

FRONTIER EXTENSION DISTRICT NO. 11
Lyndon, Kansas

FINANCIAL STATEMENT AND INDEPENDENT AUDITORS' REPORT
December 31, 2012

CLUBINE AND RETTELE, CHARTERED
CERTIFIED PUBLIC ACCOUNTANTS
Salina, Kansas

FRONTIER EXTENSION DISTRICT NO. 11
Lyndon, Kansas

FINANCIAL STATEMENT AND INDEPENDENT AUDITORS' REPORT
December 31, 2012

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INDEPENDENT AUDITORS' REPORT



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To the Board
Frontier Extension District No. 11
Lyndon, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Frontier Extension District No. 11, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statement, the financial statement is prepared by the Frontier Extension District No. 11 to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Frontier Extension District No. 11 as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

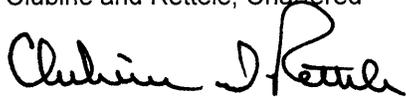
In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Frontier Extension District No. 11 as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 2.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2012 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and the individual fund schedule of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the 2012 basic financial statement, however, they are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the 2012 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 2012 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 2012 basic financial statement as a whole, on the basis of accounting described in Note 2.

The 2011 actual column presented in the individual fund schedule of regulatory basis receipts and expenditures-actual and budget (Schedule 2 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2011 basic financial statement upon which we rendered an unqualified opinion dated September 24, 2012. The 2011 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management Analysis and Standards at the following link <http://da.ks.gov/ar/muniserv/>. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 basic financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 basic financial statement or to the 2011 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 basic financial statement as a whole, on the basis of accounting described in Note 2.

Clubine and Rettele, Chartered



Salina, Kansas
August 14, 2013

FRONTIER EXTENSION DISTRICT NO. 11

Lyndon, Kansas

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

For the Year Ended December 31, 2012

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 83,096.77	\$ 599,684.81	\$ 558,182.17	\$ 124,599.41	\$ 814.18	\$ 125,413.59
Composition of Cash Checking Account						<u>\$ 125,413.59</u>

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

FRONTIER EXTENSION DISTRICT #11
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENT
December 31, 2012

Note 1 Reporting Entity

The Frontier Extension District #11, is a sub-division of Franklin and Osage County Extension Councils and the Research and Extension Department of Kansas State University, formed under K.S.A 2-623 through 2-628. The District was formed on July 1, 2010, under an operational agreement to combine the extension programs for each county into one extension program.

Note 2 Summary of Significant Accounting Policies

Regulatory Basis of Accounting. The *Kansas Municipal Audit and Accounting Guide (KMAAG)* regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

The 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 District to use the regulatory basis of accounting.

Fund Descriptions. The following type of fund comprise the financial activities of the District for the year ended December 31, 2012:

General Fund - The chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

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 receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities, such as deferred revenue and matured principal and interest payable, and reservations of 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 year in accordance with generally accepted accounting principles. General fixed assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statement.

Note 3 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:

FRONTIER EXTENSION DISTRICT #11
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENT (Cont.)
December 31, 2012

Note 3 Budgetary Information (continued)

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

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison 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 regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the District 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.

Note 4 Deposits and Investments

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 counties 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.

FRONTIER EXTENSION DISTRICT #11
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENT (Cont.)
December 31, 2012

Note 4 Deposits and Investments (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 Government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Government has not designated a "peak period." All deposits were legally secured at December 31, 2012.

Deposits. At December 31, 2012, the Districts' carrying amount of deposits was \$125,413.59. The bank balance was \$161,589.54, held by two banks resulting in a concentration of credit risk. All deposits were covered by federal depository insurance.

Note 5 Defined Benefit Pension Plan

Plan Description. The 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, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas 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. Kansas sets a limitation on annual increases in the employer contribution rates. The employer rate established for calendar year 2012 is 7.34%.

The employer contributions to KPERS for the years ended December 31, 2012 and 2011 were \$7,941.55 and \$7,071.79 respectively, equal to the required contributions for each year.

Note 6 Other Post Employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the district 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 municipality under this program.

