee eligible for KPERs retires. The payments are made as a lump sum of \$175 per years of service with District.

In accordance with this retirement policy, thirteen employees are eligible to retire and receive lump sum benefits totaling \$57,925.00.

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays 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. However, the cost of this subsidy has not been quantified in these financial statements.

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

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

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Kansas Statutes

Statements 1 and 2 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statements 1 & 2, the District was in apparent compliance with the cash basis and budget laws of Kansas. Apparent cash basis violations in the General and Supplemental General Funds were not actual violations as discussed in Note 9.

3. **CASH IN BANK AND DEPOSITORY SECURITY**

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

K.S.A. 12-1675 limits the 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 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 District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

3. **CASH IN BANK AND DEPOSITORY SECURITY** (Continued)

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the 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, except during designated "peak periods" when required coverage is 50%. At June 30, 2011, the District was in compliance with this requirement.

At June 30, 2011 the District's carrying amount of deposits was \$2,718,542 and the bank balance was \$3,447,395. The bank balance was held by two banks resulting in limited diversification of credit risk. Of the bank balance, \$276,590 was covered by federal depository insurance, and \$3,170,805 was collateralized with securities totaling \$3,727,539 held by the pledging financial institutions' agents in the District's name.

4. **PENSION PLAN**

Plan Description

The School District 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, Suite 100; Topeka, Kansas 66603) 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 all employees hired before July 1, 2009. For employees hired after that date the contribution rate is 6%. Member-employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas contributed 9.17% of covered payroll for the period ended June 30, 2011. These contribution requirements are established by KPERS and are periodically reviewed. Kansas's employer contribution to KPERS for all school municipality employees for the years ending June 30, 2011, 2010, and 2009, was \$253,834,044, \$248,468,168, and \$242,277,363, respectively, equal to the statutory required contribution for each year. The KPERS Special Retirement Fund shows the payments made by the State for the District's eligible employees.

5. **RISK MANAGEMENT**

The 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 District continues to carry commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**6. CONTINGENCIES**

In the normal course of operations, the District participates in various federal or state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**7. TRANSFERS**

Operating transfers are routinely made from the General and Supplemental General Funds to other funds as allowed by Kansas Statutes. Operating transfers were as follows:

FROM	TO	STATUTORY AUTHORITY	AMOUNT
General	Capital Outlay	K.S.A. 72-6428	\$ 552,878
General	Vocational Education	K.S.A. 72-6421	16,415
General	Contingency Reserve	K.S.A. 72-6426	45,573
General	Special Education	K.S.A. 72-6420	949,697
General	ESOL	K.S.A. 72-9509	2,407
Supplemental General	Professional Development	K.S.A. 72-9609	8,702
Supplemental General	Special Education	K.S.A. 72-6420	109,520
Supplemental General	K-12 At Risk	K.S.A. 72-6414a	1,080,149
Supplemental General	4 Year Old At Risk	K.S.A. 72-6414b	58,216
Supplemental General	Student Materials	K.S.A. 72-6435	58,265
Supplemental General	Vocational Education	K.S.A. 72-6435	132,844
Supplemental General	Food Service	K.S.A. 72-6435	70,000

**8. AMENDED BUDGET**

On May 2, 2011, the District amended its General Fund Budget. The budget was further reduced to the legal maximum based on the District's enrollment. Shown below are the details of the original and amended budgets.

	Original Amount	Change	Amended Budget
Expenditures			
Instruction	\$ 2,632,208	\$ 46,677	\$ 2,678,885
Support Services			
Student Support	151,582	-	151,582
Instructional Support	282,736	-	282,736
General Administration	459,751	-	459,751
School Administration	396,861	-	396,861
Operations and Maintenance	764,760	-	764,760
Other Support Services	-	-	-
Transportation	150,265	-	150,265
Operating Transfers to Other Funds	2,036,800	-	2,036,800
Total	<u>\$ 6,874,963</u>	<u>\$ 46,677</u>	<u>6,921,640</u>
Adjustment to Comply			
Legal Maximum Budget			<u>(12,205)</u>
Final Legal Budget			<u>\$ 1,091,681,730</u>

9. **COMPLIANCE WITH K.S.A. 72-6417(d) AND K.S.A. 72-6434(d).**

K.S.A. 72-6417(d) and K.S.A. 72-6434(d) requires the school district to record any payment of general state aid that is due to be paid during the month of June and is paid to the school district after June 30, as a receipt for the school year ending on June 30. The following shows the revenue as required by the Statutes.

