

**RURAL WATER DISTRICT NO. 7 -
COWLEY COUNTY
COWLEY COUNTY, KANSAS
FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017**

Independent Auditors

Jarrett & Norton CPAs, LLC

1004 Main Street

Winfield, Kansas

**RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY
COWLEY COUNTY, KANSAS**

FOR THE YEAR ENDED DECEMBER 31, 2017

BOARD OF DIRECTORS

Joe Watt - Chairman

Nick Ahlerich - Vice Chairman

Casey Woner - Secretary/Treasurer

Tom Rose - Director

Paul Dixon - Director

Dave Tillemans - Director

Larry Hittle - Director

CONTRACT LABOR

Willard Martin - Contracted Operator

Sonya Martin - Contracted Bookkeeper

RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY

COWLEY COUNTY, KANSAS

FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Rural Water District No. 7 – Cowley County
Rock, Kansas 67131

Report on the Financial Statement

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 7 – Cowley County (the District), as of and for the year ended December 31, 2017, 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 of the financial statement; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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 error or fraud.

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 that 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 the 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 District'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 District'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.

Opinions***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 the District 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 the District as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

Unmodified 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 District as of December 31, 2017, 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.

Other Matters***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 expenditures-actual and budget-regulatory basis and the District schedule of receipts and expenditures-regulatory basis (schedules 1 and 2 as listed in the table of contents) 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 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.



Jarrett & Norton CPAs, LLC

Winfield, Kansas

August 14, 2019

RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY

COWLEY COUNTY, KANSAS

Summary Statement of Receipts, Expenditures, and Unencumbered Cash

Regulatory Basis

For the Year Ended December 31, 2017

	Beginning	Prior Year				Add		
	Unencumbered	Cancelled				Ending	Encumbrances	
	Cash Balance	Encumbrances	Receipts	Expenditures	Cash Balance	Unencumbered and Accounts	Payable	Ending
Funds								Cash Balance
Governmental Type Fund:								
Business Fund:								
Water Utility	\$ 53,821	\$ -	\$ 141,044	\$ 132,847	\$ 62,018	\$ 21,639		\$ 83,657
Total Reporting Entity	\$ 53,821	\$ -	\$ 141,044	\$ 132,847	\$ 62,018	\$ 21,639		\$ 83,657

Composition of Cash:

Checking account	\$ 78,349
KDHE Restricted Cash	5,308
Total Reporting Entity	\$ 83,657

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

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Municipal Financial Reporting Entity

Rural Water District No. 7, Cowley County, Kansas (the District) was organized and incorporated on February 5, 1999 under the provisions of K.S.A. 82a-612, for the purpose of constructing and operating a water supply distribution system. The District is a municipality under Kansas statutes. The board of the District consists of seven directors, all of whom are participating members of the District, and are elected by the District participating members for three year terms.

B. Regulatory Basis Fund Type

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund).

C. 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 receipts 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 District to use the regulatory basis of accounting.

D. Budgetary Information

The District is not subject to K.S.A. 79-2925, requiring budgets be legally adopted for all taxing subdivisions of the state.

NOTE - 2 CHANGE IN ACCOUNTING PRINCIPLE

The District Board of Directors approved a change in accounting principle in the financial statements from *Generally Accepted Accounting Principles (GAAP)* to the regulatory basis of accounting, as defined in the *Kansas Municipal Audit and Accounting Guide*, for the 2017 year and future years.

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 3 DEPOSITS & INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District can 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 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 City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2017.

At December 31, 2017, the District's carrying amount of deposits was \$78,349 and the bank balance was \$78,349. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$78,349 was covered by federal deposit insurance.

NOTE - 4 RELATED PARTIES

All members of the board of directors are also the District's water customers. During 2017, transactions with these related parties involved water sales on the same terms as all other District water customers.

NOTE - 5 LONG TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2017, 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
KDHE Loans:									
Loan Project No. 2913	1.72%	12/22/17	\$91,238	2/1/2028	\$ -	\$ 53,072	\$ -	\$ 53,072	\$ -
USDA Loans:									
Rural Development #1	4.75%	2/25/99	\$322,600	2/25/2038	249,405	-	7,075	242,330	11,694
Rural Development #2	4.75%	2/25/99	\$154,600	2/25/2038	115,924	-	3,289	112,635	5,435
Total contractual indebtedness					<u>\$365,329</u>	<u>\$ 53,072</u>	<u>\$ 10,364</u>	<u>\$408,037</u>	<u>\$17,129</u>

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 5 LONG TERM DEBT (continued)

