

UNIFIED SCHOOL DISTRICT NO. 439

SEDGWICK, KANSAS

Special Financial Statements

June 30, 2012

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Education
Unified School District No. 439
Sedgwick, Kansas 67135

We have audited the accompanying primary government financial statements of the individual funds of Unified School District No. 439, Sedgwick, Kansas, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the District's 2011 financial statements and, in our report dated August 31, 2011, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component units. The District has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component unit, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the District has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Unified School District No. 439, Sedgwick, Kansas, as of June 30, 2012, or the results of its operations for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Primary Government of Unified School District No. 439, Sedgwick, Kansas, as of June 30, 2012, and its cash receipts and expenditures for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company, LLC

Certified Public Accountants
August 29, 2012

Unified School District No. 439

SUMMARY STATEMENT OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH

Year ended June 30, 2012

FUNDS	Unencumbered Cash Balance 06/30/11 *	Prior Year Canceled Encumbrances	Receipts	Expenditures	Unencumbered Cash Balance 06/30/12	Liabilities and Encumbrances	Cash Balance 06/30/12
General							
General	21	44	3,765,187	3,765,208	44	39,016	39,060
Supplemental general	6,462	-	634,515	615,000	25,977	3,421	29,398
Special revenue							
At risk (K-12)	245,334	-	297,000	242,000	300,334	-	300,334
Capital outlay	2,236,963	-	59,472	371,414	1,925,021	158,581	2,083,602
Driver training	47,656	-	25,242	27,883	45,015	-	45,015
Food service	103,425	-	335,045	328,880	109,590	-	109,590
Professional development	51,312	-	20,495	12,293	59,514	-	59,514
Special education	774,983	-	729,210	679,254	824,939	74	825,013
Vocational education	155,808	-	230,357	153,895	232,270	4,529	236,799
KPERS employer contribution	-	-	301,135	301,135	-	-	-
Contingency reserve	406,000	-	-	34,000	372,000	-	372,000
Textbook revolving	100,071	-	70,000	47,975	122,096	7,459	129,555
Recreation	12,868	-	33,852	34,000	12,720	-	12,720
Federal government programs	-	-	115,629	115,955	(326)	-	(326)
Activity gate receipts	11,007	-	108,015	98,141	20,881	-	20,881
School projects	10,284	-	8,643	6,598	12,329	-	12,329
Debt service							
Bond and interest	257,120	-	264,096	317,608	203,608	-	203,608
Fiduciary							
Student organizations	-	-	20,608	20,608	-	11,251	11,251
	<u>\$ 4,419,314</u>	<u>44</u>	<u>7,018,501</u>	<u>7,171,847</u>	<u>4,266,012</u>	<u>224,331</u>	<u>4,490,343</u>

* As Restated – See note 6

Unified School District No. 439

SUMMARY STATEMENT OF EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

	<u>Certified Budget</u>	<u>Adjustment to Comply with Legal Max</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General						
General	\$ 3,906,142	(183,618)	42,684	3,765,208	3,765,208	-
Supplemental general	615,000	-	-	615,000	615,000	-
Special revenue						
At risk (K-12)	295,334	-	-	295,334	242,000	(53,334)
Capital outlay	1,300,000	-	-	1,300,000	371,414	(928,586)
Driver training	50,986	-	-	50,986	27,883	(23,103)
Food service	449,237	-	-	449,237	328,880	(120,357)
Professional development	51,312	-	-	51,312	12,293	(39,019)
Special education	1,414,983	-	-	1,414,983	679,254	(735,729)
Vocational education	215,808	-	-	215,808	153,895	(61,913)
KPERS employer contributions	370,000	-	-	370,000	301,135	(68,865)
Recreation	34,000	-	-	34,000	34,000	-
Debt service						
Bond and interest	<u>317,708</u>	<u>-</u>	<u>-</u>	<u>317,708</u>	<u>317,608</u>	<u>(100)</u>
	<u>\$ 9,020,510</u>	<u>(183,618)</u>	<u>42,684</u>	<u>8,879,576</u>	6,848,570	<u>(2,031,006)</u>
Add expenditures of unbudgeted funds						
Special revenue					302,669	
Fiduciary					<u>20,608</u>	
Total expenditures, Statement 1					<u>\$ 7,171,847</u>	

