

RURAL WATER DISTRICT NO. 4

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2011

Rural Water District No. 4, Marion County, Kansas

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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, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Water District's management. 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Knudsen, Monroe & Company LLC

Certified Public Accountants

Newton, Kansas
February 7, 2012

Rural Water District No. 4, Marion County, Kansas

BALANCE SHEETS

December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 124,769 | 1,348 |
| Investments | 950,928 | 906,211 |
| Accounts receivable | <u>30,322</u> | <u>30,359</u> |
| Total current assets | <u>1,106,019</u> | <u>937,918</u> |
| CAPITAL ASSETS, net of accumulated depreciation when applicable | | |
| Capital assets not being depreciated | 4,500 | 4,500 |
| Capital assets, net of depreciation | <u>1,946,499</u> | <u>2,026,694</u> |
| Total capital assets | <u>1,950,999</u> | <u>2,031,194</u> |
| Total assets | <u>\$3,057,018</u> | <u>2,969,112</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| LIABILITIES | | |
| Accounts payable | \$ 6,066 | 5,089 |
| Other accrued expenses | <u>1,743</u> | <u>1,827</u> |
| Total liabilities | <u>7,809</u> | <u>6,916</u> |
| NET ASSETS, Page 3 | | |
| Invested in capital assets, net of related debt | 1,950,999 | 2,031,194 |
| Unrestricted | <u>1,098,210</u> | <u>931,002</u> |
| Total fund equity | <u>3,049,209</u> | <u>2,962,196</u> |
| Total liabilities and fund equity | <u>\$3,057,018</u> | <u>2,969,112</u> |

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|--------------------|------------------|
| REVENUES | | |
| Water sales | \$ 401,552 | 377,079 |
| Rent and other | <u>1,466</u> | <u>3,391</u> |
| Total operating revenues | <u>403,018</u> | <u>380,470</u> |
| EXPENSES | | |
| Water purchases | 63,190 | 52,956 |
| Personnel | 36,316 | 38,487 |
| Utilities | 19,027 | 16,469 |
| Office supplies | 3,397 | 6,216 |
| Meeting expense | 3,144 | 5,235 |
| Insurance | 7,135 | 5,068 |
| Repairs | 61,870 | 63,063 |
| Mileage | 11,235 | 10,852 |
| Professional fees | 4,556 | 3,375 |
| Depreciation | 125,453 | 122,442 |
| Other | <u>6,192</u> | <u>5,488</u> |
| Total operating expenses | <u>341,515</u> | <u>329,651</u> |
| Operating income | <u>61,503</u> | <u>50,819</u> |
| NONOPERATING REVENUES | | |
| Interest income | <u>14,110</u> | <u>16,102</u> |
| Total nonoperating revenues | <u>14,110</u> | <u>16,102</u> |
| Income before other revenues | 75,613 | 66,921 |
| OTHER REVENUES | | |
| Benefit unit sales | <u>11,400</u> | <u>9,500</u> |
| Net income | 87,013 | 76,421 |
| FUND EQUITY, beginning of year | <u>2,962,196</u> | <u>2,885,775</u> |
| FUND EQUITY, end of year | <u>\$3,049,209</u> | <u>2,962,196</u> |

See notes to financial statements

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from water sales | \$ 401,589 | 373,103 |
| Other cash received | <u>1,500</u> | <u>2,818</u> |
| | <u>403,089</u> | <u>375,921</u> |
| Cash paid for: | | |
| Water purchases | (63,494) | (52,762) |
| Salaries and payroll taxes | (36,374) | (38,457) |
| Other expenses | <u>(115,335)</u> | <u>(117,263)</u> |
| | <u>(215,203)</u> | <u>(208,482)</u> |
| Net cash provided by operating activities | <u>187,886</u> | <u>167,439</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (742,546) | (730,037) |
| Redemption of investments | 697,829 | 547,976 |
| Interest income received | 14,110 | 16,102 |
| Purchase of capital assets | <u>(45,258)</u> | <u>(40,033)</u> |
| Net cash used in investing activities | <u>(75,865)</u> | <u>(205,992)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Benefit unit sales | <u>11,400</u> | <u>9,500</u> |
| Net cash provided by financing activities | <u>11,400</u> | <u>9,500</u> |
| Net increase (decrease) in cash and cash equivalents | 123,421 | (29,053) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,348</u> | <u>30,401</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 124,769</u> | <u>1,348</u> |

See notes to financial statements

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income, Page 3 | \$ 61,503 | 50,819 |
| Adjustments to reconcile change in operating income to net cash provided by operating activities | | |
| Depreciation and amortization | 125,453 | 122,442 |
| (Increase) decrease in receivables - customers | 37 | (3,976) |
| Increase (decrease) in accounts payable and accrued expenses | <u>893</u> | <u>(1,846)</u> |
| Net cash provided by operating activities | <u>\$ 187,886</u> | <u>167,439</u> |

Rural Water District No. 4, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011 and 2010, capital assets consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|---------------------|------------------|
| Capital assets not being depreciated | | |
| Land | \$ 4,500 | 4,500 |
| Capital assets being depreciated | | |
| Water system and line | \$4,588,466 | 4,543,208 |
| Buildings and improvements | 85,447 | 85,447 |
| Equipment and furnishings | <u>27,175</u> | <u>27,175</u> |
| | 4,701,088 | 4,655,830 |
| Less accumulated depreciation | <u>2,754,589</u> | <u>2,629,136</u> |
| | <u>\$ 1,946,499</u> | <u>2,026,694</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, 2011 and 2010, 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, 2011

2. DEPOSITS AND INVESTMENTS

Deposits

At year-end the carrying amount of the District's deposits, including certificates of deposit, was \$1,075,697. The bank balance was \$1,080,614. The difference between the carrying amount and the bank balance is outstanding checks. Of the bank balance, \$519,551 was covered by FDIC insurance and \$561,063 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, 2011, the District did not have any of these investments.

At December 31, 2011 and 2010, cash and investments consist of the following accounts with local financial institutions:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|----------------|
| Cash and cash equivalents | | |
| Emprise Bank, Hillsboro, KS - checking account | \$ 14,634 | 1,348 |
| Central National Bank, Hillsboro, KS - savings account | <u>110,135</u> | <u>-</u> |
| Total cash | <u>124,769</u> | <u>1,348</u> |
| Investments | | |
| Certificates of deposit | | |
| Central National Bank, Hillsboro, KS | 469,481 | 430,711 |
| Midland National Bank, Newton, KS | <u>481,447</u> | <u>475,500</u> |
| Total investments | <u>950,928</u> | <u>906,211</u> |
| Total cash and investments | <u>\$1,075,697</u> | <u>907,559</u> |

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011, was 6.74%. The District's contributions to KPERs for the years ending December 31, 2011 and 2010, were \$1,810 and \$2,314, 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, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 7, 2012, which is the date at which the financial statements were available to be issued.