



AUDITOR'S COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

The Governing Board
Consolidated Fire District No 2
Northeast Johnson County, Kansas

We have audited the financial statements of the Consolidated Fire District No 2, Northeast Johnson County, Kansas for the year ended December 31, 2012, and have issued our report thereon dated March 13, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 31, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in accordance with the cash basis and budget laws of the State of Kansas. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report as whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We communicate our significant findings at the conclusion of the audit. We also communicate any internal control related matters that are required to be communicated under professional standards.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 18, 2013.

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have been informed that management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 13, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Consolidated Fire District No 2, Northeast Johnson County, Kansas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting policies used by the District as described in Note 1 to the financial statements, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board and management of the Consolidated Fire District No 2, Northeast Johnson County, Kansas, is not intended to be and should not be used by anyone other than these specified parties.

Mize Houser & Company

March 13, 2013

**CONSOLIDATED FIRE DISTRICT NO 2
NORTHEAST JOHNSON COUNTY, KANSAS**

Financial Statements

For the Year Ended December 31, 2012

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Financial Statements
For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

The Governing Board
Consolidated Fire District No 2
Northeast Johnson County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Consolidated Fire District No 2, Northeast Johnson County, Kansas (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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 1 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 1 of the financial statement, the financial statement is prepared by the District 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 1 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 District 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 District 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 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 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 schedules 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 basic financial statement, however 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Mjz Houser & Company

March 13, 2013

Consolidated Fire District No 2, Northeast Johnson County, Kansas
 Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2012

<u>Funds</u>	Beginning Unencumbered <u>Cash Balance</u>	Prior Year Cancelled <u>Encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	Ending Unencumbered <u>Cash Balance</u>	Add: Encumbrances and Accounts <u>Payable</u>	Ending Cash <u>Balance</u>
Governmental Type Funds:							
General Funds:							
General	\$ 1,340,120	\$ -	\$ 8,099,214	\$ 7,907,736	\$ 1,531,598	\$ 42,427	\$ 1,574,025
Special Purpose Funds:							
Employee Benefit	990,004	-	1,680,262	1,878,746	791,520	52,250	843,770
Equipment Replacement	<u>3,299,144</u>	<u>-</u>	<u>755,300</u>	<u>636,096</u>	<u>3,418,348</u>	<u>2,157</u>	<u>3,420,505</u>
Total	<u>\$ 5,629,268</u>	<u>\$ -</u>	<u>\$ 10,534,776</u>	<u>\$ 10,422,578</u>	<u>\$ 5,741,466</u>	<u>\$ 96,834</u>	<u>\$ 5,838,300</u>

COMPOSITION OF CASH:

Country Club Bank	
Certificate of Deposit	\$ 508,476
KMIP	
Pooled Investment	1,032
M&I Bank	
Checking	589,133
Outstanding Checks	<u>[49,791]</u>
Total M&I Bank Checking	539,342
Money Market	<u>4,789,450</u>
Total Reporting Entity	<u>\$ 5,838,300</u>

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

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Consolidated Fire District No 2, Northeast Johnson County, Kansas, is a municipal corporation governed by a five member board. The District has three stations to serve the public. These financial statements present the District (the primary government) and exclude its related municipal entities of which the District is considered to be financially accountable. The district has no related municipal entities.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. 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.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts (except as noted), cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements. Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

Regulatory Basis Fund Types

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.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Regulatory Basis Fund Types (Continued)

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

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

Special Purpose Fund - used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), principal and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before 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.

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, 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 a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project fund, trust funds, and the following special purpose fund:

Equipment Replacement Fund.

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.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Ad Valorem Tax Revenues

The determination of assessed valuations and collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuations on January 1 and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied as of November 1 and become a lien on the property as of that date. Payments are due November 1, becoming delinquent, with penalty, December 21. Payments of 50% are accepted through December 20, with the second 50% then being due on or before May 10 of the following year.

The County Treasurer is the tax collection agent for all taxing entities within the County. The initial distribution to the subdivisions, including the District, is on or before January 20 of the ensuing year. Additional amounts are distributed on four (4) subsequent dates throughout the calendar year.

NOTE 2 – Deposits

Deposits. 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, or in an adjoining county if such institution has been designated as an official depository, 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.

Investments. 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.

Some of the District's investments are of bond proceeds invested pursuant to K.S.A. 10-131. This statute allows additional investment authority beyond that of K.S.A. 12-1675. Investments of bond proceeds may follow K.S.A. 12-1675 or include other investments such as the KMIP, direct obligations of the U.S. government or any agency thereof, and various other investments as specified in K.S.A. 10-131.