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		Variance Over (Under)
	2011 Actual	Actual	Budget	
GENERAL FUND				
Receipts				
Taxes				
Tax in process	\$ 11,022	14,470	17,435	(2,965)
Current tax	242,717	243,773	241,326	2,447
Delinquent tax	5,689	6,934	4,025	2,909
General state aid	2,924,551	2,945,381	2,949,476	(4,095)
Special education state aid	445,458	476,188	506,859	(30,671)
Federal ARRA stabilization aid	69,141	1,757	-	1,757
Federal education jobs aid	121,066	-	-	-
Transfer from other funds	-	34,000	187,000	(153,000)
Reimbursements				
Student fees and activities	21,403	21,276	-	21,276
Grants and other	19,814	21,408	-	21,408
	<u>3,860,861</u>	<u>3,765,187</u>	<u>3,906,121</u>	<u>(140,934)</u>
Expenditures				
Instruction	1,723,175	1,719,665	1,927,862	(208,197)
Student support services	98,071	101,002	103,900	(2,898)
Instructional support staff	170,019	176,825	180,200	(3,375)
General administration	214,462	213,714	227,400	(13,686)
School administration	225,989	234,807	239,600	(4,793)
Other supplemental services	29,984	30,435	32,500	(2,065)
Operations and maintenance	281,769	300,637	409,900	(109,263)
Student transportation services	72,663	77,883	95,280	(17,397)
Vehicle operating and maintence services	15,423	29,676	29,500	176
Operating transfers	<u>1,029,733</u>	<u>880,564</u>	<u>660,000</u>	<u>220,564</u>
	3,861,288	3,765,208	3,906,142	(140,934)
Budget adjustments:				
Legal maximum budget	-	-	(183,618)	183,618
Qualifying budget credits	-	-	42,684	(42,684)
	<u>3,861,288</u>	<u>3,765,208</u>	<u>3,765,208</u>	<u>-</u>
Receipts over (under) expenditures	(427)	(21)		
Unencumbered cash, beginning - As Restated	428	21		
Canceled prior year encumbrances	<u>20</u>	<u>44</u>		
Unencumbered cash, ending	\$ 21	44		