STATUTORY REVENUES AND EXPENDITURES - STATUTORY AND BUDGET  
For the Year Ended June 30, 2011

	GENERAL FUND		
	Statutory Transactions	Budget	Variance-Favorable (Unfavorable)
Cash Receipts			
Local Sources			
Ad Valorem Tax	\$ 384,896	\$ 405,296	\$ (20,400)
Delinquent Tax	9,242	-	9,242
Motor Vehicle Tax	-	-	-
Other	203,419	-	203,419
State Sources			
General Aid	5,434,468	5,588,373	(153,905)
Special Education Aid	747,316	759,480	(12,164)
Federal Sources			
Education Jobs Fund	210,825	-	210,825
ARRA Stabilization	120,403	120,403	-
Total Cash Receipts	<u>7,110,568</u>	<u>\$ 6,873,552</u>	<u>\$ 237,016</u>
Expenditures			
Instruction	2,952,133	\$ 2,678,885	\$ (273,248)
Support Services			
Student Support	164,750	151,582	(13,168)
Instructional Support	173,359	282,736	109,377
General Administration	552,454	459,751	(92,703)
School Administration	518,815	396,861	(121,954)
Operations and Maintenance	1,007,417	764,760	(242,657)
Other Support Services	-	-	-
Transportation	176,956	150,265	(26,691)
Operating Transfers to Other Funds			
At Risk 4 Year Old	-	25,000	25,000
At Risk K-12	-	225,000	225,000
Capital Outlay	552,878	335,650	(217,228)
Food Service	-	90,000	90,000
Special Education	949,697	900,000	(49,697)
Vocational Education	16,415	47,500	31,085
Drivers Education	-	4,500	4,500
Contingency Reserve	45,573	325,250	279,677
ESOL	2,407	-	(2,407)
Student Materials	-	83,900	83,900
Subtotal Expenditures	<u>7,112,854</u>	<u>6,921,640</u>	
Adjustments to Budget			
Adjustment to Comply with			
Legal Maximum Budget	-	(12,205)	(12,205)
Adjustment for Reimbursed Expenses	-	203,419	203,419
Total Expenditures Subject to Budget	<u>7,112,854</u>	<u>\$ 7,112,854</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	(2,286)		
Unencumbered Cash, Beginning	2,286		
Cancelled Prior Year Encumbrances	-		
Unencumbered Cash, Ending	<u>\$ -</u>		

9. **COMPLIANCE WITH K.S.A. 72-6417(d) AND K.S.A. 72-6434(d).**  
 (Continued)

STATUTORY REVENUES AND EXPENDITURES - STATUTORY AND BUDGET  
 For the Year Ended June 30, 2011

	<u>SUPPLEMENTAL GENERAL FUND</u>		
	<u>Statutory Transactions</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
Cash Receipts			
Local Sources			
Ad Valorem Tax	\$ 488,907	\$ 561,264	\$ (72,357)
Delinquent Tax	17,575	-	17,575
Motor Vehicle Tax	75,547	60,569	14,978
State Sources			
Supplemental Aid	1,220,149	1,224,141	(3,992)
Federal Sources			
ARRA Stabilization	-	-	-
<b>Total Cash Receipts</b>	<u>1,802,178</u>	<u>\$ 1,845,974</u>	<u>\$ (43,796)</u>
Expenditures			
Instruction	277,468	\$ 657,352	\$ 379,884
Support Services			
Student Support	-	-	-
General Administration	216	-	(216)
School Administration	-	-	-
Operations and Maintenance	35,619	175,000	139,381
Operating Transfers to Other Funds			
Food Service	70,000	110,000	40,000
Professional Development	8,702	-	(8,702)
K-12 At Risk	1,080,149	855,432	(224,717)
4 Year Old At Risk	58,216	33,216	(25,000)
Student Materials	58,265	-	(58,265)
Special Education	109,520	-	(109,520)
Vocational Education	132,844	-	(132,844)
<b>Total Expenditures Subject to Budget</b>	<u>1,831,000</u>	<u>\$ 1,831,000</u>	<u>\$ 0</u>
Receipts Over (Under) Expenditures	(28,822)		
Unencumbered Cash, Beginning	<u>35,587</u>		
Unencumbered Cash, Ending	<u>\$ 6,765</u>		

10. **SUBSEQUENT EVENT**

Subsequent events have been evaluated through the date of the Independent Auditors' Report as shown on page 2 of these financial statements. There are no subsequent events recognized in these financial statements or disclosed in the notes to the financial statements.

