

KIRWIN IRRIGATION DISTRICT NO. 1

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2013

**MARY E. ANDERSON
Certified Public Accountant
Osborne, Kansas**

KIRWIN IRRIGATION DISTRICT NO. 1
FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Kirwin Irrigation District No. 1
Gaylord, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Kirwin Irrigation District No. 1 (a Kansas quasi-municipality), as of and for the year ended December 31, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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 A 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.

Auditor's 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

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accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A of the financial statement, the financial statement is prepared by the Kirwin Irrigation District No. 1 to meet the requirements of the State of Kansas on the basis of financial reporting provision 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 A 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 the Kirwin Irrigation District No. 1 as of December 31, 2013, 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 the Kirwin Irrigation District No. 1 as of December 31, 2013, 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 A.

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 summary of regulatory basis expenditures, and individual fund schedules of regulatory basis receipts and expenditures-actual and budget are presented for analysis and are not a required part of the basic financial statement, however are 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 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 A.

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As described in Note A, due to billing procedures followed by Kirwin Irrigation District No. 1, Gaylord, Kansas, we were unable to confirm total accounts receivable as of December 31, 2013.

We believe that the audit evidence we have obtained, except for the effects, if any, of such adjustments to financial statements as discussed in the preceding paragraph, is sufficient and appropriate to provide a basis for our audit opinion.

This report is intended solely for the use of the Board and management and the cognizant federal and state agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which upon acceptance by Kirwin Irrigation District No. 1, is a matter of public record.



Mary E. Anderson
Certified Public Accountant

September 17, 2014

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF CASH RECEIPTS, CASH DISBURSEMENTS, AND UNENCUMBERED CASH

For the Year Ended December 31, 2013

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
General	\$ 169,900	\$ 484,081	\$ 445,893	\$ 208,088	\$ -	\$ 208,088
Water Reserve Funds	103,036	12,223	-	115,259	-	115,259
Water Distribution Funds	102,593	10,790	-	113,383	-	113,383
Total Reporting Entity	<u>\$ 375,529</u>	<u>\$ 507,094</u>	<u>\$ 445,893</u>	<u>\$ 436,730</u>	<u>\$ -</u>	<u>\$ 436,730</u>

Composition of cash:

Demand deposit accounts:

The Farmers Bank, Gaylord, KS

\$ 2,540

Money market accounts:

The Farmers Bank, Gaylord, KS

205,548

Certificates of deposit:

The Farmers Bank, Gaylord, KS

228,642

\$ 436,730

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

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2013

<u>Fund</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
General	\$ <u>446,479</u>	\$ <u>70,000</u>	\$ <u>516,479</u>	\$ <u>445,893</u>	\$ <u>70,586</u>

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

KIRWIN IRRIGATION DISTRICT NO. 1
GENERAL FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2013

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Cash Receipts			
Special Assessment -			
County Treasurer	\$ 371,466	\$ 376,479	\$ (5,013)
Interest	2,392	-	2,392
Miscellaneous	4,218	-	4,218
Reimbursements - Bureau of Reclamation	96,224	70,000	26,224
Reimbursements - Other	27,001	-	27,001
Reimbursements - WID	<u>5,795</u>	<u>-</u>	<u>5,795</u>
 Total Cash Receipts	 <u>507,096</u>	 <u>446,479</u>	 <u>\$ 60,617</u>
 Expenditures			
General & Administrative	138,438	100,000	\$ (38,438)
Other Operating Expenditures	<u>307,455</u>	<u>346,479</u>	<u>39,024</u>
 Total Expenditures	 <u>445,893</u>	 <u>446,479</u>	 <u>586</u>
 Adjustment for Qualifying Budget Credits	 <u>-</u>	 <u>70,000</u>	 <u>70,000</u>
 Total Expenditures	 <u>445,893</u>	 <u>\$ 516,479</u>	 <u>\$ 70,586</u>
 Receipts Over (Under) Expenditures	 61,203		
 Unencumbered Cash, Beginning	 <u>375,527</u>		
 Unencumbered Cash, Ending	 <u>\$ 436,730</u>		