See notes to financial statements

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		Variance
	2011			Over
	Actual	Actual	Budget	(Under)
SUPPLEMENTAL GENERAL FUND				
Receipts				
Taxes				
Tax in process	\$ 7,252	8,724	7,611	1,113
Current tax	144,153	208,743	151,799	56,944
Delinquent tax	3,501	4,202	3,278	924
Motor vehicle tax	22,606	23,771	22,739	1,032
Recreational vehicle tax	546	675	563	112
State aid	392,609	388,400	393,893	(5,493)
Reimbursements	499	-	-	-
	<u>571,166</u>	<u>634,515</u>	<u>579,883</u>	<u>54,632</u>
Expenditures				
Instruction	175,765	50,676	452,000	(401,324)
Instructional support services	2,200	2,341	3,000	(659)
Operating transfers	397,035	561,983	160,000	401,983
	<u>575,000</u>	<u>615,000</u>	<u>615,000</u>	<u>-</u>
Receipts over (under) expenditures	(3,834)	19,515		
Unencumbered cash, beginning - As Restated	10,296	6,462		
Unencumbered cash, ending	\$ 6,462	25,977		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		Variance
	2011	Actual	Budget	Over
	Actual			(Under)
AT RISK FUND (K-12)				
Receipts				
Transfers from other funds	\$ 273,335	297,000	<u>50,000</u>	<u>247,000</u>
Expenditures				
Instruction	<u>213,001</u>	<u>242,000</u>	<u>295,334</u>	<u>(53,334)</u>
Receipts over (under) expenditures	60,334	55,000		
Unencumbered cash, beginning	<u>185,000</u>	<u>245,334</u>		
Unencumbered cash, ending	<u>\$ 245,334</u>	<u>300,334</u>		
CAPITAL OUTLAY FUND				
Receipts				
Taxes				
Tax in process	\$ 1,904	2,473	2,960	(487)
Current tax	40,916	27,527	27,181	346
Delinquent tax	1,505	1,451	679	772
Motor vehicle tax	8,996	6,376	6,550	(174)
Recreational vehicle tax	205	180	134	46
Interest	8,096	5,420	5,000	420
Other	17,405	16,045	-	16,045
Transfers from other funds	<u>94,275</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>173,302</u>	<u>59,472</u>	<u>42,504</u>	<u>16,968</u>
Expenditures				
Equipment	2,860	190,699	400,000	(209,301)
Facility acquisition and construction	<u>35,680</u>	<u>180,715</u>	<u>900,000</u>	<u>(719,285)</u>
	<u>38,540</u>	<u>371,414</u>	<u>1,300,000</u>	<u>(928,586)</u>
Receipts over (under) expenditures	134,762	(311,942)		
Unencumbered cash, beginning	<u>2,102,201</u>	<u>2,236,963</u>		
Unencumbered cash, ending	<u>\$ 2,236,963</u>	<u>1,925,021</u>		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		
	2011			Variance
	Actual	Actual	Budget	Over (Under)
DRIVER TRAINING FUND				
Receipts				
State aid	\$ 2,590	3,666	3,500	166
Transfers from other funds	30,000	20,000	5,000	15,000
Other	1,874	1,576	2,500	(924)
	<u>34,464</u>	<u>25,242</u>	<u>11,000</u>	<u>14,242</u>
Expenditures				
Instructional salaries and benefits	7,304	7,742	21,100	(13,358)
Equipment	-	19,535	20,000	(465)
Other	379	606	9,886	(9,280)
	<u>7,683</u>	<u>27,883</u>	<u>50,986</u>	<u>(23,103)</u>
Receipts over (under) expenditures	26,781	(2,641)		
Unencumbered cash, beginning	20,875	47,656		
Unencumbered cash, ending	<u>\$ 47,656</u>	<u>45,015</u>		
FOOD SERVICE FUND				
Receipts				
Lunch and breakfast sales	\$ 131,108	127,661	146,410	(18,749)
Federal aid	119,141	123,390	126,381	(2,991)
State aid	3,370	3,179	3,021	158
Transfers from other funds	55,000	79,900	70,000	9,900
Other	2,616	915	-	915
	<u>311,235</u>	<u>335,045</u>	<u>345,812</u>	<u>(10,767)</u>
Expenditures				
Operations and maintenance	29,447	33,344	36,300	(2,956)
Food service operation				
Salaries and benefits	89,861	96,023	98,200	(2,177)
Food and supplies	189,515	198,051	220,000	(21,949)
Capital outlay and other	6,987	1,462	94,737	(93,275)
	<u>315,810</u>	<u>328,880</u>	<u>449,237</u>	<u>(120,357)</u>
Receipts over (under) expenditures	(4,575)	6,165		
Unencumbered cash, beginning	108,000	103,425		
Unencumbered cash, ending	<u>\$ 103,425</u>	<u>109,590</u>		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		
	2011			Variance
	Actual	Actual	Budget	Over
				(Under)
PROFESSIONAL DEVELOPMENT FUND				
Receipts				
Other	\$ 300	495	-	495
Transfers from other funds	35,000	20,000	-	20,000
	35,300	20,495	-	20,495
Expenditures				
Instructional support staff				
Salaries and benefits	2,230	1,808	16,300	(14,492)
Purchased professional and technical services	14,328	10,096	17,000	(6,904)
Other	505	389	18,012	(17,623)
