

**RURAL WATER DISTRICT NO. 5
ANDERSON COUNTY, KANSAS**

Financial Statement and
Independent Auditors' Report with
Supplemental Information

For the Year Ended
December 31, 2011

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 5
Anderson County, Kansas

We have audited the summary statement of cash receipts, expenditures, and unencumbered cash balances of Rural Water District No. 5, Anderson County, Kansas as of and for the year ended December 31, 2011. This financial statement is the responsibility of the Water District's management. Our responsibility is to express an opinion on this financial statement based on our audit. The prior year 2010 comparative information has been derived from the District's 2010 financial statement and, in our report dated May 25, 2011 we expressed an unqualified opinion on the financial statement of the Rural Water District No. 5, Anderson County, Kansas, prepared in accordance with the statutory basis of accounting.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the District has prepared this financial statement using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statement referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Rural Water District No. 5, Anderson County, Kansas, as of December 31, 2011, or the respective changes in financial position and changes in cash flows, where applicable, for the year then ended.

In our opinion, the financial statement referred above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Rural Water District No. 5, Anderson County, Kansas, as of December 31, 2011, and the aggregate cash receipts and expenditures for the year then ended, on the basis of accounting described in Note 2.

Rural Water District No. 5
Anderson County, Kansas

Our audit was conducted for the purpose of forming an opinion on the financial statement. The individual fund schedules of cash receipts and expenditures-actual, schedule of costs of operations, and schedule of cash receipts and expenditures-actual and budget (Schedules 1, 2, and 3 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the statutory financial statement. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the 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 financial statement as a whole.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

August 9, 2012
Chanute, Kansas

Statement 1

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Add Encumbrances and Accounts Payable	Ending Cash Balance	
						2011	2010
Enterprise Funds							
Water Utility	\$ 368,670.44	\$ 481,784.15	\$ 444,107.22	\$ 406,347.37	\$ 21,041.00	\$ 427,388.37	\$ 386,189.08
Water Utility Bond and Interest	82,175.00	100,922.21	100,922.21	82,175.00	-	82,175.00	82,175.00
Total Reporting Entity	\$ 450,845.44	\$ 582,706.36	\$ 545,029.43	\$ 488,522.37	\$ 21,041.00	\$ 509,563.37	\$ 468,364.08

Composition of Cash:

Cash on Hand	\$ 100.00	\$ 100.00
Checking Account	212,464.67	175,333.70
Petty Cash Account	46.52	42.51
Certificates of Deposit	296,952.18	292,887.87
Total Composition of Cash	\$ 509,563.37	\$ 468,364.08

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

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas

Notes to Financial Statement
For the Year Ended December 31, 2011

1. NATURE OF ORGANIZATION

Organization and Purpose

Rural Water District No. 5, Anderson County, Kansas is a quasi-municipal corporation providing water to rural Anderson, Allen, and Coffey counties in Kansas. Currently, the District purchases its water from Public Wholesale Water Supply District No. 5, Iola, Kansas. To continue serving its patrons, the District is dependent upon the Public Wholesale Water Supply District No. 5 to provide adequate, reasonably priced water. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

2. SIGNIFICANT ACCOUNTING POLICIES

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, restrictions, or limitations.

The following types of funds comprise the financial activities of the Rural Water District No. 5, Anderson County, Kansas for the year of 2011:

PROPRIETARY FUNDS

Enterprise Funds – Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the District is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants and other District funds.

Basis of Presentation - Statutory Basis of Accounting

The statutory basis of accounting, as used in preparation of this statutory basis financial statement and schedules, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving the cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

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 municipality to use the statutory basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, and cash and unencumbered cash balances. 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 generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statement. Also long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statement.

Income Taxes

The Rural Water District No. 5, Anderson County, Kansas, is recognized by the Internal Revenue Service as a quasi-municipal corporation, under K.S.A. 88a-616, and is exempt from Federal and state income taxes. Accordingly, this financial statement do not include a provision for income taxes.

