

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

Independent Auditors' Report
and Financial Statement with
Supplemental Information

For the Year Ended
December 31, 2012

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 accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 5, Anderson County, Kansas, a municipality, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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.

Auditors' 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 Rural Water District No. 5, Anderson County, Kansas 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 Rural Water District No. 5, Anderson County, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

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 of Rural Water District No. 5, Anderson County, Kansas 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 schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 1 as listed in the table of contents) are presented for analysis and are 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of costs of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of costs of operations (Schedule 2 as listed in the table of contents) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

September 9, 2013
Chanute, Kansas

Statement 1

RURAL WATER DISTRICT NO. 5
 Anderson County, Kansas
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash
 For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balances	Receipts	Expenditures	Ending Unencumbered Cash Balances	Add Encumbrances and Accounts Payable	Ending Cash Balance December 31, 2011
Business Funds						
Water Utility	\$ 406,347.37	\$ 538,929.78	\$ 644,077.23	\$ 301,199.92	\$ 18,080.89	\$ 319,280.81
Water Utility Bond and Interest	82,175.00	99,550.00	99,550.00	82,175.00	-	82,175.00
Total Reporting Entity	\$ 488,522.37	\$ 638,479.78	\$ 743,627.23	\$ 383,374.92	\$ 18,080.89	\$ 401,455.81
Composition of Cash:						
	Cash on Hand					\$ 100.00
	Checking Account					101,799.90
	Petty Cash Account					108.75
	Certificates of Deposit					299,447.16
	Total Composition of Cash					\$ 401,455.81

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, 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 5, Anderson County, Kansas (the District) was organized under Kansas law and provides water to rural Anderson, Allen, and Coffey counties in Kansas. Rural Water District No. 5, Anderson County, Kansas is a municipal corporation governed by an elected nine member board.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the District. Related municipal entities are not required to be included in the District's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types

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 2012:

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

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (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 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 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 regulatory basis of accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. 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.	\$ 21,213.33	\$ 82,175.00
Total Reserves at December 31, 2012	<u>\$ 21,213.33</u>	<u>\$ 82,175.00</u>

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, 2012, the District had a net operating income of \$165,181.93. The revenue bond ordinance requires a net operating income of \$108,504.00, which is 110% of the principal and interest requirements for 2013. Therefore, the District was in compliance with this covenant.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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.

3. 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, 2012.

Deposits

At December 31, 2012, the District's carrying amount of deposits was \$401,355.81 and the bank balance was \$402,039.67. The bank balance was held at three banks resulting in a concentration of credit risk. Of the bank balance, \$352,592.51 was covered by federal depository insurance (FDIC) and \$49,447.16 was collateralized by pledged securities held by the pledging financial institutions' agent in the District's name.

4. Long-Term Debt Commitments

Changes in long-term debt commitments for the District for the year ended December 31, 2012, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Revenue Bonds Water System Refunding Bond Series 2010	1.0% - 4.0%	2010	\$ 1,035,000.00	2023	\$ 965,000.00	-	\$ 70,000.00	\$ 895,000.00	\$ 29,550.00
Total Long-Term Debt Commitments					\$ 965,000.00	-	\$ 70,000.00	\$ 895,000.00	\$ 29,550.00

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

Issue	2013	2014	2015	2016	2017	2018-2022	2023-2024	Total
Principal								
Revenue Bonds								
Water System Series 2010	\$ 70,000.00	\$ 75,000.00	\$ 75,000.00	\$ 75,000.00	\$ 75,000.00	\$ 430,000.00	\$ 95,000.00	\$ 895,000.00
Total Principal Payments	70,000.00	75,000.00	75,000.00	75,000.00	75,000.00	430,000.00	95,000.00	895,000.00
Interest								
Revenue Bonds								
Water System Refunding Bond Series 2010	28,640.00	27,450.00	25,950.00	24,075.00	22,012.50	69,512.50	1,900.00	199,540.00
Total Interest Payments	28,640.00	27,450.00	25,950.00	24,075.00	22,012.50	69,512.50	1,900.00	199,540.00
Total Principal and Interest	\$ 98,640.00	\$ 102,450.00	\$ 100,950.00	\$ 99,075.00	\$ 97,012.50	\$ 499,512.50	\$ 96,900.00	\$ 1,094,540.00

5. DEFINED BENEFIT PENSION PLAN

Plan description. The Authority 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 provisions. KPERS issues a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution 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 at 6% of covered salary for 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.

