

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2018 and 2017

Cummins, Coffman & Schmidlein, CPA's, P.A.
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JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 7, Jefferson County, Kansas
Oskaloosa, KS

We have audited the accompanying financial statements of the business-type activities of the Jefferson County Rural Water District No. 7 as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 audit. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 of the Jefferson County Rural Water District No. 7 as of December 31, 2018 and 2017, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Rural Water District No. 7 financial statements as a whole. The Schedule of Insurance Coverage is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

 Cummins, Coffman & Schmidtlein, CPA's, P.A.

Cummins, Coffman & Schmidtlein, CPA's, P.A.
Topeka, Kansas
May 01, 2019

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
STATEMENTS OF NET POSITION
For the years ended

ASSETS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 324,221	\$ 262,028
Certificates of Deposit	2,107,413	2,091,108
Accounts receivable	18,317	6,162
Prepaid expense	5,781	3,828
Total current assets	<u>2,455,732</u>	<u>2,363,126</u>
<u>NON-CURRENT ASSETS</u>		
Property and equipment, net	<u>447,394</u>	<u>414,661</u>
Total Assets	<u>\$ 2,903,126</u>	<u>\$ 2,777,787</u>

LIABILITIES AND NET POSITION

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 4,760	\$ 4,264
Customer deposits	537	231
Total current liabilities	<u>5,297</u>	<u>4,495</u>
<u>NET POSITION</u>		
Invested in capital assets	447,394	414,661
Unrestricted	<u>2,450,435</u>	<u>2,358,631</u>
Total net position	<u>2,897,829</u>	<u>2,773,292</u>
Total Liabilities and Net Position	<u>\$ 2,903,126</u>	<u>\$ 2,777,787</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION
For the Years Ended

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>REVENUES</u>		
Water sales	\$ 471,074	\$ 424,130
Total operating revenues	<u>471,074</u>	<u>424,130</u>
<u>OPERATING EXPENSES</u>		
Depreciation	61,896	71,968
Payroll	177,723	134,885
Payroll taxes	13,851	10,576
Repairs and maintenance	56,364	46,722
Materials	7,959	10,111
Insurance	13,343	14,330
Utilities	46,077	45,323
Office expense	7,656	7,455
Telephone	6,950	6,383
Taxes and licenses	3,600	3,541
Professional fees	5,240	6,497
Dues and subscriptions	682	660
Software service charge	7,484	-
Miscellaneous	1,207	2,328
Total operating expenses	<u>410,032</u>	<u>360,779</u>
Income (loss) from operations	<u>61,042</u>	<u>63,351</u>
<u>NON-OPERATING REVENUES (EXPENSE)</u>		
Interest income	19,494	16,592
Reimbursement of project costs incurred	-	2,350
Total non-operating revenues (expense)	<u>19,494</u>	<u>18,942</u>
<u>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</u>		
<u>CAPITAL CONTRIBUTIONS</u>		
Benefit units sold	44,000	-
Total capital contributions	<u>44,000</u>	<u>-</u>
Change in Net Assets	124,536	82,293
Net Position - Beginning of Year	<u>2,773,292</u>	<u>2,690,999</u>
Net Position - End of Year	<u>\$ 2,897,828</u>	<u>\$ 2,773,292</u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
STATEMENTS OF CASH FLOWS
Years Ended

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash Flows From (Used In) Operating Activities:		
Cash receipts from customer and reimbursements for services	\$ 458,920	\$ 422,627
Miscellaneous cash receipts	-	2,350
Cash payments for goods and services	(174,270)	(160,666)
Cash payments to employees for services	(175,017)	(132,743)
Net cash from (used in) operating activities	<u>109,633</u>	<u>131,568</u>
Cash Flows From (Used In) Investing Activities:		
Interest income (net)	<u>3,189</u>	<u>3,361</u>
Net cash from (used in) investing activities	<u>3,189</u>	<u>3,361</u>
Cash Flows From (Used In) Financing Activities:		
Purchase of capital assets	(94,629)	(241,266)
Proceeds from sale of benefit units	<u>44,000</u>	-
Net cash from (used in) financing activities	<u>(50,629)</u>	<u>(241,266)</u>
Net increase (decrease) in cash and cash equivalents	62,193	(106,337)
Cash at Beginning of Year	<u>262,028</u>	<u>368,365</u>
Cash at End of Year	\$ <u><u>324,221</u></u>	\$ <u><u>262,028</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 61,042	\$ 63,351
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	61,896	71,968
Changes in assets and liabilities		
Accounts receivable	(12,154)	(1,503)
Prepaid expenses	(1,953)	(506)
Accounts payable	496	(1,454)
Accrued expenses	306	(288)
Net cash provided by operating activities	\$ <u><u>109,633</u></u>	\$ <u><u>131,568</u></u>

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rural Water District No. 7, Jefferson County, Kansas (the District) is a water utility that provides service to approximately 650 customers. The District was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions.

