

**RURAL WATER DISTRICT #2, INC.  
LINN COUNTY, KANSAS**

Regulatory Basis Financial Statement,  
Independent Auditors' Report,  
Regulatory-Required Supplementary Information,  
and Client Requested Supplementary Information  
For the Year Ended December 31, 2017

**RURAL WATER DISTRICT #2, INC.  
LINN COUNTY, KANSAS**

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# Diehl Banwart Bolton

*Certified Public Accountants P.A.*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and management  
Rural Water District #2, Inc.  
Linn County, Kansas

We have audited the accompanying summary statement of receipts, expenditures, and unencumbered cash, regulatory basis of Rural Water District, #2, Inc., Linn County, Kansas, 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 to meet the financial reporting requirements of the State of Kansas; 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 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 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 #2, Inc., Linn 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 #2, Inc., Linn County, Kansas as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

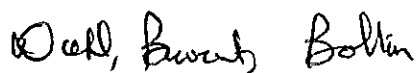
### **Unqualified Opinion on Regulatory Basis of Accounting**

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 #2, Inc., Linn County, Kansas 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash, regulatory basis (basic financial statement) as a whole. The schedule of receipts and expenditures-actual, regulatory basis (Schedule 1 as listed in the table of contents) is presented for analysis and is 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. The Client Requested Supplemental Information (Balance Sheet and Schedule of Net Income (Loss), as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement and is not required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. The introductory and statistical sections have 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.

The 2016 Actual column presented in the schedule of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2016 basic financial statement upon which we rendered an unmodified opinion dated January 24, 2017. The 2016 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2016 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statement. The 2016 comparative information was subjected to the auditing procedures applied in the audit of the 2016 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 2016 basic financial statement or to the 2016 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 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note 1.



DIEHL, BANWART, BOLTON, CPAs PA

January 23, 2018

Fort Scott, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash Balances  
Regulatory Basis  
For the Year Ended December 31, 2017

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

**RURAL WATER DISTRICT #2, INC.  
LINN COUNTY, KANSAS**

Notes to Financial Statement  
For the Year Ended December 31, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of the Rural Water District #2, Inc., Linn County, Kansas, has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: The Rural Water District #2, Inc., Linn County, Kansas, is located in the eastern part of Linn County, Kansas. The District is a municipal corporation governed by an elected seven-member council. The District purchases treated water from Public Wholesale Water Supply District #13 (PWWSO #13) and sells the water to over 800 rural customers. To continue serving its patrons, the District is dependent upon PWWSO #13 to provide adequate, reasonably priced water.

Reporting Entity

This financial statement presents the Rural Water District #2, Inc., Linn County, Kansas, (primary government). There are no related municipal entities which should be accounted for in the District's financial statement.

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, restriction, or limitations.

The following types of funds comprise the financial activities of the Rural Water District #2, Inc., Linn County, Kansas:

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Regulatory Basis of Accounting and Departures from Accounting Principles Generally Accepted in the United States of America

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 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.

Budgetary Information

Kansas statutes do not require budgets for rural water districts.

Deposits and Investments

Deposits and investments include a money market checking account and certificates of deposit. Kansas statutes permit investment in checking accounts, savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences

The District does not provide sick or vacation benefits beyond the year earned, but pays employees for unused vacation days before year end.

Income Taxes: Rural Water District #2, Inc., of Linn County, Kansas, is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits

The District does not offer termination or post employment benefits.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Kansas Statutes

This financial statement has been prepared in order to show compliance with the cash basis laws and Statutes of the State of Kansas. The District was in apparent compliance with the cash basis laws and Statutes of the State 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 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, but has limited the investments to time deposits at the local bank.

*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 City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated. All deposits were legally secured at December 31, 2017.

At December 31, 2017, the District's carrying amount of deposits was \$214,105.58 and the bank balance was \$220,516.57. The bank balance was held by two banks resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance. At year end the District did not have any securities held by the pledging financial institutions' agents in the District's name. All deposits were secured at December 31.

### **4. BENEFIT UNIT DEPOSITS**

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. Nine new benefit units were added during the year and another reconnected, resulting in receipts totaling \$33,000.

### **5. RISK MANAGEMENT**

The water district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The water district manages these risks of loss through various insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.



