

RURAL WATER DISTRICT NO. 2, WASHINGTON COUNTY, KANSAS

Linn, Kansas

REGULATORY BASIS FINANCIAL STATEMENT

WITH

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2019

RURAL WATER DISTRICT NO. 2 WASHINGTON COUNTY, KANSAS

Linn, Kansas

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June 19, 2020

Board of Directors
Rural Water District No. 2 Washington County, Kansas
Linn, Kansas

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District, No. 2, Washington County, Kansas (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 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 this 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 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.

June 19, 2020
Rural Water District No. 2 Washington County, Kansas
(Continued)

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 regulatory basis of accounting described in Note 1 and the 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 previous paragraph, the financial statement referred to above does not present fairly, in accordance 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 or cash flows thereof for the year then ended.

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.

Report on Regulatory-Required 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 - regulatory basis - Water Utility Fund is presented for analysis and is not a required part of the basic financial statement. 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.

Vannoy & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2
Linn, Kansas
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2019

STATEMENT 1

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund: Water Utility	\$ 655,000	\$ 284,940	\$ 293,679	\$ 646,261	\$ -	\$ 646,261

Composition of Cash

Cash on Hand	\$ 636
Checking and Money Market Accounts	587,032
Savings Accounts	58,593
	<u>\$ 646,261</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of this financial statement.

Financial Statement

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2

Linn, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2019

Notes to Financial Statement

Note 1: Summary of Significant Accounting Policies

The financial statement and schedule of the Rural Water District No. 2, Washington County (the District) have been prepared in order to show compliance with the cash basis laws of the State of Kansas. The more significant of the District's accounting policies follow. Note 1 describes how the District's accounting policies differ from generally accepted accounting policies.

Financial Reporting Entity

The Rural Water District No. 2, Washington County, Kansas, is a quasi-municipal corporation governed by an elected seven-member council. The District provides water to over 300 members of the District in rural Washington County, Kansas. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Regulatory Basis Fund Types

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

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.

Budgetary Information

Kansas Statutes do not require budgets for Rural Water Districts.

Deposits and Investments

Deposits and investments include an operating checking account, MMDA public account, and treasury savings. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Note 2: Stewardship, Compliance, and Accountability

Compliance with Kansas Statutes

Statement 1 has been prepared in order to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in compliance with the cash basis laws of Kansas.

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2
Linn, Kansas
NOTES TO FINANCIAL STATEMENT (CONTINUED)
December 31, 2019

Notes to Financial Statement

Note 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 deposits 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.

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.

At December 31, 2019, the District's carrying amount of deposits was \$646,261 and the bank balance was \$646,261. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance, with the balanced covered by securities pledged in the District's name.

Note 4: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

Note 5: Subsequent Events

Management has evaluated events and transactions occurring subsequent to December 31, 2019 through June 19, 2020, the date the financial statement was available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2

Linn, Kansas

WATER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL - REGULATORY BASIS

For the Year Ended December 31, 2019

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

	2019 Actual	2018 Actual
CASH RECEIPTS		
Charges for services		
Water sales	\$ 275,542	\$ 302,070
Benefit units	1,850	-
Other charges	240	296
Other income		
Members' contributions	-	1,211
Miscellaneous income	4,232	2,485
Use of money and property		
Interest income	3,076	2,448
Total Cash Receipts	\$ 284,940	\$ 308,510
EXPENDITURES		
Payroll	\$ 73,100	\$ 79,430
Mileage	11,456	12,423
Repair and maintenance	23,147	34,891
Utilities	25,937	30,592
Equipment and supplies	18,756	16,858
Insurance	9,650	8,418
Office expense	6,808	8,620
Bank fees	48	509
Computer/Software expense	6,469	1,734
Water appropriation	-	100
Miscellaneous	728	523
Water protection/quality	11,728	9,380
Locates	474	501
Facility maintenance	5,048	409
Reimbursements	-	76
Rent expense	-	60
Director's expense	5,147	5,804
Capital outlay	85,825	93,524
Advertising	117	108
Dues and subscriptions	401	1,087
Legal and accounting	8,840	12,023
Benefit unit cost	-	2,911
Total Expenditures	\$ 293,679	\$ 319,981
Cash receipts over (under) expenditures	\$ (8,739)	\$ (11,471)
Unencumbered Cash - Beginning	655,000	666,471
Unencumbered Cash - Ending	\$ 646,261	\$ 655,000