Basis of Accounting

The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purposes of the statement of cash flows, the District considers funds held in any checking account to be part of cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of current and past due water usage charges and other charges for late fees. The accounts receivable balance at December 31, 2018 and 2017 is \$18,317 and \$6,162.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The District does not have a formal capitalization policy. Depreciation on all assets is provided using the straight-line method over estimated useful as follows:

	<u>Years</u>
Meters	30
Distribution lines	10
Vehicles	7
Office building	39
Office equipment	10
Other equipment	10

Depreciation expense for the years ended December 31, 2018 and 2017 was \$61,896 and \$71,968.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$5,500. Revenue from sold units totaled \$44,000 for the year ended December 31, 2018. There were no benefit units sold in 2017.

Net Position

The District's net position is classified as follows:

Invested in capital assets – This represents the District's total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2018

Statement of Cash Flows

A statement of cash flows is presented in accordance with Governmental Accounting Standards Board Statement 9, for the District which operates predominantly as a proprietary fund. For the purposes of the statement of cash flows demand deposits are considered to be cash equivalents.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash balances are comprised of demand deposits and certificates of deposit. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposits at all times.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits in excess of coverage may be lost. At December 31, 2018, the District's carrying amounts of deposits, including certificates of deposit, was \$2,449,326, of which \$1,892,456 was covered by FDIC insurance. \$205,002 was collateralized by securities held in safekeeping pledged to the District. The District was exposed to credit risk in the amount of \$351,868 at December 31, 2018.

At December 31, 2017, the District's carrying amounts of deposits, including certificates of deposit, was \$2,375,870, of which \$1,881,188 was covered by FDIC insurance. \$300,184 was collateralized by securities held in safekeeping pledged to the District. The District was exposed to credit risk in the amount of \$194,498 at December 31, 2017.

NOTE 3 PROPERTY AND EQUIPMENT

The following represents a summary of changes of property and equipment:

	<u>2018</u>	<u>2017</u>
Land	\$ 42,600	\$ 42,600
Vehicles	38,167	38,167
Equipment	264,930	210,683
Water lines and wells	2,601,800	2,561,892
Office equipment	9,830	9,830
Software	3,279	2,805
Total assets	<u>2,960,606</u>	<u>2,865,977</u>
Accumulated depreciation	<u>(2,513,212)</u>	<u>(2,451,316)</u>
Property and equipment, net	\$ <u>447,394</u>	\$ <u>414,661</u>

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2018

NOTE 4 COMPENSTATED ABSENCES

The District does not have a paid time off policy for employees, therefore, no accrual is required.

NOTE 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; and natural disasters. The Water District joined together with other entities in the State to participate in Employees Mutual Insurance Corp. (EMC), a public entity risk pool currently operating as a common risk management and insurance program for the participating members.

The Water District pays an annual premium to EMC for its insurance coverage. The agreement to participate provides that EMC will be self-sustaining through member premiums. Additional premiums may be due if total claims for the pool are different than what has been anticipated by EMC management.

NOTE 6 COMPLIANCE WITH KANSAS STATUTES

Management is aware of no statutory violations for the period covered by the audit.

NOTE 7 TAX EXEMPT STATUS

The District qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability expense.

While the District is not required to file tax returns, the payroll activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

NOTE 8 SUBSEQUENT EVENT

Subsequent events were evaluated through the date of the audit report, which is the date the financial statements were available to be issued. No events were found requiring disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 7
SCHEDULE OF INSURANCE COVERAGE
For the Year Ended December 31, 2018

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial Property:	100% Coinsurance	4/16/2019
Location 001 – Hwy 24 & 59	101,198	
Location 002 – ½ Mile W of Hwy 24 & 59	104,954	
Location 003 – 6 Miles S of Oskaloosa	541,216	
Location 004 – 14034 62 nd St	748,202	
General Liability:		4/16/2019
Aggregate Limit-		
Each occurrence	500,000	
Products/completed operations	1,000,000	
Other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		4/16/2019
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Personal Injury Protection	4,500	
Workman's compensation:		4/16/2019
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		4/16/2019
Per loss	250,000	
Inland Marine	100% Coinsurance	4/16/2019
Property in transit	33,000	
Linebacker Coverage		4/16/2019
Each loss	1,000,000	
Aggregate	1,000,000	