## 6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Office Equipment and Automobiles	5 Years
Machinery	7 Years
Plant and Equipment	15 to 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletion	Ending Balance
Materials & Construction	\$ 2,691,071.64	\$ 60,267.43	\$ -	\$ 2,751,339.07
Office Building	79,917.80	9,244.44	-	89,162.24
Plant Equipment	84,129.77	39,830.00	-	123,959.77
Engineering Fees	131,512.55	-	-	131,512.55
Inspection Fees	33,637.09	-	-	33,637.09
Easements	7,020.05	-	-	7,020.05
Automobile	33,120.00	6,500.00	-	39,620.00
Office Equipment	18,896.09	5,860.98	-	24,757.07
Legal & Title	30,820.50	-	-	30,820.50
	<u>\$ 3,110,125.49</u>	<u>\$ 121,702.85</u>	<u>\$ -</u>	<u>\$ 3,231,828.34</u>
Accumulated Depreciation	<u>\$ (1,924,219.33)</u>	<u>\$ (75,128.66)</u>	<u>\$ -</u>	<u>\$ (1,999,347.99)</u>

## 7. ECONOMIC DEPENDENCY

The District purchases water for resale to District members from PWWSD #13. Water purchased totaled \$305,632.74.

**8. LONG-TERM OBLIGATIONS**

The District entered into a 40 year water purchase contract with PWWSD #13 on July 19, 2005. Litigation with PWWSD #13 was settled during 2016. The District is now obligated to purchase at least 55.2 million gallons of water from PWWSD #13 each year

**9. RETIREMENT PLAN**

The District matches 50 percent of employees' contributions, up to three percent of the employees' salary, to employees' individual retirement accounts (IRA) with Oppenheimer Financial. The Plan covers full and part time employees who open an IRA with Oppenheimer Financial. The District's contributions for 2017 totaled \$2,154.75.

**10. SUBSEQUENT EVENTS**

Management has evaluated events and transactions occurring subsequent to December 31, 2017 through January 23, 2018, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

**REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION**

**RURAL WATER DISTRICT #2, INC.**  
**LINN COUNTY, KANSAS**  
**WATER UTILITY FUND**

Schedule of Regulatory Basis Receipts and Expenditures - Actual

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2016	2017
	Actual	Actual
Cash Receipts		
Operating Receipts		
Metered water sales	\$ 656,937.05	\$ 693,627.03
Penalties	9,282.29	13,576.92
Nonoperating Receipts		
Interest income	544.77	608.86
Miscellaneous income	15,682.41	14,055.58
Benefit Unit deposits	44,000.00	33,000.00
Insurance proceeds - stolen truck	20,878.35	-
Total Cash Receipts	<u>747,324.87</u>	<u>754,868.39</u>
Expenditures		
Operating Expenditures		
Water Purchased	308,974.76	305,632.74
Repairs and maintenance	6,206.65	6,874.09
Contract labor	19,662.30	19,505.35
Operating supplies	77,054.12	91,418.43
Utilities and telephone	7,108.21	7,254.38
Office supplies	5,260.93	7,623.78
Insurance	8,243.00	11,801.56
Salaries	132,184.85	142,500.58
Payroll taxes	12,091.26	13,387.69
Employee benefits	9,584.17	17,797.51
Dues and subscriptions	3,243.48	2,712.72
Legal and accounting	2,875.00	5,304.30
Professional fees	2,799.90	96.00
Water testing	487.00	523.00
Mileage and travel	19,334.09	30,127.65
Postage	3,835.41	3,968.75
Miscellaneous expense	9,143.44	11,767.31
Nonoperating Expenditures		
Capital Outlay additions	25,300.00	121,702.85
Total Expenditures	<u>653,388.57</u>	<u>799,998.69</u>
Receipts Over (Under) Expenditures	93,936.30	(45,130.30)
Unencumbered Cash, Beginning	<u>134,237.76</u>	<u>228,174.06</u>
Unencumbered Cash, Ending	<u>\$ 228,174.06</u>	<u>\$ 183,043.76</u>