**11. LONG TERM OBLIGATIONS**

Details about the District's long-term obligations, changes in long term debt, and the next five years and thereafter are recorded as follows:

Schedule of Changes in Long Term Obligations for the Year Ended June 30, 2011

	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balances Beginning of Year	Additions / New Debt	Reductions / Principal Paid	Balances End of Year	Interest Paid
Capital Leases									
School Buses	4.50%	8/23/2007	\$ 132,270	8/1/2011	\$ 54,228	\$ -	\$ 26,504	\$ 27,724	\$ 2,496
School Buses	4.29%	10/20/2010	264,059	10/20/2014	-	76,527	16,605	59,922	-
Apple Computer	3.00%	7/15/2008	163,046	6/30/2012	83,831	-	41,296	42,535	2,515
<u>Compensated Absences</u>									
Sick Pay					57,575	-	3,955	53,620	-
Early Retirement					63,000	-	5,075	57,925	-
					<u>\$ 258,634</u>	<u>\$ 76,527</u>	<u>\$ 93,435</u>	<u>\$ 241,726</u>	<u>\$ 5,011</u>
Total Long Term Debt									

11. LONG TERM OBLIGATIONS (Continued)

Schedule of Maturities for the Years Ended June 30,

	2012	2013	2014	2015	2016	Totals
<u>Principal</u>						
Capital Leases						
School Buses	\$ 27,724	\$ -	\$ -	\$ -	\$ -	\$ 27,724
School Bus	14,059	14,656	15,279	15,928	-	59,922
Apple Computers	42,535	-	-	-	-	42,535
Total Principal	<u>84,318</u>	<u>14,656</u>	<u>15,279</u>	<u>15,928</u>	<u>-</u>	<u>130,181</u>
<u>Interest</u>						
Capital Leases						
School Buses	1,276	-	-	-	-	1,276
School Bus	2,547	1,949	1,326	677	-	6,499
Apple Computers	1,276	-	-	-	-	1,276
Total Interest	<u>5,099</u>	<u>1,949</u>	<u>1,326</u>	<u>677</u>	<u>-</u>	<u>9,051</u>
Total Principal and Interest	<u>\$ 89,417</u>	<u>\$ 16,605</u>	<u>\$ 16,605</u>	<u>\$ 16,605</u>	<u>\$ -</u>	<u>\$ 139,232</u>

## **SUPPLEMENTAL INFORMATION**

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**HIGH SCHOOL ACTIVITY FUND**

Schedule of Cash Receipts, Cash Disbursements and Cash Balances  
For the Fiscal Year Ended June 30, 2011

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Student Organizations				
BIAM	\$61.36	-	-	\$61.36
Business Club	168.71	-	-	168.71
Cheerleaders	995.26	1,194.96	1,497.92	692.30
Class of 2011	2,010.32	42,321.95	44,332.27	-
Class of 2012	269.89	4,118.50	3,060.75	1,327.64
Class of 2013	-	3,201.48	1,905.71	1,295.77
Class of 2014	-	-	-	-
FCA	-	126.36	12.93	113.43
FCCLA	258.05	240.00	160.00	338.05
Foreign Language Club	206.70	510.00	510.00	206.70
Green Fund	-	153.55	12.42	141.13
Miscellaneous	-	61.90	61.90	-
National Honor Society	4.33	-	4.33	-
Patron Banners	-	3,850.00	2,935.08	914.92
Science Club	688.41	225.00	330.49	582.92
Student Council	1,260.15	12,439.89	13,205.44	494.60
Thespians	18.36	-	-	18.36
Lionbackers	3,306.21	1,382.00	1,273.15	3,415.06
Annual	1,000.00	310.00	310.00	1,000.00
Band	5,253.43	8,666.51	9,670.84	4,249.10
Vocal Music	3,263.92	7,924.76	7,676.37	3,512.31
Scholars bowl	986.92	1,040.00	906.29	1,120.63
Interest	594.49	216.99	355.31	456.17
Totals - Cash Basis	20,346.51	87,983.85	88,221.20	20,109.16
<u>District Activity Funds</u>				
Gate Receipts				
Athletics	35.00	25,634.75	20,165.57	5,504.18
Stage	5,367.27	12,198.27	11,563.45	6,002.09
Fees and User Charges				
Book rental	-	3,227.17	3,227.17	-
Food service	-	33,215.01	33,215.01	-
Industrial Arts	-	3,517.84	3,517.84	-
Locks	-	15.00	15.00	-
Library	-	409.53	409.53	-
Technology	-	16,429.11	16,429.11	-
Total - Cash Basis	5,402.27	94,646.68	88,542.68	11,506.27
GRAND TOTALS				
(MEMORANDUM ONLY)				
	\$25,748.78	\$182,630.53	\$176,763.88	\$31,615.43