At December 31, 2012, the District has the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
Kansas Municipal Investment Pool	\$ 1,032	S&P AAAf/S1+

The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest by the U.S. government or any agency thereof, with maturities up to four years. No more than 10 percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

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 no designated "peak periods". All deposits were legally secured at December 31, 2012.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 2 – Deposits (Continued)

At December 31, 2012, the District's carrying amount of deposits was \$5,837,268 and the bank balance was \$5,887,059. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance and the balance of \$5,387,059 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Retirement Plan

Plan Description – The District participates in the Kansas Public Employees Retirement Systems (KPERS), and the Kansas Police and Fireman's Retirement System (KP&F). Both are part of a cost-sharing multiple – employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefits provisions. KPERS and KP&F issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas Avenue, Topeka, Kansas 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 and K.S.A. 74-4975 establishes KP&F 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. Kansas law establishes the KP&F member-employee contribution rate at 7% of covered salary. 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 employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The employer contributions to KPERS for years ending December 31, 2012, 2011 and 2010, were \$6,472, \$5,884, and \$5,207, respectively, equal to the statutory required contribution for the year. Employers participating in KP&F also make contributions to amortize the liability for past service cost, if any, which is determined separately for each participating employer. The District's contributions to KP&F for the years ending December 31, 2012, 2011 and 2010, were \$870,853, \$759,883, and \$663,614, respectively, equals to the statutory requirement contribution for the year.

Substantially all of the former Mission Fire District No. 1 employees participated in a defined benefit pension plan established July 1, 1982. Eligibility began after six months of service with a normal retirement age of 65 and a provision for early retirement at age 55. The plan provided for a pension benefit and a pre-retirement death benefit. The pension benefit was payable monthly for life and was equal to 1.5% of the monthly compensation based on years of service not to exceed 40 years, with benefits fully vested after 10 years. The benefits were funded by the purchase of allocated annuity contracts and life insurance policies. Annual pension expense was the amount required to pay the necessary premiums to provide the benefits described above.

Legislation was passed in the State of Kansas that enabled the District to convert the Mission Fire District Defined Benefit Plan to cash and transfer the proceeds to the Kansas Public Employee Retirement System in order to purchase past service costs for the former Mission Fire District employees. The district transferred \$203,232 to the KP&F Plan. The District accomplished this transfer in January 1992. The District also purchased the past service costs of the Mission Employees. The District has retired this obligation.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 4 – Long-Term Debt

General Obligation (G.O.) Bonds. The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>General Obligation Bonds</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>	<u>Original Amount</u>	<u>Date of Issue</u>	<u>Final Maturity</u>
Series 2012 Refunding	2.00%	\$ 900,000	\$ 900,000	8/8/2012	9/1/2017

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 175,000	\$ 19,150	\$ 194,150
2014	180,000	14,500	194,500
2015	180,000	10,900	190,900
2016	175,000	7,300	182,300
2017	<u>190,000</u>	<u>3,800</u>	<u>193,800</u>
Total	\$ 900,000	\$ 55,650	\$ 955,650

Changes in General Long-term Liabilities. During the year ended December 31, 2012, the following changes occurred in long-term debt:

<u>Type of Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Refunding</u>	<u>Deletions</u>	<u>Ending Principal Outstanding</u>
General Obligation Series 2004	\$ 1,070,000	\$ -	\$ 905,000	\$ 165,000	\$ -
General Obligation Series 2012	-	<u>900,000</u>	-	-	<u>900,000</u>
Total	\$ 1,070,000	\$ 900,000	\$ 905,000	\$ 165,000	\$ 900,000

During 2012, the District issued \$900,000 in general obligation refunding bonds with an interest rate of 2.00% to refund the 2004 General Obligation Bonds with interest rates ranging from 3.50 to 3.90%. As a result, the 2004 bonds are considered to be defeased and the liability for the defeased bonds has been removed from the District's financial statements. The transaction resulted in an economic gain of \$57,047 and a decrease of \$54,968 in future debt payments.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 5 – Compensated Absences

The District's policy does not permit the accumulation of unused vacation pay past December 31, of each year for regular employees. However, newly hired employees can roll over unused accrued vacation hours into the next year only. There were no unused accrued vacation hours of December 31, 2012.

The benefit payment for sick leave accrued at the time of employment termination shall be calculated at the rate of six shifts for shift personnel, per year or 12 days for regular employees, per year.

