

RURAL WATER DISTRICT NO. 1, RILEY COUNTY, KANSAS

Manhattan, Kansas

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

December 31, 2017 (Audited) and 2016 (Compiled)

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

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April 24, 2018

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Riley County (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

April 24, 2018
Rural Water District No. 1 Riley County, Kansas
(Continued)

Other-Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The 2016 financial statements were compiled and an Accountant's Compilation Report was issued on March 1, 2017. The accountants did not audit or review the financial statements and, accordingly, did not express an opinion or provide any assurance about whether the financial statements are in accordance with generally accepted accounting principles.

Vannoy & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS
 Manhattan, Kansas
STATEMENTS OF NET ASSETS
 December 31,

	Audited 2017	Compiled 2016
ASSETS		
Current Assets		
Cash in bank - Checking	\$ 160,603	\$ 226,742
Money market	365,505	555,016
Total Cash and cash equivalents	\$ 526,108	\$ 781,758
Certificates of deposit	1,290,095	979,294
Accounts receivable, net	5,037	-
Blue River Hills receivable - Current portion	9,776	9,488
Total Current Assets	\$ 1,831,016	\$ 1,770,540
Long Term Assets		
Blue River Hills receivable - Net of current portion	\$ 220,333	\$ 230,185
Capital assets, net of accumulated depreciation	1,429,176	1,439,457
Restricted cash - Security deposit	24,920	24,870
Total Long Term Assets	\$ 1,674,429	\$ 1,694,512
TOTAL ASSETS	\$ 3,505,445	\$ 3,465,052
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 20,195	\$ 22,333
Customer overpayments	-	2,244
Total Current Liabilities	\$ 20,195	\$ 24,577
Net Assets		
Invested in capital assets - Net of related debt	\$ 1,429,176	\$ 1,439,457
Unrestricted	2,056,074	2,001,018
Total Net Assets	\$ 3,485,250	\$ 3,440,475
TOTAL LIABILITIES AND NET ASSETS	\$ 3,505,445	\$ 3,465,052

Financial Statements

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS
 Manhattan, Kansas
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Years Ended December 31,

	Audited 2017	Compiled 2016
REVENUE		
Water sales and non-usage fees	\$ 688,354	\$ 659,125
COST OF SALES		
Water purchases - Ogden	(4,800)	(4,800)
Water purchases - Manhattan	(331,932)	(293,709)
Gross Profit	<u>\$ 351,622</u>	<u>\$ 360,616</u>
OTHER OPERATING INCOME		
Members' investments forfeited	\$ 200	\$ 100
Transfer and other fees	2,206	4,111
Total Other Operating Income	<u>\$ 2,406</u>	<u>\$ 4,211</u>
OPERATING EXPENSES		
Management services	\$ 43,213	\$ 43,175
Depreciation and amortization	102,247	101,865
Repair and maintenance	119,821	126,160
Utilities	11,322	12,962
Insurance	4,147	4,134
Office supplies	1,851	473
Admin expense	2,086	2,100
Bad debt	92	-
Engineering fees	3,960	14,591
Miscellaneous	31,616	28,352
Water protection fee	3,424	3,338
Locates	7,883	9,239
Dues and subscriptions	1,463	1,406
Legal and accounting	2,405	2,490
Total Operating Expenses	<u>\$ 335,530</u>	<u>\$ 350,285</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>\$ 18,498</u>	<u>\$ 14,542</u>
OTHER INCOME		
Interest income	\$ 20,277	\$ 17,107
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>\$ 38,775</u>	<u>\$ 31,649</u>
CONTRIBUTIONS		
Capital contributions from members	\$ 6,000	17,900
CHANGE IN NET ASSETS	\$ 44,775	\$ 49,549
NET ASSETS - BEGINNING OF YEAR	<u>3,440,475</u>	<u>3,390,926</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,485,250</u></u>	<u><u>\$ 3,440,475</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	Audited 2017	Compiled 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 683,429	\$ 663,581
Interest received	20,277	17,107
Cash paid to suppliers	(572,153)	(548,304)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 131,553</u>	<u>\$ 132,384</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in certificates of deposit	\$ (310,801)	\$ (107,617)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	\$ (91,966)	\$ (1,101)
Payments on Blue River Hills receivable received	9,564	13,083
New benefit units	6,000	17,900
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (76,402)</u>	<u>\$ 29,882</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (255,650)	\$ 54,649
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>781,758</u>	<u>727,109</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 526,108</u></u>	<u><u>\$ 781,758</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Change in net assets	\$ 38,775	\$ 31,649
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	102,247	101,865
Decrease (increase) in restricted cash - security deposit	(50)	(1,410)
Decrease (increase) in customer overpayments	(2,244)	1,655
Increase (decrease) in accounts payable	(2,138)	(1,375)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 131,553</u></u>	<u><u>\$ 132,384</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 (Audited) and 2016 (Compiled)