	17,063	12,293	51,312	(39,019)
Receipts over (under) expenditures	18,237	8,202		
Unencumbered cash, beginning	33,075	51,312		
Unencumbered cash, ending	\$ 51,312	59,514		
SUMMER SCHOOL FUND				
Receipts	\$ -	-	-	-
Expenditures				
Instruction	1,550	-	-	-
Receipts over (under) expenditures	(1,550)	-		
Unencumbered cash, beginning	1,550	-		
Unencumbered cash, ending	\$ -	-		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES –
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		Variance
	2011	Actual	Budget	Over
	Actual			(Under)
SPECIAL EDUCATION FUND				
Receipts				
Special Education federal aid	\$ 3,185	1,563	-	1,563
Other	720	-	-	-
Transfers from other funds	709,158	727,647	640,000	87,647
	<u>713,063</u>	<u>729,210</u>	<u>640,000</u>	<u>89,210</u>
Expenditures				
Instruction				
Payment to Special Education Coop	572,392	590,544	1,155,983	(565,439)
Supplies	4,827	2,513	15,000	(12,487)
Student transportation				
Equipment	-	19,036	100,000	(80,964)
Salary and other	57,872	67,161	144,000	(76,839)
	<u>635,091</u>	<u>679,254</u>	<u>1,414,983</u>	<u>(735,729)</u>
Receipts over (under) expenditures	77,972	49,956		
Unencumbered cash, beginning	<u>697,011</u>	<u>774,983</u>		
Unencumbered cash, ending	<u>\$ 774,983</u>	<u>824,939</u>		
VOCATIONAL EDUCATION FUND				
Receipts				
Transfers from other funds	\$ 193,000	228,000	60,000	168,000
Grants and other	2,973	2,357	-	2,357
	<u>195,973</u>	<u>230,357</u>	<u>60,000</u>	<u>170,357</u>
Expenditures				
Instruction				
Salaries and benefits	106,207	125,041	145,000	(19,959)
Supplies and other	16,862	16,136	45,000	(28,864)
Equipment	36,449	12,718	25,000	(12,282)
Instructional support staff	220	-	808	(808)
Student transportation services	428	-	-	-
	<u>160,166</u>	<u>153,895</u>	<u>215,808</u>	<u>(61,913)</u>
Receipts over (under) expenditures	35,807	76,462		
Unencumbered cash, beginning	<u>120,001</u>	<u>155,808</u>		
Unencumbered cash, ending	<u>\$ 155,808</u>	<u>232,270</u>		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES –
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		Variance
	2011	Actual	Budget	Over
	Actual			(Under)
KPERS EMPLOYER CONTRIBUTION FUND				
Receipts				
State aid	\$ 170,729	301,135	221,145	79,990
Expenditures				
Instruction	116,950	206,277	253,450	(47,173)
Student support services	5,122	9,034	11,100	(2,066)
Instructional support services	8,707	15,358	18,870	(3,512)
General administration	8,195	14,455	25,530	(11,075)
School administration	11,780	20,778	17,760	3,018
Other supplemental services	1,707	3,012	3,700	(688)
Operations and maintenance	8,024	14,153	17,390	(3,237)
Student transportation services	5,293	9,335	11,470	(2,135)
Food service operations	4,951	8,733	10,730	(1,997)
	170,729	301,135	370,000	(68,865)
Receipts over (under) expenditures	-	-		
Unencumbered cash, beginning	-	-		
Unencumbered cash, ending	\$ -	-		
CONTINGENCY RESERVE FUND				
Receipts	\$ -	-		
Expenditures				
Transfer to other funds	-	34,000	NOT APPLICABLE	
Receipts over (under) expenditures	-	(34,000)		
Unencumbered cash, beginning	406,000	406,000		
Unencumbered cash, ending	\$ 406,000	372,000		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES –
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		
	2011			Variance
	Actual	Actual	Budget	Over
				(Under)
TEXTBOOK REVOLVING FUND				
Receipts				
Transfers from other funds	\$ 37,000	70,000		
Expenditures				
Textbooks and workbooks	16,453	47,975	NOT APPLICABLE	
Receipts over (under) expenditures	20,547	22,025		
Unencumbered cash, beginning	79,524	100,071		
Unencumbered cash, ending	<u>\$ 100,071</u>	<u>122,096</u>		
RECREATION FUND				
Receipts				
Taxes				
Tax in process	\$ 1,251	1,617	1,937	(320)
Current tax	26,754	27,091	26,753	338
Delinquent tax	787	843	444	399
Motor vehicle tax	4,871	4,183	4,296	(113)
Recreational vehicle tax	114	118	88	30
	33,777	33,852	<u>33,518</u>	<u>334</u>
Expenditures				
Appropriation to recreation commission	34,000	34,000	34,000	-
Receipts over (under) expenditures	(223)	(148)		
Unencumbered cash, beginning	13,091	12,868		
Unencumbered cash, ending	<u>\$ 12,868</u>	<u>12,720</u>		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES –
ACTUAL AND BUDGET*