The payment at separation is calculated as 50% of the total sick days accumulated times the employee's current compensation. This calculation is retroactive to January 1, 1995, and follows KPERS guidelines. The liability as of December 31, 2012 for unused sick leave at the 2012 rate of 50% was \$858,456. The District has created a policy to cap unused sick leave.

NOTE 6 – Agreement with the City of Overland Park, Kansas for Service

The District has an agreement with the City of Overland Park to provide portions of the city with fire protection and emergency rescue and medical services. The agreement provides that the city will pay the district an amount equal to the tax revenue it would have received had the District levied for such services. During 2012, the District received \$450,981 from the City under this agreement.

NOTE 7 – Interfund Transfers

A reconciliation of transfers between funds is as follows:

<u>Fund</u>	<u>To</u>	<u>From</u>
General	\$ -	\$ 755,300
Equipment Replacement	<u>755,300</u>	<u>-</u>
	<u>\$ 755,300</u>	<u>\$ 755,300</u>

NOTE 8 - Commitments and Contingencies

The District receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the District as of December 31, 2012.

NOTE 9 - Risk Management

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

Consolidated Fire District No 2, Northeast Johnson County, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2012

NOTE 10 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government 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 of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

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 government under this program.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over [Under]</u>
Governmental Type Funds:					
General Funds:					
General	\$ 7,792,855	\$ 934,642	\$ 8,727,497	\$ 7,907,736	\$ 819,761
Special Purpose Funds:					
Employee Benefit	2,120,000	-	2,120,000	1,878,746	241,254

See independent auditor's report on the financial statements.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
 General Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over <u>[Under]</u>
Cash Receipts			
Taxes	\$ 6,276,205	\$ 6,340,830	\$ [64,625]
Bond proceeds	934,642	-	934,642
Intergovernmental	450,981	474,000	[23,019]
Gain on sale of asset	395,974	-	395,974
Use of money and property	<u>41,412</u>	<u>70,000</u>	<u>[28,588]</u>
Total Cash Receipts	<u>8,099,214</u>	<u>\$ 6,884,830</u>	<u>\$ 1,214,384</u>
Expenditures			
Personal services	5,452,328	\$ 5,690,776	\$ 238,448
Contractual	201,235	357,000	155,765
Commodities	187,056	355,550	168,494
Capital outlay	195,148	213,529	18,381
Debt service	1,116,669	206,000	[910,669]
Transfer out	755,300	970,000	214,700
Adjustment for qualifying budget credit	<u>-</u>	<u>934,642</u>	<u>934,642</u>
Total Expenditures	<u>7,907,736</u>	<u>\$ 8,727,497</u>	<u>\$ 819,761</u>
Cash Receipts Over [Under] Expenditures	191,478		
Unencumbered Cash, Beginning	<u>1,340,120</u>		
Unencumbered Cash, Ending	<u>\$ 1,531,598</u>		

See independent auditor's report on the financial statements.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
 Employee Benefit Fund
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over [Under]
Cash Receipts			
Taxes	\$ 1,680,262	\$ 1,705,824	\$ [25,562]
Total Cash Receipts	<u>1,680,262</u>	<u>\$ 1,705,824</u>	<u>\$ [25,562]</u>
Expenditures			
Personal services	<u>1,878,746</u>	<u>\$ 2,120,000</u>	<u>\$ 241,254</u>
Total Expenditures	<u>1,878,746</u>	<u>\$ 2,120,000</u>	<u>\$ 241,254</u>
Cash Receipts Over [Under] Expenditures	[198,484]		
Unencumbered Cash, Beginning	<u>990,004</u>		
Unencumbered Cash, Ending	<u>\$ 791,520</u>		

See independent auditor's report on the financial statements.

Consolidated Fire District No 2, Northeast Johnson County, Kansas
 Equipment Replacement Fund*
 Schedule of Receipts and Expenditures - Actual
 Regulatory Basis
 For the Year Ended December 31, 2012

Cash Receipts	
Transfer in	<u>\$ 755,300</u>
Total Cash Receipts	<u>755,300</u>
Expenditures	
Capital outlay	<u>636,096</u>
Total Expenditures	<u>636,096</u>
Cash Receipts Over [Under] Expenditures	119,204
Unencumbered Cash, Beginning	<u>3,299,144</u>
Unencumbered Cash, Ending	<u>\$ 3,418,348</u>

* - This fund is not required to be budgeted.

See independent auditor's report on the financial statements.