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**MIDDLE SCHOOL SCHOOL ACTIVITY FUND**  
Schedule of Cash Receipts, Cash Disbursements and Cash Balances  
For the Fiscal Year Ended June 30, 2011

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Student Organizations				
Concessions	\$847.84	\$5,632.31	\$5,345.34	\$1,134.81
Interest	18.72	19.50	16.32	21.90
Lost & Damaged items	-	156.50	124.50	32.00
AAA Club	84.98	-	-	84.98
Year Book	186.05	1,280.00	1,092.30	373.75
Student Council	1,058.49	1,875.80	2,304.33	629.96
Totals - Cash Basis	<u>2,196.08</u>	<u>8,964.11</u>	<u>8,882.79</u>	<u>2,277.40</u>
<u>District Activity Funds</u>				
Gate Receipts				
Athletics	1,252.86	5,983.62	4,784.76	2,451.72
Fees and User Charges				
Food service	-	36,309.38	36,309.38	-
Book rental	-	2,040.00	2,040.00	-
Totals - Cash Basis	<u>1,252.86</u>	<u>44,333.00</u>	<u>43,134.14</u>	<u>2,451.72</u>
GRAND TOTALS (MEMORANDUM ONLY)	<u><u>\$3,448.94</u></u>	<u><u>\$53,297.11</u></u>	<u><u>\$52,016.93</u></u>	<u><u>\$4,729.12</u></u>

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**LINCOLN ELEMENTARY SCHOOL ACTIVITY FUND**  
Schedule of Cash Receipts, Cash Disbursements and Cash Balances  
For the Fiscal Year Ended June 30, 2011

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Fees and User Charges				
Misc	\$2,600.08	\$1,943.47	\$1,818.65	\$2,724.90
Totals - Cash Basis	2,600.08	1,943.47	1,818.65	2,724.90
<u>District Activity Funds</u>				
Food Service	-	28,123.44	28,123.44	-
Book Rental	-	1,805.00	1,805.00	-
Totals - Cash Basis	-	29,928.44	29,928.44	-
GRAND TOTALS (MEMORANDUM ONLY)	\$2,600.08	\$31,871.91	\$31,747.09	\$2,724.90

**UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**  
**CENTRAL ELEMENTARY SCHOOL ACTIVITY FUND**  
Schedule of Cash Receipts, Cash Disbursements and Cash Balances  
For the Fiscal Year Ended June 30, 2011

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Fees and User Charges				
Staff	\$34.21	\$3,440.07	\$2,798.83	\$675.45
Allen Memorial	-	165.00	-	165.00
Lost damaged items	-	60.00	60.00	-
Interest earned	16.69	35.28	35.00	16.97
Library book fair	327.77	447.05	291.14	483.68
HOSTS book	624.70	5.00	97.42	532.28
	1,003.37	4,152.40	3,282.39	1,873.38
<u>District Activity Funds</u>				
Food Service	-	25,698.86	25,698.86	-
Book Rental	-	1,760.00	1,760.00	-
	-	27,458.86	27,458.86	-
Totals - Cash Basis	-	27,458.86	27,458.86	-
GRAND TOTALS (MEMORANDUM ONLY)	<u>\$1,003.37</u>	<u>\$31,611.26</u>	<u>\$30,741.25</u>	<u>\$1,873.38</u>

