

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2018

Rural Water District No. 1, Harvey County, Kansas

For the Year Ended December 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water District No. 1  
Harvey County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 1, Harvey County, Kansas, (District), as of and for the year ended December 31, 2018, 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; 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 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 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.

### ***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 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, 2018, 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, 2018, 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 2018 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the 2018 basic financial statement, but 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 2018 basic financial statement. The 2018 information has been subjected to the auditing procedures applied in the audit of the 2018 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 2018 basic financial statement or to the 2018 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 2018 basic financial statement as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the District as of and for the year ended December 31, 2017 (not presented herein), and have issued our report thereon dated February 7, 2018, which contained an unmodified opinion on the basic financial statement. The 2017 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://www.admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2017 actual column (2017 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2018 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2017 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 2017 basic financial statement. The 2017 comparative information was subjected to the auditing procedures applied in the audit of the 2017 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 2017 basic financial statement or to the 2017 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 2017 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2017, on the basis of accounting described in Note 1.

*Knudsen, Monroe + Company, LLC*

Certified Public Accountants  
Newton, Kansas  
February 5, 2019

## Rural Water District No. 1, Harvey County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH  
Regulatory Basis

For the Year Ended December 31, 2018

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Business Fund						
Water Utility	\$ 1,705,148	810,883	604,989	1,911,042	3,937	1,914,979

**Composition of Cash:**

Walton State Bank, Checking	\$ 1,664
Walton State Bank, Money Market	1,041,699
Walton State Bank, Certificates of Deposit	436,853
First Bank of Newton, Certificates of Deposit	434,763
Total Reporting Entity	<u>\$ 1,914,979</u>

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

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Harvey County, Kansas was incorporated and organized on March 24, 1975, by order of the Board of County Commissioners, Harvey County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Harvey and Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes. The District had 1,153 and 1,146 benefit units at the end of December 31, 2018 and 2017, respectively.

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, electric fund, etc.).

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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2018.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that 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 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. All deposits were legally secured at December 31, 2018.

At December 31, 2018, the District's carrying amount of bank deposits, including certificates of deposit, was \$1,914,979 and the bank balance was \$1,929,569. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,429,569 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

4. BENEFIT UNITS

Members of the District are required to pay a deposit for a benefit unit prior to connecting to the District's lines. New benefit units added during the year totaled \$40,700.

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

5. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2018, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
KRWFA, Series B	0.4-2.5%	05/01/15	\$2,765,000	08/01/27	<u>\$2,505,000</u>	<u>-</u>	<u>100,000</u>	<u>2,405,000</u>	<u>48,674</u>

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

	Year ending December 31						
	2019	2020	2021	2022	2023	2024-2027	Total
KRWFA, Series B							
Principal	\$ 245,000	250,000	255,000	260,000	265,000	1,130,000	2,405,000
Interest	<u>47,574</u>	<u>44,388</u>	<u>40,638</u>	<u>36,304</u>	<u>31,494</u>	<u>68,419</u>	<u>268,817</u>
Total principal and interest	<u>\$ 292,574</u>	<u>294,388</u>	<u>295,638</u>	<u>296,304</u>	<u>296,494</u>	<u>1,198,419</u>	<u>2,673,817</u>

Net revenues of the District have been pledged as security for the Kansas Rural Water Finance Authority debt, and the District is required to have net revenues, as defined in the debt agreement, each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2018, per the following calculations.

Debt Service Ratio Calculation for the year ending December 31:

	2018
Receipts over expenditures	\$ 205,894
Interest expense	48,674
Capital outlay	63,725
Principal payments	100,000
Less benefit unit sales	<u>(40,700)</u>
Total revenue available for debt service	<u>\$ 377,593</u>
Debt service principal and interest	\$ 148,674
Debt service ratio	<u>2.54</u>



NOTES TO FINANCIAL STATEMENTS

December 31, 2018

6. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 2008. Basically, all employees are eligible to participate. The District matches employee contributions to the plan up to three percent of compensation. The District's contributions were \$3,991 for the year ended December 31, 2018.

7. RISK MANAGEMENT

The 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; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Insurance Companies through Krueger Insurance Management Inc. in Newton, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

8. RELATED PARTIES

All the members of the Board of Directors are District customers. For all board members the only material transactions were water purchases made on the same terms as all other District customers. All were current at year end.

9. RESTRICTIONS ON CASH

	<u>2018</u>
<u>Principal and Interest Account</u>	
Under the terms of the debt agreements, the District is required to add to a reserve account each month an amount necessary to meet, on the next payment date, all interest and principal of the District's Kansas Rural Water Finance Authority long term debt on that date.	\$ 121,906
<u>Bond Reserve Account</u>	
Kansas Rural Water Finance Authority Revenue Bonds Series B, 2015 requires a 10% reserve account.	276,500
<u>Maintenance Reserve</u>	
The Board of Directors periodically designates an amount for future maintenance costs.	<u>73,356</u>
Total restrictions on cash	<u>\$ 471,762</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

10. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through February 5, 2019, which is the date at which the financial statement was available to be issued.

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

## Rural Water District No. 1, Harvey County, Kansas

SCHEDULE OF RECEIPTS AND EXPENDITURES  
Regulatory BasisFor the Year Ended December 31, 2018  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2017)

	<u>2017</u>	<u>2018</u>
RECEIPTS		
Water sales	\$ 702,025	730,127
Miscellaneous income	36,946	30,285
Interest income	6,402	9,771
Benefit unit sales	<u>44,600</u>	<u>40,700</u>
Total receipts	<u>789,973</u>	<u>810,883</u>
EXPENDITURES		
Water purchases	7,451	11,144
Office supplies and expenses	11,912	12,661
Professional fees	7,161	7,709
Salaries	168,955	185,733
Payroll taxes and benefits	22,964	38,322
Utilities	40,581	42,587
Dues and fees	2,954	3,448
Insurance	19,919	23,020
Repairs and maintenance	13,917	42,269
Vehicle and mileage	12,462	17,287
Other expenses	8,405	8,410
Interest expense	51,296	48,674
Principal	175,000	100,000
Capital outlay	<u>57,144</u>	<u>63,725</u>
Total expenditures	<u>600,121</u>	<u>604,989</u>
Receipts over expenditures	<u>189,852</u>	<u>205,894</u>
UNENCUMBERED CASH, beginning	<u>1,515,296</u>	<u>1,705,148</u>
UNENCUMBERED CASH, ending	<u>\$ 1,705,148</u>	<u>1,911,042</u>