

**RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS**

Regulatory Basis Financial Statement,
Independent Auditors' Report, and
Regulatory-Required Supplementary Information
For the Year Ended
December 31, 2012

MS330
3/7/13

Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District #4, Inc.
Bourbon County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Bourbon County Rural Water District, #4, Inc., 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 Bourbon County Rural Water District #4, Inc. 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 Bourbon County Rural Water District #4, Inc. as of December 31, 2012 or changes in financial position or cash flows thereof for the year then ended.

Unqualified 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 for the Bourbon County Rural Water District #4, Inc. 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 individual fund schedule of regulatory basis receipts and expenditures-actual (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is 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.

Diehl, Banwart, Bolton, CPAs, PA

DIEHL, BANWART, BOLTON, CPAs, PA

January 25, 2013
Fort Scott, Kansas

RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS

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

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus Encumbrances and Accounts Payable	Cash Balances
Proprietary Type Funds:						
Enterprise Funds:						
Water Utility	\$686,287.33	\$326,680.75	\$248,715.00	\$764,253.08	\$17,612.88	\$781,865.96
						\$589,888.01
						36,977.95
						32,556.00
						27,444.00
						50,000.00
						45,000.00
						Totals.....
						<u>\$781,865.96</u>

Cash in bank - operating checking account.....
 Cash in bank - savings account.....
 Cash in bank - debt service reserve account.....
 Cash in bank - principal and interest reserve account.....
 Certificates of Deposit - bond reserve.....
 Certificates of Deposit.....

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

**RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS**

Notes to Financial Statement
For the Year Ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Bourbon County Rural Water District #4, Inc. has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: The Bourbon County Rural Water District #4, Inc. is a municipal corporation governed by an elected five-member board of directors. The District provides water to members of the District primarily in rural Bourbon County, Kansas. In previous years, the District purchased its water from the cities of Moran and Bronson, Kansas. The District completed an extensive capital project in 1998, which involved the building of a small lake and treatment plant for the purpose of treating raw water and selling water to its patrons as well as to other local governmental entities. The District began pumping and selling its own water in June 1998. All water sales are made to residents and two water suppliers in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Reporting Entity

This financial statement presents the Bourbon County Rural Water District #4, Inc. (primary government) and its related municipal entities. There are no separate entities related to the District which should be accounted for in the District's financial statement.

Basis of Presentation - Fund Accounting

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

The following types of funds comprise the financial activities of the Bourbon County Rural Water District #4, Inc.:

Business Funds – funds financed in whole or part by fees charged to users of the goods or services (enterprise and internal service fund, etc.)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Regulatory Basis of Accounting and Departures 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 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 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 basis of presentation described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid 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 municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

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.

Budgetary Information

Kansas statutes do not require budgets for Rural Water Districts.

Deposits and Investments

Deposits and investments include a money market checking account, a savings account, and certificates of deposit. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences

The District does not provide sick or vacation benefits beyond the year earned.

Income Taxes: The Bourbon County Rural Water District #4, Inc. is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Termination and Post Employment Benefits

The District does not offer termination or post employment benefits.

2. **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, 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 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, but has limited the investments to time deposits at the local bank.

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 does not have any "peak periods" designated.

As of December 31, 2012 the District's carrying amount of deposits was \$781,865.96 and the bank balance was \$781,865.96. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance, and the remaining \$531,865.96 was collateralized with securities totaling \$618,770.10 held by the pledging financial institutions' agents in the District's name.

3. **BENEFIT UNIT DEPOSITS**

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. Benefit unit deposits totaled \$13,000.00 for the year.

4. **RISK MANAGEMENT**

The water district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The water district manages these risks of loss through various insurance policies. Settled claim resolution from these risks have not exceeded commercial insurance coverage in any of the past three years.

5. **FIXED ASSETS**

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Office Equipment and Vehicles	5 Years
Machinery	7 Years
Plant and Equipment	40 & 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletion	Ending Balance
Land	\$ 39,109.47	\$ -	\$ -	\$ 39,109.47
Machinery & Construction	3,400,476.11	7,221.58	-	3,407,697.69
Engineering Fees	610,367.19	-	-	610,367.19
Legal & Title Work	156,294.46	-	-	156,294.46
Inspection Fees	91,486.43	-	-	91,486.43
Easement & Leases	76,126.42	-	-	76,126.42
Equipment	36,950.12	-	-	36,950.12
Grant Administration Costs	13,000.00	-	-	13,000.00
Office Equipment	5,493.87	5,100.00	-	10,593.87
Bond Underwriting Fee	23,495.76	-	-	23,495.76
	<u>\$ 4,452,799.83</u>	<u>\$ 12,321.58</u>	<u>\$ -</u>	<u>\$ 4,465,121.41</u>
Accumulated Depreciation	<u>\$ 1,588,774.13</u>	<u>\$ 89,615.04</u>	<u>\$ -</u>	<u>\$ 1,678,389.17</u>