**UNIFIED SCHOOL DISTRICT #508  
BAXTER SPRINGS, KANSAS**

Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2011

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT RECEIVED	AMOUNT EXPENDED
<u>U.S. Department of Agriculture</u>			
Passed Through the State of Kansas			
Department of Education:			
School Breakfast Program	10.553	\$77,766	\$77,766
National School Lunch Program	10.555	262,365	262,365
		340,131	340,131
<u>U.S. Department of Education</u>			
Passed Through the State of Kansas			
Department of Education:			
Title I Grants to Local Educational Agencies	84.010	296,650	296,650
Title II Education Technology	84.318	1,004	1,004
Title II - Improving Teacher Quality	84.367	63,623	63,623
Rural Low Income Schools	84.358	27,329	27,329
Title I ARRA	84.389	110,874	109,679
ARRA Stabilization	84.394	120,403	120,403
Education Jobs Fund	84.410	210,825	210,825
		830,708	829,513
<u>U.S. Department of Health and Human Services</u>			
Passed Through the State of Kansas			
Department of Education:			
Youth Risk Behavior Survey	93.938	750	750
TOTALS		\$1,171,589	\$1,170,394

# Diehl Banwart Bolton

Certified Public Accountants P.A.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AWARDS PROGRAMS

Board of Education  
Baxter Springs Unified School District #508  
Baxter Springs, Kansas 66713

### Compliance

We have audited the compliance of Baxter Springs Unified School District #508, Baxter Springs, Kansas, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the compliance of the District based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Unified School District #508 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2011 .

## Internal Control Over Compliance

The management of Unified School District #508 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

*Diehl Banwart Bolton CPA's PA*

DIEHL, BANWART, BOLTON, CPAs PA

January 26, 2012  
Pittsburg, Kansas

# Diehl Banwart Bolton

*Certified Public Accountants PA*

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Baxter Springs Unified School District #508  
Baxter Springs, Kansas 66713

We have audited the financial statements of Unified School District #508, Baxter Springs, Kansas, as of the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (2011-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, we would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to Management of the District in a separate letter dated January 26, 2012.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Diehl Banwart Bolton CPAs PA*

DIEHL, BANWART, BOLTON, CPAs PA

January 26, 2012  
Pittsburg, Kansas

**BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508**  
**BAXTER SPRINGS, KANSAS**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

- Adverse for departures from accounting principles generally accepted in the United States of America due to preparation of financial statements in accordance with the statutory basis of accounting.
- Unqualified opinion on the statutory basis financial statements.

Internal control over financial reporting:

- Significant deficiencies identified?   X   YES    NO
- Significant deficiencies identified that are not considered to be material weaknesses?    YES    NONE   X   REPORTED

Noncompliance material to financial statements noted?    YES   X   NO

FEDERAL AWARDS:

Internal control over major programs:

- Significant deficiencies identified?    YES   X   NO
- Significant deficiencies identified that are not considered to be material weaknesses?    YES    NONE   X   REPORTED

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?    YES   X   NO

IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA #</u>	<u>NAME OF PROGRAM</u>
10.553 & 10.555	Child Nutrition Cluster
84.010 & 84.389	Title I Cluster

Auditee qualified as low-risk auditee?    YES   X   NO

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Significant Deficiency

#### 2011-1 Drafting Financial Statements

Condition: As auditors, we provide significant assistance with adjusting entries, as well as determining which disclosures are required under generally accepted accounting standards and the statutory basis of accounting.

Criteria: Internal controls should be in place that provide a reasonable assurance that the financial statements are appropriate in form and contain the required disclosures.

Cause: Relying upon the independent auditors is a significant deficiency in internal controls as they can not be considered part of the District's internal control.

Effect: The District relies on independent auditors to determine the financial statements are in the correct form and include the proper disclosures.

Recommendation: None

Response: The District agrees with the finding. The District's response is in the attached Corrective Action Plan.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

# BAXTER SPRINGS SCHOOLS USD NO. 508

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FAX: (620) 856-3943

DENNIS BURKE, Superintendent  
VICKI BRADLEY, Clerk of the Board

JO ANN THOMASSON, Supt. Secretary  
JACKIE HALL, Board Secretary

UNIFIED SCHOOL DISTRICT #508 (USD #508)

June 30, 2011 Financial Statements

Corrective Action Plan

Audit Finding 2011-1

USD #508 has always relied upon its auditors to provide significant assistance with adjusting entries and with determining which disclosures were required under generally accepted accounting principles and the statutory basis of accounting. While USD #508 understands that this is a significant deficiency in our internal controls, we believe it is the most cost effective manner for us to produce our financial statements. Our accounting staff concentrate on providing the reports needed for management purposes and preparing the required reports for the Kansas Department of Education. We believe it would be inefficient and cost prohibitive for our staff to attempt to stay current on all the requirements of GAAP and the statutory basis of accounting. We do not plan on making any changes at this time. However, we will monitor this situation and periodically determine if it is cost effective for us to perform these functions.