6. 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 on the amount of \$4,788.42.

7. 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.

8. 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.

9. 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.

10. 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	\$ 99,550.00

11. 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. Additionally, there were no nonrecognized subsequent events requiring disclosure

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas
Water Utility Fund

Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Totals For the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual	Budget	Variance - Over (Under)
Receipts				
Charges for Service				
Water Sales	\$ 257,511.02	\$ 280,403.35	\$ 280,000.00	\$ 403.35
Debt Service Charges	181,138.17	188,126.21	185,000.00	3,126.21
Penalties	7,693.79	9,494.16	8,700.00	794.16
Use of Money and Property				-
Interest Income	4,449.65	2,698.10	3,000.00	(301.90)
Other Revenues				-
Service Income	6,421.48	7,867.52	6,500.00	1,367.52
Benefit Units Collected	10,450.00	40,900.00	40,000.00	900.00
Reimbursed Expense	9,439.20	7,440.44	-	7,440.44
Miscellaneous Income	4,680.84	2,000.00	3,000.00	(1,000.00)
Total Receipts	481,784.15	538,929.78	526,200.00	12,729.78
Expenditures				
Personal Services				
Salaries and Wages	65,690.20	69,507.54	70,000.00	(492.46)
Fringe Benefits	8,922.04	13,814.88	9,500.00	4,314.88
Contractual Services				
Contract Labor	18,992.40	14,498.75	15,000.00	(501.25)
Convention Expense	1,929.33	1,473.91	2,000.00	(526.09)
Directors Fees	3,000.00	2,575.00	3,300.00	(725.00)
Fees and Taxes	3,888.41	2,040.70	4,000.00	(1,959.30)
Insurance and Bonds	8,371.94	7,582.48	7,600.00	(17.52)
Legal, Accounting, and Engineering	5,211.30	3,835.04	5,500.00	(1,664.96)
Telephone	2,949.89	3,169.28	3,500.00	(330.72)
Commodities				
Fuel	3,653.80	4,518.56	5,000.00	(481.44)
Miscellaneous	657.26	372.83	100.00	272.83
Office Supplies	1,697.36	1,635.30	1,700.00	(64.70)
Utilities	1,411.24	1,647.37	1,850.00	(202.63)
Operating Supplies	52,170.54	43,696.25	55,000.00	(11,303.75)
Postage	3,970.86	4,530.91	4,500.00	30.91
Power Purchased	10,072.94	9,716.22	11,000.00	(1,283.78)
Repairs and Maintenance	-	-	1,000.00	(1,000.00)
Water Purchased	150,595.50	189,132.83	180,000.00	9,132.83

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas

Water Utility Fund

Regulatory Basis

Schedule of Receipts and Expenditures - Actual

For the Year Ended December 31, 2012

(With Comparative Actual Totals For the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual	Budget	Variance - Over (Under)
Expenditures (Continued)				
Capital Outlay	\$ -	\$ 170,779.38	\$ 200,000.00	\$ (29,220.62)
Operating Transfers to:				
Water Utility Bond and Interest Fund	<u>100,922.21</u>	<u>99,550.00</u>	<u>100,000.00</u>	<u>(450.00)</u>
Total Expenditures	<u>444,107.22</u>	<u>644,077.23</u>	<u>680,550.00</u>	<u>(36,472.77)</u>
Receipts Over (Under) Expenditures	37,676.93	(105,147.45)	<u>\$ (154,350.00)</u>	<u>\$ 49,202.55</u>
Unencumbered Cash, Beginning	<u>368,670.44</u>	<u>406,347.37</u>		
Unencumbered Cash, Ending	<u>\$ 406,347.37</u>	<u>\$ 301,199.92</u>		

