

RURAL WATER DISTRICT NO. 4

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2012

Rural Water District No. 4, Marion County, Kansas

CONTENTS

December 31, 2012

	<u>Page</u>
Independent Auditor's Report	1-2
Balance Sheets, December 31, 2012 and 2011	3
Statements of Revenues, Expenses, and Changes in Fund Equity, Years ended December 31, 2012 and 2011	4
Statements of Cash Flows, Years ended December 31, 2012 and 2011	5-6
Notes to Financial Statements, December 31, 2012	7-9

Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 4
Marion County, Kansas

We have audited the accompanying balance sheets of the Rural Water District No. 4, Marion County, Kansas as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years ended. These financial statements are the responsibility of the Water District's management.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit & Accounting 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No. 4, Marion County, Kansas as of December 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Rural Water District No. 4, Marion County, Kansas, has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kruschke, Menwe & Company LLC

Certified Public Accountants

Newton, Kansas
February 6, 2013

Rural Water District No. 4, Marion County, Kansas

BALANCE SHEETS

December 31, 2012

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,674	124,769
Investments	1,159,065	950,928
Accounts receivable	<u>32,690</u>	<u>30,322</u>
Total current assets	<u>1,219,429</u>	<u>1,106,019</u>
CAPITAL ASSETS, net of accumulated depreciation when applicable		
Capital assets not being depreciated	4,500	4,500
Capital assets, net of depreciation	<u>1,906,002</u>	<u>1,946,499</u>
Total capital assets	<u>1,910,502</u>	<u>1,950,999</u>
Total assets	<u>\$3,129,931</u>	<u>3,057,018</u>
<u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Accounts payable	\$ 10,872	6,066
Other accrued expenses	<u>1,848</u>	<u>1,743</u>
Total liabilities	<u>12,720</u>	<u>7,809</u>
NET ASSETS, Page 3		
Invested in capital assets, net of related debt	1,910,502	1,950,999
Unrestricted	<u>1,206,709</u>	<u>1,098,210</u>
Total fund equity	<u>3,117,211</u>	<u>3,049,209</u>
Total liabilities and fund equity	<u>\$3,129,931</u>	<u>3,057,018</u>

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2012

	<u>2012</u>	<u>2011</u>
REVENUES		
Water sales	\$ 421,983	401,552
Rent and other	<u>1,258</u>	<u>1,466</u>
Total operating revenues	<u>423,241</u>	<u>403,018</u>
EXPENSES		
Water purchases	62,330	63,190
Personnel	39,413	36,316
Utilities	20,477	19,027
Office supplies	7,000	3,397
Meeting expense	5,114	3,144
Insurance	9,485	7,135
Repairs	82,756	61,870
Mileage	12,951	11,235
Professional fees	3,861	4,556
Depreciation	131,668	125,453
Other	<u>6,533</u>	<u>6,192</u>
Total operating expenses	<u>381,588</u>	<u>341,515</u>
Operating income	<u>41,653</u>	<u>61,503</u>
NONOPERATING REVENUES		
Interest income	<u>13,049</u>	<u>14,110</u>
Total nonoperating revenues	<u>13,049</u>	<u>14,110</u>
Income before other revenues	54,702	75,613
OTHER REVENUES		
Benefit unit sales	<u>13,300</u>	<u>11,400</u>
Net income	68,002	87,013
FUND EQUITY, beginning of year	<u>3,049,209</u>	<u>2,962,196</u>
FUND EQUITY, end of year	<u>\$3,117,211</u>	<u>3,049,209</u>

See notes to financial statements

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 419,615	401,589
Other cash received	<u>1,249</u>	<u>1,500</u>
	<u>420,864</u>	<u>403,089</u>
Cash paid for:		
Water purchases	(62,028)	(63,494)
Salaries and payroll taxes	(39,384)	(36,374)
Other expenses	<u>(143,588)</u>	<u>(115,335)</u>
	<u>(245,000)</u>	<u>(215,203)</u>
Net cash provided by operating activities	<u>175,864</u>	<u>187,886</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(428,029)	(742,546)
Redemption of investments	219,892	697,829
Interest income received	13,049	14,110
Purchase of capital assets	<u>(91,171)</u>	<u>(45,258)</u>
Net cash used in investing activities	<u>(286,259)</u>	<u>(75,865)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Benefit unit sales	<u>13,300</u>	<u>11,400</u>
Net cash provided by financing activities	<u>13,300</u>	<u>11,400</u>
Net increase (decrease) in cash and cash equivalents	(97,095)	123,421
CASH AND CASH EQUIVALENTS, beginning of year	<u>124,769</u>	<u>1,348</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 27,674</u>	<u>124,769</u>

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income, Page 3	\$ 41,653	61,503
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation and amortization	131,668	125,453
(Increase) decrease in receivables - customers	(2,368)	37
Increase in accounts payable and accrued expenses	<u>4,911</u>	<u>893</u>
Net cash provided by operating activities	<u>\$ 175,864</u>	<u>187,886</u>

Rural Water District No. 4, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 4, Marion County, Kansas was incorporated and organized on February 27, 1977, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over an estimated useful life of five to thirty years. At December 31, 2012 and 2011, capital assets consist of the following:

	<u>2012</u>	<u>2011</u>
Capital assets not being depreciated		
Land	\$ 4,500	4,500
Capital assets being depreciated		
Water system and line	\$4,679,073	4,588,466
Buildings and improvements	86,012	85,447
Equipment and furnishings	<u>27,175</u>	<u>27,175</u>
	4,792,260	4,701,088
Less accumulated depreciation	<u>2,886,258</u>	<u>2,754,589</u>
	<u>\$ 1,906,002</u>	<u>1,946,499</u>

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2012 and 2011, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Rural Water District No. 4, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. DEPOSITS AND INVESTMENTS

Deposits

At year-end the carrying amount of the District's deposits, including certificates of deposit, was \$1,186,739. The bank balance was \$1,196,481. The difference between the carrying amount and the bank balance is outstanding checks. Of the bank balance, \$537,389 was covered by FDIC insurance and \$659,092 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Investments

Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, repurchase agreements, and the State Treasurer's investment pool. All investments must be insured, registered, or held by the District or its agent in the District's name.

At December 31, 2012, the District did not have any of these investments.

At December 31, 2012 and 2011, cash and investments consist of the following accounts with local financial institutions:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Emprise Bank, Hillsboro, KS - checking account	\$ 27,647	14,634
Central National Bank, Hillsboro, KS - savings account	<u>27</u>	<u>110,135</u>
Total cash	<u>27,674</u>	<u>124,769</u>
Investments		
Certificates of deposit		
Central National Bank, Hillsboro, KS	671,799	469,481
Midland National Bank, Newton, KS	<u>487,266</u>	<u>481,447</u>
Total investments	<u>1,159,065</u>	<u>950,928</u>
Total cash and investments	<u>\$1,186,739</u>	<u>1,075,697</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. DEFINED BENEFIT PENSION PLAN

Plan Description

The Rural Water District No. 4, Marion County, Kansas participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate of 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established by statute at December 31, 2012, was 7.34%. The District's contributions to KPERs for the years ending December 31, 2012 and 2011, were \$1,720 and \$1,810, respectively, equal to the required contribution for each year.

4. CONCENTRATIONS OF RISK

Major Supplier

The District purchases 100 percent of their water from the City of Moundridge.

5. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 6, 2013, which is the date at which the financial statements were available to be issued.