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

	Year								
	2018	2019	2020	2021	2022	2023 thru 2028	2029 thru 2033	2034 thru 2038	Total
Principal									
KDHE Loan Project No. 2913	\$ 4,071	\$ 8,149	\$ 8,289	\$ 8,433	\$ 8,578	\$ 15,552	\$ -	\$ -	\$ 53,072
USDA Rural Development #1	7,418	7,771	8,148	8,544	8,959	63,663	68,785	69,042	242,330
USDA Rural Development #2	3,449	3,613	3,788	3,972	4,165	29,597	31,978	32,073	112,635
Total Principal	14,938	19,533	20,225	20,949	21,702	108,812	100,763	101,115	408,037
Interest & Service Fee									
KDHE Loan Project No. 2913	702	1,399	1,258	1,115	969	2,612	-	-	8,054
USDA Rural Development #1	11,350	10,997	10,619	10,224	9,809	48,945	25,055	7,021	134,020
USDA Rural Development #2	5,275	5,111	4,936	4,752	4,559	22,747	11,642	3,259	62,281
Total Interest & Serv. Fee	17,327	17,507	16,813	16,091	15,337	74,304	36,697	10,280	204,355
Total Principal, Interest & Service Fee	\$32,265	\$37,040	\$37,038	\$37,040	\$37,039	\$183,116	\$137,460	\$111,395	\$612,392

On August 7, 2017 Rural Water District No. 7 – Cowley County made its first draw down from the Kansas Department of Health and Environment (KDHE) from the Kansas Water Supply Loan Fund Project No. 2913 to install Badger meters, meter lids, and a new billing software.

NOTE - 6 RISTRICTED CASH

The District had \$53,072 advanced from the KDHE loan during 2017. Of the \$53,072, \$5,307 was placed into a reserve account that the KDHE is holding. The District will receive a credit on the reserve account during the last billing cycle until it effectively reduces the balance of the reserve account to zero.

NOTE - 7 RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss, including commercial property and general liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE - 8 SUBSEQUENT EVENTS

District management has evaluated events and transactions occurring subsequent to the fiscal year end through the date of the report, August 14, 2019, which is the date at which the financial statement was available to be issued, and there were no material events requiring recognition or disclosure.

A. Final Draw Down on KDHE Loan Project No. 2913

On May 14, 2018, the District received notice of the seventh and final draw down request of \$6,785 for the KDHE Loan Project No. 2913. A certificate of completion was sent to the Kansas Department of Health & Environment on April 30, 2018.

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 8 SUBSEQUENT EVENTS (continued)

B. Final Amendment on KDHE Loan Project No. 2913

A final amendment No. 2 was made effective June 5, 2018 to change the loan amount available from \$91,238 to \$87,420. The terms of the loan are as follows: an interest rate (gross rate) of 1.72% per annum, twenty loan payments in the amount of \$4,773 to be paid bi-annually starting on August 1, 2018, with the last payment to be paid on February 1, 2028. As of December 31, 2017, the District has been advanced \$53,072 of the KDHE loan of which \$46,812 is project costs and \$6,260 is miscellaneous costs (including \$5,307 to be placed in a reserve account).

**REGULATORY – REQUIRED
SUPPLEMENTARY INFORMATION**

RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY

COWLEY COUNTY, KANSAS

Summary of Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2017

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment to Comply with Legal Max</u>	<u>Adjustment to Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Governmental Type Funds:						
Business fund						
<i>Business Type Funds are not subject to the Kansas Budget Laws</i>						

RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY

COWLEY COUNTY, KANSAS

Schedule of Receipts and Expenditures - Regulatory Basis

For the Year Ended December 31, 2017

	Current Year Actual
Receipts	
Water Sales	\$ 20,143
Benefit Unit Sold	4,000
Debt Service	59,931
KDHE Loan Proceeds	53,072
Miscellaneous Income	1,283
Interest Income	67
Insurance Reimbursement	687
Late Charges	1,781
Reconnection Fee	50
Insufficient Check Income	30
Total receipts	141,044
Expenditures	
Office Equipment	7,309
Equipment	46,744
Operating Expense	319
Rural Development Interest Expense	17,129
Rural Development Principal Expense	10,363
KDHE Fees	663
Water Testing	535
Bank Service Charges	129
Dues & Subscriptions	127
Property Insurance	1,785
General Insurance	500
Miscellaneous Expense	253
Postage & Delivery	461
Printing & Reproduction	811
Professional Fees	2,906
Legal Fees	57
Rent Expense	52
Equipment Repairs	289
System Repairs	1,121
Utilities	3,879
Water Purchased	19,815
Contract Labor	17,600
Total expenditures	132,847
Receipts over (under) expenditures	8,197
Unencumbered cash, beginning	\$ 53,821
Prior year cancelled encumbrances	-
Unencumbered cash, ending	\$ 62,018