Use of Estimates

Estimates and assumptions are used by management in preparing the financial statement. Those estimates and assumptions affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures should be recorded as reductions in expenditures rather than as receipts. In the financial statement presented in this report, reimbursements and refunds are recorded as cash receipts. The reimbursements are recorded as cash receipts when received by the District as they are often difficult to identify the exact expenditure for which they are reimbursing.

Pension Plan

Substantially all full-time District employees are members of the State of Kansas Public Employees Retirement System, of which is a multi-employer, state-wide pension plan. The District's policy is to fund all pension costs accrued; such costs to be funded are actuarially determined annually by the State of Kansas.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Revenue Bond Requirements

The District is required, under ordinances of the Water System Revenue Bonds, to maintain certain restricted accounts. The ordinances provide that the following reserve accounts be set up in amounts as described below:

<u>RESERVE ACCOUNT</u>	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
2010 Water System Bond and Interest – requires transfers monthly of 1/6 of next maturing interest, beginning November 1, 2010, and 1/12 of next maturing principal, beginning November 1, 2010.	\$ 21,516.67	\$ 82,250.00
Total Reserves at December 31, 2011	<u>\$ 21,516.67</u>	<u>\$ 82,250.00</u>

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Revenue Bond Requirements (Continued)

The District agrees to fix, establish, maintain and collect such rates, fees or charges for water service furnished by or through the waterworks system which will be sufficient to enable the District to have, in each fiscal year, a net income in an amount that will be not less than 110% of the amount required to be paid by the District in the next succeeding fiscal year on account of both principal and interest of all waterworks system bonds of the District at the time outstanding. Net income is defined as gross income less operating expenses but before any transfers, depreciation and capital expense.

For the year ended December 31, 2011, the District had a net operating income of \$138,599.14. The revenue bond ordinance requires a net operating income of \$109,505.00, which is 110% of the principal and interest requirements for 2012. Therefore, the District was in compliance with this covenant.

Compliance with Kansas Statutes

Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas.

4. 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 branch 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.

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 District, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2011.

Deposits

At December 31, 2011, the District's carrying amount of deposits was \$509,463.37 and the bank balance was \$510,031.31. The bank balance was held at three banks resulting in a concentration of credit risk. Of the bank balance, \$463,079.13 was covered by federal depository insurance (FDIC) and \$46,952.18 was collateralized by pledged securities held by the pledging financial institutions' agent in the District's name.

5. Long-Term Liabilities

Changes in long-term liabilities for the District for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Revenue Bonds Water System Refunding Bond Series 2010	1.0% - 4.0%	2010	\$ 1,035,000.00	2023	\$ 1,035,000.00	-	\$ 70,000.00		\$ 965,000.00	\$ 30,922.21
Total Contractual Indebtedness			1,035,000.00		1,035,000.00	-	70,000.00		965,000.00	30,922.21
Compensated Absences	N/A	N/A	N/A	N/A	2,712.79			\$ 672.90	3,385.69	N/A
Total Long-Term Liabilities					\$ 1,037,712.79	-	\$ 70,000.00	\$ 672.90	\$ 968,385.69	\$ 30,922.21

Current maturities of long-term liabilities and interest for the next five years and in five year increments through maturity is as follows:

Issue	2012	2013	2014	2015	2016	2017-2021	2022-2023	Total
Principal								
Revenue Bonds								
Water System Series 2010	\$ 70,000.00	\$ 70,000.00	\$ 75,000.00	\$ 75,000.00	\$ 75,000.00	\$ 415,000.00	\$ 185,000.00	\$ 965,000.00
Total Principal Payments	70,000.00	70,000.00	75,000.00	75,000.00	75,000.00	415,000.00	185,000.00	965,000.00
Interest								
Revenue Bonds								
Water System Refunding Bond Series 2010	29,550.00	28,640.00	27,450.00	25,950.00	24,075.00	74,225.00	9,300.00	219,190.00
Total Interest Payments	29,550.00	28,640.00	27,450.00	25,950.00	24,075.00	74,225.00	9,300.00	219,190.00
Total Principal and Interest	\$ 99,550.00	\$ 98,640.00	\$ 102,450.00	\$ 100,950.00	\$ 99,075.00	\$ 489,225.00	\$ 194,300.00	\$ 1,184,190.00