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

KIRWIN IRRIGATION DISTRICT NO. 1

SUMMARY OF CHANGES IN LONG-TERM DEBT

For the Year Ended December 31, 2013

<u>Payable To:</u>	<u>Interest Rate</u>	<u>Date of Contract</u>	<u>Amount of Contract</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Payments</u>	<u>Balance End of Year</u>
U.S. Department of Interior							
Article 5B - Water Supply	0%	1/1/2003	\$664,990	11/1/2042	\$ 106,256	\$10,032	\$ 96,224

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

KIRWIN IRRIGATION DISTRICT NO. 1
 SCHEDULE OF MATURITY OF LONG-TERM DEBT

For the Year Ended December 31, 2013

	YEAR						
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>THEREAFTER</u>	<u>TOTAL</u>
PRINCIPAL							
U.S. Department of Interior	<u>\$ 20,064</u>	<u>\$ 20,064</u>	<u>\$ 19,488</u>	<u>\$ 17,198</u>	<u>\$ 17,198</u>	<u>\$ 2,212</u>	<u>\$ 96,224</u>

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

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies:

1. Financial Reporting Entity

The District is a Kansas quasi-municipal corporation organized under the provisions of K.S.A. 42-701 through 730. It is governed by an elected three-member board.

2. Basis of Presentation - Fund Accounting

The accounts of the District are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the District for the year ended December 31, 2013:

General Fund - reports as the primary fund of the District. The fund is used to account for all financial resources not reported in other funds.

3. Regulatory Basis of Accounting

The 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 regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measure 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 District to use the statutory basis of accounting.

4. 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, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

sheets that would have shown noncash 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 year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

5. Accounting for Capital Assets and Depreciation

The District does not maintain a record of capital assets used in performance of general government operations as required by generally accepted accounting principles.

6. Reimbursements

The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

7. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

8. Property Tax Calendar

Property taxes are collected from land owners within the district and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half on May 10th. Major property tax payments are received January through July and are recognized as revenue in the year received.

9. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures during the year of purchase as required by state statutes.

10. Compensated Absences

Full time employees will begin with 80 hours of vacation with a maximum of 240 hours that can be accumulated. No vacation leave is paid out upon termination. As of December 31, 2013, the total liability for vacation appears to be immaterial. This total potential liability is not reflected in the financial statements.

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Full time employees are also eligible for sick leave. Employees will begin with 40 hours of sick leave with a maximum of 240 hours that can be accumulated. No sick leave is paid out upon termination. As of December 31, 2013, the total liability for sick leave appears to be immaterial. This total potential liability is not reflected in the financial statements.

11. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

At December 31, 2013 the District's carrying amount of deposits, including certificates of deposit, was \$436,730 and the bank balance was \$439,352. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was covered by FDIC insurance and pledged securities.

The construction contract and amendments with the U.S. Department of the Interior Bureau of Reclamation effective January 1, 2003, among other things, provides for the accumulation and maintenance of two reserve funds.

A Water Supply Reserve Fund is to be maintained to meet extraordinary operation and maintenance costs incurred on the water supply works. Annual deposits of \$2,293 were to be made in the years 2003 and 2004 and beginning in the year 2005 annual deposits to the fund increased to \$11,465 and continue until the funds accumulated reach the ceiling amount of \$440,256. The required balance in this reserve account was \$107,771 at December 31, 2013 and the actual balance was \$113,383 at December 31, 2013.

A Distribution Works Reserve Fund is to be maintained to cover extraordinary operation and maintenance costs incurred on the distribution works. An initial deposit of \$20,000 was to be made followed by annual deposits of \$1,147 in the years 2003 and 2004 and beginning in the year 2005 annual deposits to the fund increased to \$10,319 and continue until the funds accumulated reach the ceiling amount of \$414,416. The required balance in this reserve account was \$115,165 at December 31, 2013 and the actual balance was \$115,259 at December 31, 2013.