RURAL WATER DISTRICT NO. 5

Anderson County, Kansas

Water Utility Bond and Interest Fund

Schedule of Receipts and Expenditures - Actual

For the Year Ended December 31, 2012

(With Comparative Actual Totals For the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Transfers From:		
Water Utility Fund	\$ 100,922.21	\$ 99,550.00
Total Receipts	<u>100,922.21</u>	<u>99,550.00</u>
Expenditures		
Debt Service		
Principal Payments	70,000.00	70,000.00
Interest	30,922.21	29,550.00
Commissions and Postage	-	-
Total Expenditures	<u>100,922.21</u>	<u>99,550.00</u>
Cash Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	<u>82,175.00</u>	<u>82,175.00</u>
Unencumbered Cash, Ending	<u><u>\$ 82,175.00</u></u>	<u><u>\$ 82,175.00</u></u>

OTHER INFORMATION

RURAL WATER DISTRICT NO. 5
Anderson County, Kansas
Schedule of Costs of Operations
For the Year Ended December 31, 2012

	Operations	Administration	Current Year Actual
Expenditures			
Salaries and Wages	\$ 48,400.34	\$ 21,107.20	\$ 69,507.54
Fringe Benefits	10,693.26	3,121.62	13,814.88
Contract Labor	14,498.75	-	14,498.75
Convention Expense	-	1,473.91	1,473.91
Directors Fees	-	2,575.00	2,575.00
Fees and Taxes	2,040.70	-	2,040.70
Fuel	4,518.56	-	4,518.56
Insurance and Bonds	3,214.48	4,368.00	7,582.48
Legal, Accounting, and Engineering	(1,376.26)	5,211.30	3,835.04
Miscellaneous	372.83	-	372.83
Office Supplies	-	1,635.30	1,635.30
Utilities	-	1,647.37	1,647.37
Operating Supplies	40,815.07	2,881.18	43,696.25
Postage	-	4,530.91	4,530.91
Power Purchased	9,716.22	-	9,716.22
Repairs and Maintenance	-	-	-
Telephone	-	3,169.28	3,169.28
Water Purchased	189,132.83	-	189,132.83
Capital Outlay	170,779.38	-	170,779.38
Operating Transfers to:			
Water Utility Bond and Interest Fund	99,550.00	-	99,550.00
Total Expenditures per Schedule 1	<u>592,356.16</u>	<u>\$ 51,721.07</u>	<u>\$ 644,077.23</u>
Less:			
Capital Outlay	(170,779.38)		
Transfers to Other Funds	(99,550.00)		
Reimbursed Expense	(7,440.44)		
Add:			
Actual Debt Service	99,550.00		
Depreciation Expense	<u>111,809.78</u>		
Total Cost of Operations	525,946.12		
Gallons of Water Sold	<u>51,536,000</u>		
Cost/1000 gallons	<u>\$ 10.21</u>		



Communication of Material Weaknesses

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

In planning and performing our audit of the financial statement of Rural Water District No. 5, Anderson County, Kansas as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Rural Water District No. 5, Anderson County, Kansas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 5, Anderson County, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 5, Anderson County, Kansas' internal control.

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

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Rural Water District No. 5, Anderson County, Kansas' internal control to be material weaknesses:

Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. 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 statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. 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
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one or two people are responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

Accounts Payable

K.S.A. 10-1117 requires management to maintain a record of indebtedness. This means that the District's expenses need to reflect accounts payable. The District's records only reflect cash disbursed and do not include in expenses any payables still owed. As a result, the District could inadvertently overspend cash available.

Payroll Taxes

During the audit, it was noted that one of the required payroll tax payments was submitted late. Since this usually results in a substantial penalty from the IRS, it is important to have controls in place to avoid any lapse in payment.

This communication is intended solely for the information and use of management Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

September 9, 2013
Chanute, Kansas