

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS

Belvue, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2014 and 2013



March 11, 2015

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 4, Pottawatomie County, Kansas (the District) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 and Accounting Guide*. Those standards require that we plan and perform the audits 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 respective financial position of the business-type activities of the District as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

March 11, 2015
Rural Water District No. 4, Pottawatomie County, Kansas
(Continued)

Other Matters

The District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
 Belvue, Kansas
STATEMENTS OF NET POSITION
 December 31,

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 338,977	\$ 247,242
Accounts receivable - Net	54,110	52,659
Inventory	2,940	2,940
Total Current Assets	\$ 396,027	\$ 302,841
Non-Current Assets		
Restricted cash	\$ 283,164	\$ 280,260
Capital assets - Net	6,674,563	6,890,969
Total Non-Current Assets	\$ 6,957,727	\$ 7,171,229
TOTAL ASSETS	\$ 7,353,754	\$ 7,474,070
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 14,713	\$ 25,882
Accrued payroll	2,854	3,369
Accrued interest payable	48,898	49,122
Deposits	2,650	2,750
Current portion of long-term debt	79,241	78,946
Total Current Liabilities	\$ 148,356	\$ 160,069
Non-Current Liabilities		
Compensated absences	\$ 5,398	\$ 4,544
Long-term debt - Net of current portion	4,552,861	4,629,029
Total Non-Current Liabilities	\$ 4,558,259	\$ 4,633,573
Net Position		
Net investment in capital assets	\$ 2,042,461	\$ 2,182,994
Restricted for debt service	283,164	280,260
Unrestricted	321,514	217,174
Total Net Position	\$ 2,647,139	\$ 2,680,428
TOTAL LIABILITIES AND NET POSITION	\$ 7,353,754	\$ 7,474,070

The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
 Belvue, Kansas
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Years Ended December 31,

	2014	2013
OPERATING REVENUES		
Water sales	\$ 610,312	\$ 606,266
Reimbursed income	35,533	50,835
Other charges	8,861	9,805
Total Revenues	\$ 654,706	\$ 666,906
OPERATING EXPENSES		
Salaries	\$ 83,574	\$ 83,460
Payroll taxes	5,996	6,052
Employee benefits	7,425	4,200
Depreciation	241,903	241,437
Amortization	3,072	3,072
Utilities	75,668	66,582
Contract labor	43,329	41,511
Insurance	31,420	30,908
Repairs and maintenance	22,479	31,624
Chemicals and supplies	22,748	43,283
Professional fees	6,126	9,216
Vehicle expenses	6,273	6,389
Office supplies	4,287	3,713
Licenses, permits, and fees	2,473	2,871
Miscellaneous	2,783	2,506
Reimbursed expenses	1,064	1,211
Freight	755	1,243
Total Operating Expenses	\$ 561,375	\$ 579,278
OPERATING NET INCOME	\$ 93,331	\$ 87,628
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 2,673	\$ 3,097
Interest expense	(165,293)	(166,170)
Total Non-Operating Revenues (Expenses)	\$ (162,620)	\$ (163,073)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ (69,289)	\$ (75,445)
CONTRIBUTIONS		
Capital contributions from members	36,000	31,200
CHANGE IN NET POSITION	\$ (33,289)	\$ (44,245)
BEGINNING NET POSITION	2,680,428	2,724,673
ENDING NET POSITION	\$ 2,647,139	\$ 2,680,428

Financial Statements

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS

Belvue, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 653,255	\$ 663,148
Cash paid to suppliers	(236,670)	(237,489)
Cash paid to employees	(90,884)	(86,596)
Interest received	2,673	3,097
Interest paid	(165,293)	(166,170)
Net Cash Provided by Operating Activities	<u>\$ 163,081</u>	<u>\$ 175,990</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in certificates of deposit	<u>\$ (2,904)</u>	<u>\$ (2,904)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	\$ (25,497)	\$ (32,538)
Payments on long-term debt	(78,945)	(78,660)
Benefit units received	36,000	31,200
Net Cash (Used in) Financing Activities	<u>\$ (68,442)</u>	<u>\$ (79,998)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 91,735	\$ 93,088
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>247,242</u>	<u>154,154</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 338,977</u></u>	<u><u>\$ 247,242</u></u>
RECONCILIATION OF OPERATING NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	\$ (69,289)	\$ (75,445)
Adjustments to reconcile operating net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	244,975	244,509
Decrease (increase) in accounts receivable	(1,451)	(3,758)
Increase (decrease) in accounts payable	(11,269)	9,620
Increase (decrease) in payroll liabilities	115	1,064
Total Adjustments	<u>\$ 163,081</u>	<u>\$ 175,990</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 165,293</u>	<u>\$ 166,170</u>

Financial Statements

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS

Belvue, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 1: Summary of Significant Accounting Policies

Rural Water District No. 4, Pottawatomie County, Kansas (the District) was organized under K.S.A. 82a-612 et. seq. in 2002 to provide water to areas of Pottawatomie, Jackson, Wabaunsee and Shawnee Counties. The operations of the District constitute a single proprietary-type fund.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, and functions that compromise the District. Component units are legally separate entities for which the District (the primary government) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose it will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has elected under GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt services; and unrestricted components.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market and savings accounts and certificates of deposits with an original maturity of three months or less.