NOTE C - LONG-TERM DEBT

A 40-year contract with the U.S. Department of the Interior Bureau of Reclamation was signed on June 20, 2002 with an effective date of January 1, 2003. Under the contract the District negotiated its water supply repayment obligation to a fixed contract amount. On December 13, 2005 the first amendment to the contract was signed which resulted in a renegotiated payment schedule, due to the 2005 annual payment being deferred. Per the contract the District's repayment obligation for the water supply is payable in two equal semi-annual payments on April 1 and November 1 with the final installment due in 2042. Per the amendment the District shall make base water supply payments of \$17,772 beginning in 2006 and continuing through 2011, \$20,064 for 2012-2015,

KIRWIN IRRIGATION DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE C - LONG-TERM DEBT (continued)

\$19,488 in 2016, and \$17,198 from 2017 through 2042. The District could also be required to repay additional sums against the water supply works costs if it is determined that they have the ability to pay. The Bureau will evaluate the District's ability to pay every five years. The District's water supply repayment obligation for the existing water supply works shall be fully satisfied at the end of the 40-year contract in the year 2042.

NOTE D - RETIREMENT PLAN

Effective January 1, 1998, the District adopted a Simple IRA plan covering all eligible employees. This plan provides for District matching contributions of employee contributions at a rate of up to 3% of the employee's salaries for the year ended December 31, 2013.

NOTE E - CAFETERIA PLAN

The District adopted a flexible benefit plan under Internal Revenue Code Section 125 "Cafeteria Plan" effective January 15, 1998. The purpose of the program is to allow employees, through a salary reduction agreement, to select their plan benefits within the guidelines of the Revenue Act of 1975. The benefits available include cancer, disability, accident, and life insurance. All employees of the District are eligible to participate immediately upon the first day of employment.

NOTE F - RELATED PARTIES

Kirwin Irrigation District No. 1 and the Webster Irrigation District No. 4 are operating under a joint operating agreement. They share equipment, employees and management. Each District's share of equipment cost is based on a predetermined formula in the agreement.

Each Irrigation District is controlled by a separate board.

NOTE G - RISK MANAGEMENT CLAIMS AND JUDGMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss, including property, general liability, workmen's compensation, automobile, and surety bond coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2013 the financial statements do not include liabilities for anticipated costs.

KIRWIN IRRIGATION DISTRICT NO. 1

SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET

For the Year Ended December 31, 2013

<u>General Fund</u>	<u>General and Administrative</u>	<u>Operating Expense</u>	<u>Total Expenditures</u>	<u>Budget</u>	<u>Expenditures Over (Under) Budget</u>
Salaries & Wages including Payroll Taxes & Retirement Contributions	\$34,586	\$ 105,051	\$139,637	\$ 151,432	\$ (11,795)
Health & Life Insurance	11,064	43,488	54,552	70,000	(15,448)
Insurance & Bonds	29,150	-	29,150	21,500	7,650
Utilities & Telephone	5,553	-	5,553	6,000	(447)
Irrigation Meeting Expense	2,971	-	2,971	2,000	971
Postage & Office Supplies	3,924	-	3,924	4,000	(76)
Directors' Fees	1,020	-	1,020	1,200	(180)
Attorney Fees	813	-	813	1,000	(187)
Audit Fees	1,550	-	1,550	3,000	(1,450)
Printing/ Miscellaneous	7,559	-	7,559	1,336	6,223
Nonprofit Resale	28,291	-	28,291	-	28,291
Motor Fuel & Oil	-	24,706	24,706	29,000	(4,294)
Tools & Equipment	-	19,887	19,887	15,000	4,887
Maintenance	-	28,696	28,696	20,000	8,696
Weed Spray & Other Materials	-	32,825	32,825	20,000	12,825
Dam Operations & Maintenance	-	17,594	17,594	9,000	8,594
Meters	11,957	-	11,957	10,000	1,957
Repairs	-	3,505	3,505	12,500	(8,995)
Supplies	-	2,405	2,405	2,500	(95)
Tags	-	985	985	250	735
Water Supply Contract Payment	-	23,013	23,013	61,461	(38,448)
Reimbursable Expenditures	-	5,300	5,300	5,300	-
Adjustment for Qualifying Budget Credits	-	-	-	70,000	(70,000)
	<u>\$ 138,438</u>	<u>\$ 307,455</u>	<u>\$ 445,893</u>	<u>\$ 516,479</u>	<u>\$ (70,586)</u>

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