Note 1: Summary of Significant Accounting Policies

Rural Water District No. 1, Riley County, Kansas (the District) was organized under K.S.A. 82a-612 et. seq. on July 22, 1974 to provide water to areas of Riley County. The operations of the District constitute a single proprietary-type fund.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, and functions that compromise the District. Component units are legally separate entities for which the District (the primary government) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt services; and unrestricted components.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market and savings accounts and certificates of deposits.

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 (Audited) and 2016 (Compiled)

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services.

Capital Assets

The District maintains an account for capital assets, which consists of buildings, telemetry, wells and water system, standpipes, office furniture and equipment, and software. The District does not possess any infrastructure. All capital assets are stated at historical cost and are reported in the Statement of Net Assets. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. When capital assets are disposed, the cost and applicable depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Net Assets

Net assets present the difference between assets and liabilities in the statements of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors laws or regulations of the government. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

Capital Contributions

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operation revenue is recognized for the amount of the capital contribution that was originally recorded. The balance at December 31, 2017 and 2016 was \$1,364,053 and \$1,358,053, respectively.

Income Taxes

The District is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is estimated based on the Districts historical losses, the existing economic conditions in the industry and the financial stability of its customers. There is no allowance as the District believes all accounts to be collectible as of December 31, 2017 and 2016.

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 (Audited) and 2016 (Compiled)

Note 2: Deposits and Investments

As of December 31, 2017 and 2016 the District's investments consisted of certificates of deposit.

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 Government 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. The District had no investments, other than certificates of deposit which are included in the bank deposits; therefore they do not have a rating.

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 had no agreements for designated "peak periods."

December 31, 2017

At December 31, 2017, the carrying amount of the District's deposits, including certificates of deposit, was \$1,841,123 and the bank balance was \$1,842,463. Of the total bank balance, \$1,779,852 was covered by federal depository insurance or securities held by the pledging financial institutions' agents in the District's name. The remaining \$62,611 was unsecured.

December 31, 2016

At December 31, 2016, the carrying amount of the District's deposits, including certificates of deposit, was \$1,785,922 and the bank balance was \$1,798,851. Of the total bank balance, \$1,667,460 was covered by federal depository insurance or securities held by the pledging financial institutions' agents in the District's name. The remaining \$131,401 was unsecured.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 (Audited) and 2016 (Compiled)

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2017:

	Beginning Balance	Additions	Disposals	Ending Balance
Non-Depreciable Capital Assets				
Land and easements	\$ 12,461	\$ -	\$ -	\$ 12,461
Construction in process	-	-	-	-
Total Non-Depreciable Capital Assets	<u>\$ 12,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,461</u>
Depreciable Capital Assets				
Pipes and treatment	\$ 478,859	\$ -	\$ -	\$ 478,859
Water meters	232,064	-	-	232,064
Office furniture and equipment	35,654	-	-	35,654
Water system	3,186,275	92,003	-	3,278,278
Total Depreciable Capital Assets	<u>\$ 3,932,852</u>	<u>\$ 92,003</u>	<u>\$ -</u>	<u>\$ 4,024,855</u>
TOTAL CAPITAL ASSETS	<u>\$ 3,945,313</u>	<u>\$ 92,003</u>	<u>\$ -</u>	<u>\$ 4,037,316</u>
Less: Accumulated depreciation	<u>(2,505,856)</u>	<u>(102,284)</u>	<u>-</u>	<u>(2,608,140)</u>
NET CAPITAL ASSETS	<u><u>\$ 1,439,457</u></u>	<u><u>\$ (10,281)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,429,176</u></u>

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 (Audited) and 2016 (Compiled)

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2016:

	Beginning Balance	Additions	Disposals	Ending Balance
Non-Depreciable Capital Assets				
Land and easements	\$ 12,461	\$ -	\$ -	\$ 12,461
Construction in progress	-	-	-	-
Total Non-Depreciable Capital Assets	<u>\$ 12,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,461</u>
Depreciable Capital Assets				
Pipes and treatment	\$ 478,859	\$ -	\$ -	\$ 478,859
Water meters	230,963	1,101	-	232,064
Office furniture and equipment	35,654	-	-	35,654
Water system	3,186,275	-	-	3,186,275
Total Depreciable Capital Assets	<u>\$ 3,931,751</u>	<u>\$ 1,101</u>	<u>\$ -</u>	<u>\$ 3,932,852</u>
TOTAL CAPITAL ASSETS	\$ 3,944,212	\$ 1,101	\$ -	\$ 3,945,313
Less: Accumulated depreciation	<u>(2,403,991)</u>	<u>(101,865)</u>	<u>-</u>	<u>(2,505,856)</u>
NET CAPITAL ASSETS	<u><u>\$ 1,540,221</u></u>	<u><u>\$ (100,764)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,439,457</u></u>

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 (Audited) and 2016 (Compiled)

Note 4: Certificates of Deposit

Details of the certificates of deposit reported as of December 31, 2017 and 2016 are:

December 31, 2017				
Bank	Investment	Interest Rate	Maturity Date	Amount
Kansas State Bank	Certificate of Deposit	1.23%	May 24, 2018	\$ 115,726
Kansas State Bank	Certificate of Deposit	1.23%	May 24, 2018	115,726
Kansas State Bank	Certificate of Deposit	1.23%	May 24, 2018	115,725
Kansas State Bank	Certificate of Deposit	1.03%	May 10, 2018	103,402
Kansas State Bank	Certificate of Deposit	1.23%	May 24, 2018	101,636
Kansas State Bank	Certificate of Deposit	1.38%	July 5, 2018	106,716
Kansas State Bank	Certificate of Deposit	1.57%	November 15, 2018	110,250
Kansas State Bank	Certificate of Deposit	1.57%	November 15, 2018	110,250
Kansas State Bank	Certificate of Deposit	1.57%	November 15, 2018	110,250
Kansas State Bank	Certificate of Deposit	1.57%	November 29, 2018	300,414
				<u>\$ 1,290,095</u>
December 31, 2016				
Bank	Investment	Interest Rate	Maturity Date	Amount
Kansas State Bank	Certificate of Deposit	0.90%	May 11, 2017	\$ 102,390
Kansas State Bank	Certificate of Deposit	0.88%	May 25, 2017	100,532
Kansas State Bank	Certificate of Deposit	0.84%	July 6, 2017	105,825
Kansas State Bank	Certificate of Deposit	1.03%	November 16, 2017	109,046
Kansas State Bank	Certificate of Deposit	1.03%	November 16, 2017	109,046
Kansas State Bank	Certificate of Deposit	1.03%	November 16, 2017	109,046
Kansas State Bank	Certificate of Deposit	0.88%	May 25, 2017	114,470
Kansas State Bank	Certificate of Deposit	0.88%	May 25, 2017	114,470
Kansas State Bank	Certificate of Deposit	0.88%	May 25, 2017	114,469
				<u>\$ 979,294</u>

RURAL WATER DISTRICT NO. 1 RILEY COUNTY, KANSAS

Manhattan, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 (Audited) and 2016 (Compiled)

Note 5: Blue River Hills Receivable

During 2014, the district entered an agreement with the people of the Blue River Hills area to annex the area into the district. The agreement states that the residents are required to pay back the costs of annexation over 20 years at 3% interest.

The minimum principal receivables are as follows for December 31,

	<u>2017</u>	<u>2016</u>
2017	\$ -	9,488
2018	9,776	9,776
2019	10,074	10,074
2020	10,380	10,380
2021	10,696	10,696
2022	11,021	11,021
Thereafter	178,162	178,238
	<u>\$ 230,109</u>	<u>\$ 239,673</u>

The minimum interest receivables are as follows for December 31,

	<u>2017</u>	<u>2016</u>
2017	\$ -	7,060
2018	6,772	6,772
2019	6,474	6,474
2020	6,168	6,168
2021	5,852	5,852
2022	5,527	5,527
Thereafter	37,281	37,281
	<u>\$ 68,074</u>	<u>\$ 75,134</u>

Note 6: Commitments and Contingencies

Construction Contracts

At December 31, 2017 and 2016, the District did not have any pending construction project contracts. Commitments related to significant contracts might include contracts for the District's relocation of water lines, installations of water lines, and repairs and maintenance on the water system.

Risk Management

The District is exposed to various risks of loss related to theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these various risks of loss through commercial insurance with varying deductibles. All deductibles are under \$1,000. Insurance claims have not exceeded commercial insurance coverage in any of the past three fiscal years.