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
Belvue, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivables include amounts due from customers for water use. All receivables are current and due within one year. The District has determined the allowance for doubtful accounts to be \$0 for the years ended December 31, 2014 and 2013.

Inventory

Inventory consists principally of materials and supplies for maintenance and construction of water lines that are recorded when purchased and expensed when used. Inventory is computed on the first in first out method.

Compensated Absences

The District provides certain vacation leave benefits to two employees. Unused vacation leave is paid upon termination of employment, retirement or death. Payment of unused vacation leave is based upon the employee's rate of pay at the time of termination, retirement or death.

Income Taxes

Pottawatomie County Rural District No. 4, Pottawatomie County, Kansas, is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted Assets

Certain cash balances are classified as restricted assets on the statements of net position due to requirements of the Rural Development Administration note payable agreement and the bonds payable agreement. The letter of conditions from Rural Development Administration requires a reserve equal \$242.04 per month up to \$29,045. The bond agreement requires a bond reserve in the amount of \$283,164. A corresponding amount of net assets are reported as restricted for debt service.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Capital Assets

The District maintains an account for capital assets, which consist of the consists of buildings, telemetry, wells and water system, standpipes, vehicles, office furniture and equipment, software, and capitalized interest. The District does not possess any infrastructure. All capital assets are stated at historical cost and are reported in the Statement of Net Position. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. When capital assets are disposed, the cost and applicable depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
Belvue, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position presents the difference between assets and liabilities in the statements of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors laws or regulations of the government. Unrestricted net assets consist of net assets that do not meet the definition of net invested in capital assets.

Capital Contributions

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operating revenue is recognized for the amount of the capital contribution that was originally recorded.

Accounting Changes

Change in Accounting Principles – As the result of implementing GASB Statement No. 65, the District has restated the beginning net position on the Statement of Net Position, effectively decreasing net position as of January 1, 2013 by \$28,244. The decrease results from no longer deferring and amortizing bond issuance costs.

Note 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.

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 required 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%. All deposits were legally secured at December 31, 2014 and 2013, respectively.

December 31, 2014

At December 31, 2014 the carrying amount of the District's deposits, including certificates of deposit, was \$622,141 and the bank balance was \$625,584. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The entire bank balance was covered by federal depository insurance.

December 31, 2013

At December 31, 2013, the carrying amount of the District's deposits, including certificates of deposit, was \$527,502 and the bank balance was \$527,859. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The entire bank balance was covered by federal depository insurance.

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
 Belvue, Kansas
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance - December 31, 2013	Additions	Retirements	Balance - December 31, 2014
Capital Assets Not Being Depreciated				
Land	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	9,397,813	25,497	-	9,423,310
Equipment	30,762	-	-	30,762
Total Other Capital Assets	\$ 9,449,126	\$ 25,497	\$ -	\$ 9,474,623
Less: Accumulated Depreciation				
Vehicles	\$ 11,987	\$ 4,110	\$ -	\$ 16,097
Plant and building	2,545,266	235,173	-	2,780,439
Equipment	18,704	2,620	-	21,324
Total Accumulated Depreciation	\$ 2,575,957	\$ 241,903	\$ -	\$ 2,817,860
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	\$ 6,873,169	\$ (216,406)	\$ -	\$ 6,656,763
Capital assets not being depreciated	\$ 17,800	\$ -	\$ -	\$ 17,800
Other capital assets at cost	9,449,126	25,497	-	9,474,623
Total Cost of Capital Assets	\$ 9,466,926	\$ 25,497	\$ -	\$ 9,492,423
Less: Accumulated depreciation	(2,575,957)	(241,903)	-	(2,817,860)
CAPITAL ASSETS - NET	\$ 6,890,969	\$ (216,406)	\$ -	\$ 6,674,563