6. NOTES PAYABLE AND OTHER LONG-TERM OBLIGATIONS

On February 24, 2010, the District issued the Water System Refunding Revenue Bonds, Series 2010, to advance refund the Series 2001 Water System Refunding Bond outstanding. The District issued the refunding bonds in order to take advantage of lower market interest rates. The 2010 Bonds bear interest at rates ranging from 1.00% to 4.00%, whereas the 2001 Bonds bear interest at rates ranging from 3.75% to 5.00%. The proceeds of the Series 2010 Bonds were used to redeem the principal on the 2001 bond. Beginning on September 1, 2010, the debt service on the Series 2010 bonds will be paid by the District. The refunding bonds will result in a net reduction in debt service payments of \$106,831.67 over the life of the bonds, resulting in a net present value cash flow savings using the bond yield interest rate.

Long-term obligations of the District are comprised of the following:

Note payable to USDA Rural Development for the construction of facilities to provide water service to its members. The loans were issued on June 1, 2001 in the original amounts of \$481,800.00 and \$120,000.00 respectively. The first interest payments were due October 3, 2002 at 4.375% and 4.75% respectively. Starting November 3, 2002, monthly principal and interest payments of \$2,149.00 and \$564.00 are required until maturity in October 2041.

Note 1	\$ 421,647.01
Note 2	<u>106,078.64</u>
	527,725.65

Water-Utility System Revenue Bonds, Series 2010, payable in annual principal payments of \$50,000 to \$75,000, plus interest at 1.00% to 4.00%. The first payment of principal was due in September 2010, with final payment scheduled for 2020. The bonds are secured by a lien on all revenue from the water system.

530,000.00

Net Long-Term Debt \$ 1,057,725.65

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity
Revenue Bonds				
Water Utility Series 2010	1.00 - 4.00%	2/24/2010	\$695,000	9/1/2020
Notes Payable, Rural Development				
Note 1	4.375%	6/1/2001	481,800	10/1/2041
Note 2	4.750%	6/1/2001	120,000	10/1/2041

7. COMPLIANCE WITH BOND COVENANTS (Continued)

- c. The District shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. Net revenues must be at least 110% of the year's debt service requirement. For the year ended December 31, 2012, net revenues totaled \$201,618.33, or 183% of the next year's debt service requirement of \$121,144.10.
- d. The District served approximately 512 units on December 31, 2012.

The District's USDA Rural Development notes have a debt service reserve requirement to transfer 10% of the annual debt service on the notes to the reserve until \$32,556 is accumulated.

As of December 31, 2012, the required and actual reserve balances were as follows:

	<u>REQUIRED</u>	<u>ACTUAL</u>
2001 Debt Service Reserve	\$ 32,556.00	\$ 32,556.00
2010 Principal and Interest	26,258.33	27,444.00
2010 Contingency Reserve	45,000.00	50,000.00

8. ECONOMIC DEPENDENCY

Water sales to the City of Bronson, Kansas and Consolidated Rural Water District #2 of Bourbon County, totaled \$74,063.65 or approximately 31% of total water sales for the year ended December 31, 2012.

9. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2012 through the date of the issuance of the financial statement as shown in the Independent Auditors' Report on page two of this financial statement. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

**RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS
WATER UTILITY FUND**

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

Cash Receipts	
Operating Receipts	
Metered water sales	\$240,259.23
Debt service fees	68,745.00
Penalties	1,422.76
Nonoperating Receipts	
Interest income	1,462.47
Miscellaneous income	1,791.29
Benefit Unit deposits	<u>13,000.00</u>
Total Cash Receipts	<u>326,680.75</u>
Expenditures	
Operating Expenditures	
Operating supplies	32,396.19
Repairs and maintenance	42,536.91
Utilities and telephone	19,933.26
Office supplies	94.00
Insurance	3,609.00
Legal and accounting	18,243.29
Directors' fees	600.00
Miscellaneous expense	7,649.77
Nonoperating Expenditures	
Debt Service	
Principal paid	68,855.46
Interest paid	42,475.54
Capital Outlays	<u>12,321.58</u>
Total Expenditures	<u>248,715.00</u>
Receipts Over (Under) Expenditures	77,965.75
Unencumbered Cash, Beginning	<u>686,287.33</u>
Unencumbered Cash, Ending	<u><u>\$764,253.08</u></u>