Year ended June 30, 2012

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

	2012				2011
	Title I ESEA	Title II-A Class Size Reduction	Small Rural Schools	Total	Total
FEDERAL GOVERNMENT PROGRAMS					
Receipts					
Federal aid	\$ 66,667	14,562	34,400	115,629	139,694
Expenditures					
Salaries and benefits	66,940	14,562	34,056	115,558	136,056
Supplies and other	53	-	344	397	3,257
Equipment	-	-	-	-	270
	<u>66,993</u>	<u>14,562</u>	<u>34,400</u>	<u>115,955</u>	<u>139,583</u>
Receipts over (under) expenditures	(326)	-	-	(326)	111
Unencumbered cash, beginning	-	-	-	-	(111)
Unencumbered cash, ending	<u>\$ (326)</u>	<u>-</u>	<u>-</u>	<u>(326)</u>	<u>-</u>

* Legally adopted budget not applicable

Unified School District No. 439

STATEMENT OF CASH RECEIPTS AND EXPENDITURES –
ACTUAL AND BUDGET

Year ended June 30, 2012

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

		2012		
	2011			Variance
	Actual	Actual	Budget	Over
				(Under)
BOND AND INTEREST FUND				
Receipts				
Taxes				
Tax in process	\$ 4,926	6,147	5,684	463
Current tax	102,204	59,842	58,272	1,570
Delinquent tax	3,518	3,480	1,670	1,810
Motor vehicle tax	20,189	16,304	16,688	(384)
Recreational vehicle tax	469	463	340	123
State aid	180,214	177,860	177,860	-
	<u>311,520</u>	<u>264,096</u>	<u>260,514</u>	<u>3,582</u>
Expenditures				
Principal	295,000	305,000	305,000	-
Interest	21,165	12,608	12,608	-
Other	-	-	100	(100)
	<u>316,165</u>	<u>317,608</u>	<u>317,708</u>	<u>(100)</u>
Receipts over (under) expenditures	(4,645)	(53,512)		
Unencumbered cash, beginning	<u>261,765</u>	<u>257,120</u>		
Unencumbered cash, ending	\$ 257,120	203,608		

Unified School District No. 439

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES

School Activity Funds

Year ended June 30, 2012

	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
Activity Gate Receipts				
High School				
Athletics	\$ 6,728	69,169	60,032	15,865
Concessions	1,000	35,981	34,981	2,000
Musicals	2,341	2,175	2,438	2,078
Grade School				
Athletics	-	500	500	-
Concessions	938	190	190	938
Totals to Statement 1	<u>\$ 11,007</u>	<u>108,015</u>	<u>98,141</u>	<u>20,881</u>
School Projects				
High School	\$ 4,848	7,028	5,607	6,269
Grade School	5,436	1,615	991	6,060
Totals to Statement 1	<u>\$ 10,284</u>	<u>8,643</u>	<u>6,598</u>	<u>12,329</u>
Student Organizations				
High School				
Class funds	\$ 2,742	6,332	7,932	1,142
Other	8,503	8,979	8,928	8,554
Grade School				
Class funds	175	1,358	1,057	476
Other	824	3,939	3,684	1,079
Total cash basis activity	12,244	20,608	21,601	11,251
Adjustments for encumbrances and payables	(12,244)	-	(993)	(11,251)
Totals to Statement 1	<u>\$ -</u>	<u>20,608</u>	<u>20,608</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Unified School District No. 439 is a Kansas municipality governed by an elected seven-member school board. These financial statements present only the primary government of the District.