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
 Belvue, Kansas
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance - December 31, 2012	Additions	Retirements	Balance - December 31, 2013
Capital Assets Not Being Depreciated				
Land	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	9,368,344	29,469	-	9,397,813
Equipment	27,693	3,069	-	30,762
Total Other Capital Assets	\$ 9,416,588	\$ 32,538	\$ -	\$ 9,449,126
Less: Accumulated Depreciation				
Vehicles	\$ 7,877	\$ 4,110	\$ -	\$ 11,987
Plant and building	2,310,483	234,783	-	2,545,266
Equipment	16,160	2,544	-	18,704
Total Accumulated Depreciation	\$ 2,334,520	\$ 241,437	\$ -	\$ 2,575,957
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	\$ 7,082,068	\$ (208,899)	\$ -	\$ 6,873,169
Capital assets not being depreciated	\$ 17,800	\$ -	\$ -	\$ 17,800
Other capital assets at cost	9,416,588	32,538	-	9,449,126
Total Cost of Capital Assets	\$ 9,434,388	\$ 32,538	\$ -	\$ 9,466,926
Less: Accumulated depreciation	(2,334,520)	(241,437)	-	(2,575,957)
CAPITAL ASSETS - NET	\$ 7,099,868	\$ (208,899)	\$ -	\$ 6,890,969

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS

Belvue, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

Notes to Financial Statements

Note 4: Commitments and Contingencies

Grant Program Involvement

In the normal course of operations, the District has participated in various federal grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement which may arise as a result of such audits cannot be reasonably determined at this time, although management is not aware of any audits that are planned and it is believed there would be no such liability should an audit occur.

Note 5: Long-Term Debt

The District entered into ten loans with USDA Rural Development to finance the construction of the water system. The District was initially required to finance the project with interim financing, and then obtained loans from USDA Rural Development to pay off the interim financing. The loans payable to Rural Development are required to be paid in full within 40 years from the date of the loan. Nine of the ten USDA Rural Development loans were refinanced with the issuance of water revenue bonds issued in 2012.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>
Rural Development Administration	\$ 617,217	\$ -	\$ 8,945	\$ 608,272
Water Revenue Bonds	4,165,000	-	70,000	4,095,000
Total	<u>\$ 4,782,217</u>	<u>\$ -</u>	<u>\$ 78,945</u>	<u>\$ 4,703,272</u>

Long-term debt consists of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Rural Development Administration - \$645,000 note payable issued in 2010 and maturing August 19, 2050 bearing interest at 3.25%, monthly principal and interest payments \$2,406.	\$ 608,272	\$ 617,217
Water Revenue Bonds - Series B 2012 - \$4,235,000 bonds payable issued May 15, 2012. The series consists of seventeen separately issued bonds maturing from September 1, 2013 through March 1, 2038 and bearing interest from 0.70% through 4.25%, interest only payments are due on March 1 and September 1 each year.	<u>4,095,000</u>	<u>4,165,000</u>
TOTAL LONG-TERM DEBT	\$ 4,703,272	\$ 4,782,217
Less: Current portion of long-term debt	(79,241)	(78,946)
Less: Unamortized bond discount	<u>(71,170)</u>	<u>(74,242)</u>
NET LONG-TERM DEBT	<u>\$ 4,552,861</u>	<u>\$ 4,629,029</u>

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS
 Belvue, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

Note 5: Long-Term Debt (Continued)

The 5 year minimum principal payments are as follows for December 31,

	<u>2014</u>	<u>2013</u>
2014	\$ -	\$ 78,945
2015	79,241	79,241
2016	84,546	84,546
2017	94,861	94,861
2018	110,186	110,186
2019	120,522	120,522
Thereafter	4,213,916	4,213,916
	<u>\$ 4,703,272</u>	<u>\$ 4,782,217</u>

The 5 year minimum interest payments are as follows for December 31,

	<u>2014</u>	<u>2013</u>
2014	\$ -	\$ 165,517
2015	164,808	164,513
2016	163,612	163,307
2017	162,046	161,731
2018	159,967	159,642
2019	157,267	157,267
Thereafter	1,965,578	1,965,578
	<u>\$ 2,773,278</u>	<u>\$ 2,937,555</u>

Total interest incurred and expensed in 2014 and 2013 was \$165,293 and \$166,170, respectively.

In 2012, the Series B 2012 bonds were issued for \$4,235,000 which included a \$79,106 discount. This discount is amortized over the life of the bonds and recorded as a contra-liability. There was \$3,072 of bond amortization expense for each of the years ended December 31, 2014 and 2013.

Note 6: Risk Management

The District entered into water purchase contracts with three cities and an electrical supplier for a term of forty years. These contracts require an initial contribution of 5% of the sellers cost to provide water to the purchaser. In addition, these contracts establish a minimum monthly rate and a price per 1,000 gallons for water purchases. The minimum monthly rates of these water purchase contracts represents approximately 39% of the total projected minimum monthly water revenues.

Note 7: Water Purchase Contracts

The District is exposed to various risks of loss related to theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these various risks of loss through commercial insurance with varying deductibles. All deductibles are under \$500. Insurance claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

RURAL WATER DISTRICT NO. 4, POTTAWATOMIE COUNTY, KANSAS

Belvue, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

Note 8: KPERS

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 Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provision. KPERS issues a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Ave., 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 contributions 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 6% of covered salary 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.