

**RURAL WATER DISTRICT NO. 7 -
COWLEY COUNTY
FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2019**

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, 2019

BOARD OF DIRECTORS

Joe Watt - Chairman

Nick Ahlerich - Vice Chariman

Casey Woner - Secretary/Treasurer

Tom Rose - Director

Greg Dixon - Director

Dave Tillemans - Director

Vacant Seat

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, 2019

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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, 2019, 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 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, 2019, 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, 2019, 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.

Prior Year Comparative Analysis

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, 2018 (not presented herein), and have issued our report thereon dated September 27, 2019, which contained an unmodified opinion on the basic financial statement. The 2018 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/oar/municipal-services>. The 2018 actual column (2018 comparative information) presented in the individual fund schedule of receipts and expenditures – regulatory basis for the year ended December 31, 2019 (Schedule 2 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 2018 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 2018 basic financial statement. The 2018 comparative information was 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 2018 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, 2018, on the basis of accounting described in Note-1.

A handwritten signature in blue ink that reads "Jarrett & Norton CPAs, LLC". The signature is written in a cursive, flowing style.

Jarrett & Norton CPAs, LLC

Winfield, Kansas

August 7, 2020

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, 2019

Funds	Beginning	Prior Year	Receipts	Expenditures	Ending	Add	Ending
	Unencumbered	Cancelled			Unencumbered	Encumbrances and Accounts Payable	
	Cash Balance	Encumbrances			Cash Balance		Cash Balance
Governmental Type Fund:							
Business Fund:							
Water Utility	\$ 82,518	\$ -	\$ 96,907	\$ 116,305	\$ 63,120	\$ 2,948	\$ 66,068
Total Reporting Entity	\$ 82,518	\$ -	\$ 96,907	\$ 116,305	\$ 63,120	\$ 2,948	\$ 66,068

Composition of Cash:

Checking account	\$ 57,326
KDHE Restricted Cash	8,742
Total Reporting Entity	\$ 66,068

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, 2019

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 under the provisions of K.S.A. 75-1117. The board of the District consists of seven directors, all of whom are participating members of the District, and are elected by the District's 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 STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

The District was not in compliance with K.S.A. 78-111 which required a surety bond on the treasurer.

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

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2019

NOTE - 3 DEPOSITS & INVESTMENTS (continued)

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, 2019.

At December 31, 2019, the District's carrying amount of deposits was \$57,326 and the bank balance was \$62,150. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$62,150 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 2019, 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, 2019, 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 & Service Fee Paid
KDHE Loans:									
Loan Project No. 2913	1.72%	12/22/17	\$87,420	2/1/2028	\$ 83,349	\$ -	\$ 8,149	\$ 75,200	\$ 1,399
USDA Loans:									
Rural Development #1	4.75%	2/25/99	322,600	2/25/2038	234,912	-	7,778	227,134	10,990
Rural Development #3	4.75%	2/25/99	154,600	2/25/2038	109,186	-	3,616	105,570	5,108
Total contractual indebtedness					<u>\$427,447</u>	<u>\$ -</u>	<u>\$ 19,543</u>	<u>\$407,904</u>	<u>\$17,497</u>

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2019

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								
	2020	2021	2022	2023	2024	2024 thru 2028	2029 thru 2033	2034 thru 2038	Total
Principal									
KDHE Loan Project No. 2913	\$ 8,289	\$ 8,433	\$ 8,578	\$ 8,727	\$ 8,877	\$ 32,296	\$ -	\$ -	\$ 75,200
USDA Rural Development #1	8,148	8,544	8,959	9,394	9,850	56,904	72,124	53,211	227,134
USDA Rural Development #3	3,788	3,972	4,165	4,367	4,579	26,455	33,531	24,713	105,570
Total Principal	20,225	20,949	21,702	22,488	23,306	115,655	105,655	77,924	407,904
Interest & Service Fee									
KDHE Loan Project No. 2913	1,258	1,115	969	821	670	1,120	-	-	5,953
USDA Rural Development #1	10,619	10,224	9,809	9,374	8,918	36,936	21,716	4,076	111,673
USDA Rural Development #3	4,937	4,751	4,559	4,356	4,145	17,165	10,089	1,891	51,893
Total Interest & Service Fee	16,814	16,090	15,337	14,551	13,733	55,221	31,805	5,967	169,518
Total Principal, Interest & Service Fee	\$ 37,039	\$37,039	\$37,039	\$37,039	\$37,039	\$170,876	\$137,460	\$ 83,891	\$ 577,422

