

**KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas**

**REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2012

**KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kaw Valley Drainage District
Wyandotte County, KS

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures and unencumbered cash balances of the Kaw Valley Drainage District (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 (2013) as described in Note A to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statement that is free of 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 that 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 the 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 more fully in Note A 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 A and the 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 effects of the matter discussed in the "Basis of 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 Kaw Valley Drainage District as of December 31, 2012, or changes in the 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 Kaw Valley Drainage 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* as described more fully in Note A.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2013 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, individual fund schedules or regulatory basis receipts and expenditures – actual and budget, are presented for purposes of additional analysis and are not a required part of the 2013 basic financial statement, however are required to be presented under 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 2013 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 2013 basic financial statement or to the basis 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 basis financial statement as a whole, on the basis of accounting more fully described in Note A.

Norah Burns PC.

December 20, 2013

KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
SUMMARY STATEMENT OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH - REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Unencumbered Cash January 1, 2012	Cash Receipts	Expenditures	Unencumbered Cash December 31, 2012	Outstanding Encumbrances and Payables	Treasurer's Cash
Governmental Funds:						
General Fund	\$ 124,383	\$ 561,158	\$ 562,028	\$ 123,513	\$ 1,531	\$ 125,044
Employee Benefit Fund	70,096	117,256	118,323	69,029	0	69,029
Special Emergency Fund	1,683,650	1,002,939	585,372	2,101,217	6,387	2,107,604
Total Reporting Entity	\$ 1,878,129	\$ 1,681,353	\$ 1,265,723	\$ 2,293,759	\$ 7,918	\$ 2,301,677
Composition of cash:						
First State Bank -						\$ 791,192
Checking account						1,510,485
Certificates of Deposit						2,301,677
Total Cash						\$ 2,301,677

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

KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - Kaw Valley Drainage District is a municipal corporation governed by an elected three person board, providing flood protection for the Kaw Valley area through construction and maintenance of dikes along the Kansas River in Wyandotte County, Kansas.

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 or limitations.

The following types of funds comprise the financial activities of the District for the year of 2013.

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

Special Purpose Funds – (Employee Benefit Fund) to account for the proceeds of specific revenue sources (other than major projects) that are restricted by law or administrative action to expenditures for specified purposes.

Capital Project Funds – (Special Emergency Fund) to account for financial resources segregated for the acquisition of major capital facilities or equipment.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America – The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable securities, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balances 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©, waiving the requirement for application of generally accepted accounting principles and allowing the District to use the statutory basis of accounting. Upon the adoption of the Kansas GAAP waiver, K.S.A. 75-1120a specifically requires that the District prepare its financial statements and financial reports on the basis of cash receipts and disbursements as adjusted to show compliance with the cash-basis and budget laws of the state

KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Departure from Generally Accepted Accounting Principles – The basis of regulatory accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balances are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, buildings and equipment owned by the District are not presented in the financial statements.

Use of Estimates - The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reimbursed Expenses - The District records reimbursable expenditures (or expense) in the fund that makes the disbursement and records the disbursement and records reimbursements as revenue in the fund. For purposes of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements. In the current year no reimbursed expenses occurred.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, employee benefit fund, and special emergency fund. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a) Preparation of the budget for the succeeding calendar year on or before August 1st.
- b) Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c) Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- d) 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.

KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a purchase order or contract. Any unused budget expenditure authority lapses at year end.

NOTE B – DEPOSITS AND INVESTMENTS

As of December 31, 2012, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		<u>Rating</u>
		<u>Less Than 1</u>	<u>1-2</u>	
Certificates of Deposit	\$1,510,485	\$1,505,512		

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.

K.S.A. 12-1675 limits the District's investments 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. The District's allocation of investments as of December 31, 2012, is as follows:

<u>Investments</u>	<u>% of Investments</u>
Certificates of Deposits	100%

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. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the District's carrying amount of the district's deposits was \$2,293,759. The bank balance was \$2,301,678. The difference between the carrying amount and the bank balance is outstanding checks. At December 31, 2012 all deposits were covered by the Federal Deposit Insurance Corporation, or pledged collateral as provided by Kansas Statute. The third-party bank holding the pledged securities is independent of the pledging bank.

KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

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 C - 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 South 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 rate. Effective July, 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 employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

NOTE D – OTHER POST EMPLOYMENT BENEFITS

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.

The District's policy is to pay employees for unused sick leave up to the maximum allowed in the event of termination. Upon retirement, death or separation of employment, the employee shall be compensated by the District for all unused and accumulated sick leave. The cost of accumulated sick leave is not recorded in the financial statements at the time the benefits are earned by the employee.