In addition to the primary government, the Sedgwick Recreation Commission qualifies as a component unit of the District. However, the financial activity of this component unit is not included in the accompanying financial statements.

Fund Descriptions

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

The following types of funds comprise the financial activities of the District for the year ended June 30, 2012:

Governmental Funds

General Funds - 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 major capital projects) that are restricted by law or administrative action to expend for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of interest and principal on general long-term debt.

Fiduciary Funds

To account for assets held in a trustee capacity or as an agent for individuals, other governmental units, private organizations, and/or other funds.

Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles (GAAP), encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with GAAP. Capital assets that account for the land, building, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, capital leases and compensated absences are not presented in the financial statements.

Activity Funds

Under provisions of K.S.A. 72-8208a, the Board of Education adopted a resolution relating to the school activity funds which results in the activity funds being accounted for under policies and procedures of the Board. In these financial statements, school activity funds of the District are classified as special revenue and fiduciary funds.

2. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), 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. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
2. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
3. 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. The District's 2012 general fund budget was amended, increasing total budgeted expenditures from \$3,838,858 to \$3,906,142.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

2. BUDGETARY INFORMATION (Continued)

The budget of the general fund of a unified school district is based on estimated enrollment for the district. After the school year has begun, the enrollment for each district is audited by the Kansas Department of Education. This enrollment will determine the legal maximum budget for the district, and if this "legal max" budget is less than the adopted budget, the general fund budget of the district is automatically reduced to the computed amount. If this "legal max" budget is greater than the adopted budget, the District must amend the budget (see prior paragraph) to the "legal max" amount to have the additional budget authority. The District's general fund budget, as amended for the year ended June 30, 2012, was reduced to the "legal max" amount of \$3,722,524.

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 statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as the purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital improvement funds, fiduciary funds and the following special revenue funds:

Contingency reserve	Activity gate receipts
Textbook revolving	School projects
Federal government programs	

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

3. 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 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 investment policy that would further limit interest rate risk.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

3. DEPOSITS AND INVESTMENTS (Continued)

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.

As of June 30, 2012, the District's investments included only bank time deposits with a fair value of \$3,075,000 which are not subject to investment rating.

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.

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%. The District has not designated peak periods. All deposits were legally secured at June 30, 2012.

At June 30, 2012, the carrying amount of the District's deposits was \$4,490,343. The bank balance totaled \$4,479,237. The balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$314,582 was covered by FDIC insurance, and the remaining \$4,164,655 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Composition of Cash and Investments

The cash of the District at June 30, 2012, consisted of the following accounts with a local financial institution:

Board Funds	
Checking account	\$ 74,248
Money market account	1,294,384
Certificates of deposit	3,075,000
Petty cash checking	<u>2,250</u>
Total board funds	4,445,882
Activity funds	
Checking accounts	<u>44,461</u>
Total cash balance	<u>\$ 4,490,343</u>

Unified School District No. 439

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

4. GENERAL LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended June 30, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Maturity Date	Balance 6/30/11	Additions	Retired	Balance 6/30/12	Interest Paid 6/30/12
General Obligation Bonds:									
School improvement Series 2004, Refunding	2.00 - 3.15%	4/1/2004	\$ 1,700,000	10/1/2012	<u>\$ 560,000</u>	<u>-</u>	<u>305,000</u>	<u>255,000</u>	<u>12,608</u>