6. 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. Those reports may be obtained by writing to KPERs (611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603-3803) or, by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% or 6% 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 rates 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 employer contribution rates. The employer rate established for 2011 was 7.74%. The District's employer contributions to KPERs for the years ended December 31, 2011, 2010, and 2009 were \$4,080.54, \$3,815.16, and \$2,881.02, respectively, equal to the required contribution for the years.

7. COMPENSATED ABSENCES

All full-time employees of the District contract for vacation benefits in varying annual amounts. Vacation must be used by each anniversary date. In the event of termination, unused accrued vacation time is paid.

The District accrues a liability for compensated absences which meet the following criteria:

- 1) The District's obligation relating to employees' rights to receive compensation for future absences is attributed to employee's services already rendered.
- 2) The obligation relates to rights that vest or accumulate.
- 3) Payment of the compensation is probable.
- 4) The amount can be reasonably estimated.

In accordance with the above criteria, the District has estimated a liability for vacation pay as disclosed in Note 5.

8. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged the level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District 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 the District under this program.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

10. CONCENTRATION OF RISK

The District's customers are located in eastern Kansas counties. Risk of accounting loss exists from the possibility that numerous customers would no longer purchase water from the District. Impact of potential risk cannot be determined. Accounts receivable consist of unsecured receivables from the sales of water to customers of the District. The District is subject to the credit risk inherent in the rural water district business.

11. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority</u>	<u>Amount</u>
Water Utility	Water Utility Bond and Interest Fund	K.S.A. 12-825d	\$ 100,922.21

12. SUBSEQUENT EVENTS

The District evaluated events and transactions occurring subsequent to year end and there were no subsequent events requiring recognition in the financial statement.

However, subsequent to the year end, the District officers voted to upgrade the meters in the District to a remote read system at a cost of \$156,966.00.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas

Water Utility Fund

Schedule of Cash Receipts and Expenditures - Actual

For the Year Ended December 31, 2011

(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Charges for Service		
Water Sales	\$ 220,240.47	\$ 257,511.02
Debt Service Charges	183,685.85	181,138.17
Penalties	8,680.84	7,693.79
Use of Money and Property		
Interest Income	8,931.17	4,449.65
Other Revenues		
Service Income	7,027.79	6,421.48
Benefit Units Collected	15,000.00	10,450.00
Reimbursed Expense	54,249.53	9,439.20
Miscellaneous Income	14,699.45	4,680.84
Total Cash Receipts	512,515.10	481,784.15
Expenditures		
Personal Services		
Salaries and Wages	66,350.15	65,690.20
Fringe Benefits	6,039.10	8,922.04
Contractual Services		
Contract Labor	50,149.06	18,992.40
Convention Expense	1,801.04	1,929.33
Directors Fees	2,350.00	3,000.00
Fees and Taxes	3,023.90	3,888.41
Insurance and Bonds	7,111.69	8,371.94
Legal, Accounting, and Engineering	32,526.89	5,211.30
Telephone	2,794.17	2,949.89
Commodities		
Fuel	3,451.98	3,653.80
Miscellaneous	400.53	657.26
Office Supplies	2,027.03	1,697.36
Utilities	1,263.59	1,411.24
Operating Supplies	37,542.67	52,170.54
Postage	4,052.56	3,970.86
Power Purchased	9,791.65	10,072.94
Repairs and Maintenance	7,544.00	-
Water Purchased	135,925.50	150,595.50