FRONTIER EXTENSION DISTRICT #11
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENT (Cont.)
December 31, 2012

Note 7 Compensated Absences

The District provides compensation for absences. Full time employees working 33-40 hours per week earn vacation leave at the rate listed below in the chart:

<u>Length of Service</u>	<u>Hours Earned/Pay Period</u>	<u>Maximum Hour Accumulation</u>
< 2 years	4 hours/month	40 hours
2 years to < 5 years	6 hours/month	60 hours
5 years to < 10 years	8 hours/month	80 hours
10 years to < 15 years	10 hours/month	100 hours
15 years to < 20 years	12 hours/month	120 hours
20 years and over	15 hours/month	150 hours

An employee who resigns or is otherwise separated from employment is paid for the accumulated vacation leave at the rate he or she was paid for their last day of work, not to exceed the maximum allowable hours of accumulation.

Part time employees working 20-32 hours per week earn vacation leave at one-half the full time rate shown in the above chart. Part time employees working less than 20 hours per week are not eligible for vacation leave.

Each full time employee earns 8 hours of sick leave per monthly pay period. Part time employees working 20-32 hours per week earn sick leave at one-half the full time employees rate. Part time employees working less than 20 hours per week are not eligible for sick leave. Employees that are eligible for KPERS retirement will be compensated for their accumulated sick leave when they become eligible for retirement. Compensation will be paid for 20 working days, at the employees current pay rate, if the employee has accumulated 500 hours of sick leave.

As of December 31, 2012, the unused vacation leave totaled \$2,663.47 and the unused sick leave totaled \$21,971.47.

Note 8 Subsequent Events

The District's management has evaluated events and transactions occurring after December 31, 2012 through August 14, 2013. The aforementioned date represents the date the financial statement was available to be issued.

FRONTIER EXTENSION DISTRICT NO. 11

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2012

FRONTIER EXTENSION DISTRICT NO. 11

Schedule 1

Lyndon, Kansas

Summary of Expenditures, Actual and Budget - Regulatory Basis
For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustment For Qualifying Budget Credits	Total Budget For Comparison	Expenditures Chargeable to Current Year	Variance- Over (Under)
General Fund	\$ 666,400.00	\$ -	\$ 666,400.00	\$ 558,182.17	\$ (108,217.83)

FRONTIER EXTENSION DISTRICT NO. 11

Lyndon, Kansas

General Fund

Schedule of Receipts and Expenditures - Actual and Budget, Regulatory Basis
For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year <u>Actual</u>	Current Year		Variance Over (Under)
		<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes and Shared Revenue	\$ 461,175.30	\$ 491,784.19	\$ 479,743.00	\$ 12,041.19
Kansas State University	87,178.00	86,243.60	87,178.00	(934.40)
Interest	108.03	96.67	200.00	(103.33)
Educational Services Reimbursements	16,445.16	17,048.76	60,000.00	(42,951.24)
Other	11,052.35	4,511.59	-	4,511.59
Total Cash Receipts	<u>575,958.84</u>	<u>599,684.81</u>	<u>\$ 627,121.00</u>	<u>\$ (27,436.19)</u>
Expenditures				
Travel	19,757.11	18,885.01	\$ 20,400.00	\$ (1,514.99)
Printing and Audit	6,419.84	9,544.27	6,000.00	3,544.27
Rent	28,989.52	29,139.52	29,500.00	(360.48)
Telephone	5,099.59	5,783.05	7,000.00	(1,216.95)
Supplies, Stationery, and Postage	8,115.38	9,972.51	9,000.00	972.51
Equipment and Auto Purchases	7,550.91	6,992.89	10,000.00	(3,007.11)
Salaries	377,939.22	376,408.18	399,000.00	(22,591.82)
Employer's Contribution	50,248.56	48,624.10	78,000.00	(29,375.90)
Capital Outlay	35,886.19	27,282.39	30,000.00	(2,717.61)
Subsistence	4,133.18	4,496.03	7,500.00	(3,003.97)
Educational Services	16,223.16	13,158.11	60,000.00	(46,841.89)
Miscellaneous	9,262.72	7,896.11	10,000.00	(2,103.89)
Total Expenditures	<u>569,625.38</u>	<u>558,182.17</u>	<u>\$ 666,400.00</u>	<u>\$ (108,217.83)</u>
Receipts Over (Under) Expenditures	6,333.46	41,502.64		
Unencumbered Cash, Beginning	<u>76,763.31</u>	<u>83,096.77</u>		
Unencumbered Cash, Ending	<u>\$ 83,096.77</u>	<u>\$ 124,599.41</u>		