Current maturities of long-term debt and interest through maturity are as follows:

	<u>2013</u>
PRINCIPAL	
General Obligation Bonds	\$ 255,000
INTEREST	
General Obligation Bonds	<u>4,016</u>
TOTAL PRINCIPAL AND INTEREST	<u>\$ 259,016</u>

5. COMPENSATED ABSENCES

The District grants compensated absences in the form of vacation and sick leave for each school year. Classified full-time staff receive ten days paid vacation during the first two years of employment. After two years of continuous service, full-time staff receive fifteen days paid vacation. Unused vacation time may not be accumulated.

Both certified and classified employees receive a maximum of twelve days per year sick leave and an additional two days for personal business. Sick leave may be accumulated to 60 days, but no compensation is paid for the unused accumulation upon termination.

The total liability for compensated absences at June 30, 2012, has not been recorded in the District's financial statements.

6. PRIOR PERIOD ADJUSTMENT – STATE AID REVENUE RECOGNITION

K.S.A. 72-6417(d) and K.S.A. 72-6434(d) require, for budget purposes, that the District 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. For years ending prior to June 30, 2012, these July payments were recognized for financial statement reporting in the following year, when the cash payments were received. This policy was based on guidance from the Kansas Municipal Audit Guide (KMAG).

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

6. PRIOR PERIOD ADJUSTMENT – STATE AID REVENUE RECOGNITION (Continued)

The proposed 2013 Kansas Municipal Audit and Accounting Guide (KMAAG) considers these payments received subsequent to year-end to be a “receipt in transit”, and therefore should be recognized as a cash receipt and state aid revenue in the fiscal year that matches the budget to which it applies. The District has implemented this change for the year ended June 30, 2012, as allowed by KMAG Technical Amendment 2011-1. Accordingly, beginning fund equity at July 1, 2010 and 2011; as well as state aid revenue in the General and Supplemental General funds for the year ended June 30, 2011, have been restated to reflect this change in accounting policy.

The following schedules summarize the changes to fund equity at July 1, 2010 and 2011:

	General	Supplemental General
Unencumbered Cash, July 1, 2010		
As originally report	\$ (478,886)	(62,912)
July 2010 payment previously reported as revenue for the year ended June 30, 2011	<u>479,314</u>	<u>73,208</u>
As restated	<u>\$ 428</u>	<u>10,296</u>
Unencumbered Cash, July 1, 2011		
As originally report	\$ (371,898)	(16,864)
July 2011 payment previously reported as revenue for the year ended June 30, 2012	<u>371,919</u>	<u>23,326</u>
As restated	<u>\$ 21</u>	<u>6,462</u>

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

7. DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

K.S.A. 74-4919 established the KPERS member-employee contribution rate at 4-6% of covered salary. Member-employees contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. The contribution rate for the state for the period from July 1, 2011 through June 30, 2012 was 9.77% of covered payroll. These contribution requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for all Kansas public school employees for the years ending June 30, 2012, 2011 and 2010 were \$298,635,383, \$253,834,044, and \$248,468,186 respectively, equal to the required contributions for each year.

8. INTERFUND TRANSACTIONS

Operating transfers during the year ended June 30, 2012, were as follows:

	Transfers to		Transfers from		
	Total	General	Supplemental General	Contingency Reserve	
General	\$ 34,000	-	-	34,000	
At Risk (K-12)	297,000	-	297,000	-	
Driver Training	20,000	20,000	-	-	
Food Service	79,900	-	79,900	-	
Professional Development	20,000	20,000	-	-	
Special Education	727,647	542,564	185,083	-	
Vocational Education	228,000	228,000	-	-	
Textbook Revolving	70,000	70,000	-	-	
	<u>\$ 1,476,547</u>	<u>880,564</u>	<u>561,983</u>	<u>34,000</u>	

9. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to June 30, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through August 29, 2012, which is the date at which the financial statements were available to be issued.