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas
Water Utility Fund
Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011
(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Expenditures (Continued)		
Capital Outlay	\$ 1,839.30	\$ -
Operating Transfers to:		
Water Utility Bond and Interest Fund	150,000.00	100,922.21
Total Expenditures	525,984.81	444,107.22
Cash Receipts Over (Under) Expenditures	(13,469.71)	37,676.93
Unencumbered Cash, Beginning	382,140.15	368,670.44
Unencumbered Cash, Ending	\$ 368,670.44	\$ 406,347.37

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas
Water Utility Bond and Interest Fund
Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011
(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfers From:		
Water Utility Reserve Fund	\$ 150,000.00	\$ -
Water Utility Fund	150,000.00	100,922.21
Total Cash Receipts	300,000.00	100,922.21
Expenditures		
Debt Service		
Principal Payments	240,000.00	70,000.00
Interest	60,045.00	30,922.21
Commissions and Postage	30.00	-
Total Expenditures	300,075.00	100,922.21
Cash Receipts Over (Under) Expenditures	(75.00)	-
Unencumbered Cash, Beginning	82,250.00	82,175.00
Unencumbered Cash, Ending	\$ 82,175.00	\$ 82,175.00

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas
Water Utility Reserve Fund
Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2011
(With Comparative Actual Totals For the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfers From:		
Water Utility Fund	\$ -	\$ -
Total Cash Receipts	-	-
Expenditures		
Improvements		
Capital Outlay	-	-
Operating Transfers to:		
Water Utility Bond and Interest Fund	150,000.00	-
Total Expenditures	150,000.00	-
Cash Receipts Over (Under) Expenditures	(150,000.00)	-
Unencumbered Cash, Beginning	150,000.00	-
Unencumbered Cash, Ending	\$ -	\$ -

Schedule 2

RURAL WATER DISTRICT NO. 5
 Anderson County, Kansas
 Schedule of Costs of Operations
 For the Year Ended December 31, 2011

	Operations	Administration	Current Year Actual
Expenditures			
Salaries and Wages	\$ 45,124.30	\$ 20,565.90	\$ 65,690.20
Fringe Benefits	5,167.85	3,754.19	8,922.04
Contract Labor	18,992.40	-	18,992.40
Convention Expense	-	1,929.33	1,929.33
Directors Fees	-	3,000.00	3,000.00
Fees and Taxes	3,888.41	-	3,888.41
Fuel	3,653.80	-	3,653.80
Insurance and Bonds	4,003.94	4,368.00	8,371.94
Legal, Accounting, and Engineering	-	5,211.30	5,211.30
Miscellaneous	657.26	-	657.26
Office Supplies	-	1,697.36	1,697.36
Utilities	-	1,411.24	1,411.24
Operating Supplies	49,289.36	2,881.18	52,170.54
Postage	-	3,970.86	3,970.86
Power Purchased	10,072.94	-	10,072.94
Repairs and Maintenance	-	-	-
Telephone	-	2,949.89	2,949.89
Water Purchased	150,595.50	-	150,595.50
Capital Outlay	-	-	-
Operating Transfers to:			
Water Utility Bond and Interest Fund	100,922.21	-	100,922.21
Total Expenditures per Schedule 2	<u>392,367.97</u>	<u>\$ 51,739.25</u>	<u>\$ 444,107.22</u>
Less:			
Capital Outlay	-		
Transfers to Other Funds	(100,922.21)		
Reimbursed Expense	(9,439.20)		
Add:			
Actual Debt Service	100,922.21		
Depreciation Expense	<u>108,224.22</u>		
Total Cost of Operations	491,152.99		
Gallons of Water Sold	<u>51,763,000</u>		
Cost/1000 gallons	<u>\$ 9.49</u>		