NOTE E - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE F – SUBSEQUENT EVENTS

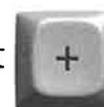
Management has evaluated the effects on the financial statements of subsequent events occurring through December 20, 2013 which is the date at which the financial statements were available to be issued.

KAW VALLEY DRAINAGE DISTRICT
 Wyandotte County, Kansas
 SUMMARY OF REGULATORY BASIS EXPENDITURES
 ACTUAL AND BUDGET
 For The Year Ended December 31, 2012

Fund	Certified Budget	Expenditures Chargeable to Current Year Fund	Variance Over Fund
Governmental Type Funds:			
General Fund	\$ 578,789	\$ 562,028	\$ (16,761)
Employee Benefit Fund	118,615	118,323	(292)
Special Emergency Fund	2,328,012	585,372	(1,742,640)
Total	<u>\$ 3,025,416</u>	<u>\$ 1,265,723</u>	<u>\$ (1,759,693)</u>

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

B E P O S I T I V E .



KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
GENERAL FUND
For The Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
Cash Receipts:			
Ad Valorem Tax	\$ 471,493	\$ 496,551	\$ (25,058)
Delinquent Tax	14,653	10,000	4,653
Motor Vehicle Tax	14,806	14,910	(104)
Recreational Vehicle Tax	65	13	52
16/20M Vehicle Tax	832	827	5
In Lieu of Taxes	35,669	40,000	(4,331)
Interest	7,337	20,000	(12,663)
Reimbursements	0	0	0
Transfer In	0	0	0
Other	16,303	6,000	10,303
Total Cash Receipts	<u>\$ 561,158</u>	<u>\$ 588,301</u>	<u>\$ (27,143)</u>
Expenditures:			
Personnel Expenses	\$ 426,479	\$ 438,789	\$ (12,310)
Contractual Services	14,181	40,000	(25,819)
Commodities	81,614	60,000	21,614
Capital Outlay	39,754	40,000	(246)
Transfers Out	0	0	0
Total Expenditures	<u>562,028</u>	<u>\$ 578,789</u>	<u>\$ (16,761)</u>
Receipts over (under) expenditures	(870)		
Unencumbered cash, beginning	<u>124,383</u>		
Unencumbered cash, ending	<u>\$ 123,513</u>		

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

B E P O S I  I V E .

KAW VALLEY DRAINAGE DISTRICT
 Wyandotte County, Kansas
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 EMPLOYEE BENEFIT FUND
 For The Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Cash Receipts:			
Ad Valorem Tax	\$ 102,853	\$ 108,320	\$ (5,467)
Delinquent Tax	3,196	2,500	696
Motor Vehicle Tax	3,230	3,254	(24)
Recreational Vehicle Tax	14	3	11
16/20M Vehicle Tax	182	180	2
In Lieu of Taxes	7,781	10,000	(2,219)
Interest	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>117,256</u>	<u>\$ 124,257</u>	<u>\$ (7,001)</u>
 Expenditures:			
Personnel Expenses	<u>118,323</u>	<u>\$ 118,615</u>	<u>\$ (292)</u>
Total Expenditures	<u>118,323</u>	<u>\$ 118,615</u>	<u>\$ (292)</u>
 Receipts over (under) expenditures	 (1,067)		
 Unencumbered cash, beginning	 <u>70,096</u>		
 Unencumbered cash, ending	 <u>\$ 69,029</u>		

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

B E P O S I T I V E .



KAW VALLEY DRAINAGE DISTRICT
Wyandotte County, Kansas
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
SPECIAL EMERGENCY FUND
For The Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Over <u>(Under)</u>
Cash Receipts:			
Ad Valorem Tax	\$ 882,478	\$ 928,786	\$ (46,308)
Delinquent Tax	25,060	6,000	19,060
Motor Vehicle Tax	27,351	28,801	(1,450)
Recreational Vehicle Tax	113	25	88
16/20M Vehicle Tax	1,219	1,596	(377)
Machinery & Excise Tax	0	0	0
In Lieu of Taxes	66,718	50,000	16,718
Interest	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	<u>1,002,939</u>	<u>\$ 1,015,208</u>	<u>\$ (12,269)</u>
Expenditures:			
Emergency Expenses	585,372	\$ 2,328,012	\$ (1,742,640)
Capital Outlay	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>585,372</u>	<u>\$ 2,328,012</u>	<u>\$ (1,742,640)</u>
Receipts over (under) expenditures	417,567		
Unencumbered cash, beginning	<u>1,683,650</u>		
Unencumbered cash, ending	<u>\$ 2,101,217</u>		

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

B E P O S I + I V E .