NOTE - 6 RESTRICTED CASH

The District had \$87,420 advanced from the Kansas Department of Health and Environment (KDHE) Loan Project No. 2913 during 2017 & 2018. Of the \$87,420, \$8,742 was placed into a reserve account that the KDHE is holding. The District will receive a credit on the reserve account for any interest received during the periods between bills. The District will receive a credit on their final bill for the reserve account amount of \$8,742 plus any interest earned during that period.

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 7, 2020, 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. There was one non-recognized subsequent event requiring disclosure, the World Health Organization declared the coronavirus ("COVID-19") outbreak a "Public Health Emergency of International Concern." On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (CARES) was passed by Congress and signed into law by the President of the United States, among other provisions, to provide economic assistance for individuals, families, and businesses affected by the pandemic. The extent of the impact of COVID-19 on the District's operational and financial performance will vary depending upon future developments, including how COVID-19 spreads, the length of time of the outbreak, and any restrictions put in place to control the spread.

RURAL WATER DISTRICT NO. 7 – COWLEY COUNTY
COWLEY COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2019

NOTE - 8 SUBSEQUENT EVENTS (continued)

While management cannot quantify the financial and other impacts to the District, management believes that an impact on the District's financial position and results of future operations is reasonably possible for 2020.

**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, 2019

<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>Rural Water District No 7 - Cowley County is not subject to Kansas Budget Laws</i>						

RURAL WATER DISTRICT NO. 7 - COWLEY COUNTY

COWLEY COUNTY, KANSAS

Schedule of Receipts and Expenditures - Water Utility Fund - Regulatory Basis

For the Year Ended December 31, 2019

(With Comparative Actual Totals for the Prior Year Ended December 31, 2018)

	Prior Year Actual	Current Year Actual
Receipts		
Water Sales	\$ 22,304	\$ 19,889
Benefit Unit Sold	-	8,000
Water Minimums	66,860	66,575
KDHE Loan Proceeds	34,348	-
KDHE Credit on Reserve Account	43	541
Miscellaneous Income	240	150
Interest Income	83	71
Insurance Reimbursement	586	471
Late Charges	1,233	1,210
Reconnection Fee	100	-
Total receipts	125,797	96,907
Expenditures		
Office Equipment	-	53
Installation	-	486
Equipment	4,501	-
Operating Expense	567	95
Rural Development Interest Expense	16,625	16,098
Rural Development Principal Expense	10,867	11,394
KDHE Loan Principal Expense	4,071	8,149
KDHE Service Charge & Fees	650	285
KDHE Loan Interest Expense	864	1,114
Water Testing	553	1,260
Dues & Subscriptions	5,578	3,480
Property Insurance	1,880	1,968
General Insurance	500	500
Office Supplies	-	300
Miscellaneous Expense	82	-
Postage & Delivery	704	736
Printing & Reproduction	213	288
Website Fees	638	417
Legal Fees	28	155
Accounting Fees	4,125	12,500
Engineering Fees	1,070	150
Rent Expense	54	56
Equipment Repairs	318	6,797
System Repairs	5,995	3,036
Utilities	3,900	4,363
Water Purchased	23,514	24,625
Contract Labor	18,000	18,000
Total expenditures	105,297	116,305
Receipts over (under) expenditures	20,500	(19,398)
Unencumbered cash, beginning	\$ 62,018	\$ 82,518
Unencumbered cash, ending	\$ 82,518	\$ 63,120