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas

Water Utility Fund

Schedule of Cash Receipts and Expenditures - Actual and Budget

For the Year Ended December 31, 2011

	ACTUAL	BUDGET	Variance - Over (Under)
Cash Receipts			
Water Sales	\$ 257,511.02	\$ 280,000.00	\$ (22,488.98)
Debt Service Charges	181,138.17	186,000.00	(4,861.83)
Interest Income	4,449.65	4,700.00	(250.35)
Penalties	7,693.79	8,700.00	(1,006.21)
Service Income	6,421.48	7,000.00	(578.52)
Benefit Units Collected	10,450.00	10,000.00	450.00
Miscellaneous Income	14,120.04	5,000.00	9,120.04
Total Cash Receipts	<u>481,784.15</u>	<u>501,400.00</u>	<u>(19,615.85)</u>
Expenditures			
Salaries and Wages	65,690.20	68,000.00	(2,309.80)
Fringe Benefits	8,922.04	6,500.00	2,422.04
Contract Labor	18,992.40	8,000.00	10,992.40
Convention Expense	1,929.33	1,900.00	29.33
Directors Fees	3,000.00	3,300.00	(300.00)
Fees and Taxes Collected	3,888.41	4,000.00	(111.59)
Fuel	3,653.80	5,000.00	(1,346.20)
Insurance and Bonds	8,371.94	8,400.00	(28.06)
Legal, Accounting, and Engineering	5,211.30	5,500.00	(288.70)
Miscellaneous	657.26	500.00	157.26
Office Supplies	1,697.36	2,100.00	(402.64)
Utilities	1,411.24	1,300.00	111.24
Operating Supplies	52,170.54	39,000.00	13,170.54
Postage	3,970.86	4,100.00	(129.14)
Power Purchased	10,072.94	9,900.00	172.94
Repairs and Maintenance	-	5,000.00	(5,000.00)
Telephone	2,949.89	3,500.00	(550.11)
Water Purchased	150,595.50	150,000.00	595.50
Capital Outlay	-	-	-
Operating Transfer to:			
Water Utility Bond and Interest Fund	100,922.21	101,000.00	(77.79)
Total Expenditures	<u>444,107.22</u>	<u>427,000.00</u>	<u>17,107.22</u>
Cash Receipts Over (Under) Expenditures	<u>\$ 37,676.93</u>	<u>\$ 74,400.00</u>	<u>\$ (36,723.07)</u>



MANAGEMENT LETTER

Board of Directors
Rural Water District No. 5
Anderson County, Kansas

In planning and performing our audit of the financial statements of the Rural Water District No. 5, Anderson County, Kansas as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Rural Water District No. 5, Anderson County, Kansas's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Kansas cash basis and budget laws basis of accounting such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Preparation of Financial Statements

In prior years, the auditor was considered the compensating control for preparation of the District's financial statements, including footnotes. However, current professional standards do not allow the auditor to be a compensating internal control for the District. The standard states the client must be able to accept responsibility and be able to identify a material misstatement when handed the financial statements, including footnotes. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the District staff does not have the ability to process and prepare the required financial statements, including footnotes. While we recognize that this condition is not unusual for a district your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
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Segregation of Duties

Due to the small staff size of the District, weakness in internal control results from the District personnel performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District.

We remind the District staff and Board members responsible for approval and the signing of checks to be diligent in your responsibilities. All disbursements approved should have original invoices attached and should be thoroughly reviewed before approval. In addition, we recommend that whenever an office staff person takes a vacation, that person's accounting duties be performed by another office staff person in their absence. In this way, possible improprieties may be discovered during performance of their work by another person.

We wish to express our appreciation to you and your staff for all the courtesy and assistance we received during this year's audit. We hope these comments and recommendations will be beneficial to the District in the future.

This communication is intended solely for the use of the Board of Directors and management of the Rural Water District No. 5, Anderson County, Kansas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

August 9, 2012
Chanute, Kansas