**CLIENT REQUESTED  
SUPPLEMENTARY INFORMATION**

**RURAL WATER DISTRICT #2, INC.**  
**LINN COUNTY, KANSAS**  
**WATER UTILITY FUND**

Balance Sheets

December 31, 2016 and 2017

ASSETS	2016	2017
Current Assets		
Cash in Bank - Operating	\$ 155,621.18	\$ 104,834.61
Total Cash and Cash Equivalents	155,621.18	104,834.61
CD - Operating	108,835.63	109,270.97
Total Current Assets	264,456.81	214,105.58
Property, Plant, and Equipment		
Materials and Construction	2,691,071.64	2,751,339.07
Engineering Fees	131,512.55	131,512.55
Legal and Title Work	30,820.50	30,820.50
Inspection Fees	33,637.09	33,637.09
Easements and Leases	7,020.05	7,020.05
Plant Equipment	76,179.77	116,009.77
Office Equipment	18,896.09	24,757.07
Automobile	41,070.00	47,570.00
Office Building	79,917.80	89,162.24
	3,110,125.49	3,231,828.34
Less: Accumulated Depreciation	(1,924,219.33)	(1,999,347.99)
Net Property, Plant, and Equipment	1,185,906.16	1,232,480.35
 TOTAL ASSETS	 \$ 1,450,362.97	 \$ 1,446,585.93
 LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	\$ 36,282.75	\$ 31,061.82
Total Current Liabilities	36,282.75	31,061.82
Equity		
Contributed Equity		
Benefit Unit Deposits	950,325.00	983,325.00
U.S. Treasury Grants	461,687.59	461,687.59
State of Kansas Grants	521,467.19	521,467.19
Total Contributed Equity	1,933,479.78	1,966,479.78
Retained Earnings (Deficit)	(519,399.56)	(550,955.67)
Total Equity	1,414,080.22	1,415,524.11
 TOTAL LIABILITIES AND EQUITY	 \$ 1,450,362.97	 \$ 1,446,585.93

**RURAL WATER DISTRICT #2, INC.**

**LINN COUNTY, KANSAS**

**WATER UTILITY FUND**

Schedule of Net Income (Loss)

For the Years Ended December 31, 2016 and 2017

	2016 Actual	2017 Actual
Cash Receipts		
Operating Receipts		
Metered water sales	\$ 656,937.05	\$ 693,627.03
Penalties	9,282.29	13,576.92
Total Operating Cash Receipts	<u>666,219.34</u>	<u>707,203.95</u>
Operating Expenditures		
Water Purchased	308,974.76	305,632.74
Repairs and maintenance	6,206.65	6,874.09
Contract labor	19,662.30	19,505.35
Operating supplies	77,054.12	91,418.43
Utilities and telephone	7,108.21	7,254.38
Office supplies	5,260.93	7,623.78
Insurance	8,243.00	11,801.56
Salaries	132,184.85	142,500.58
Payroll taxes & benefits	21,675.43	31,185.20
Professional fees	5,674.90	5,400.30
Mileage and travel	19,334.09	30,127.65
Postage	3,835.41	3,968.75
Miscellaneous expense	12,873.92	15,003.03
Total Expenditures	<u>628,088.57</u>	<u>678,295.84</u>
Operating Receipts Over (Under) Expenditures	<u>38,130.77</u>	<u>28,908.11</u>
Nonoperating Receipts (Expenses)		
Interest income	544.77	608.86
Miscellaneous income	15,682.41	14,055.58
Benefit Unit deposits	44,000.00	33,000.00
Capital Outlay additions	(25,300.00)	(121,702.85)
Gain (loss) on stolen truck	20,878.35	-
Total Nonoperating Receipts (Expenses)	<u>55,805.53</u>	<u>(74,038.41)</u>
Total Receipts Over (Under) Expenses	93,936.30	(45,130.30)
Unencumbered Cash, Beginning	134,237.76	228,174.06
Unencumbered Cash, Ending	<u>\$ 228,174.06</u>	<u>\$ 183,043.76</u>
Total Receipts Over (Under) Expenses	\$ 93,936.30	\$ (45,130.30)
Non Operating Expenses:		
Add back Capital Outlay Additions	25,300.00	121,702.85
Less Estimated Depreciation Expense	(71,756.47)	(75,128.66)
Net Income (Loss)	<u>\$ 47,479.83</u>	<u>\$ 1,443.89</u>