

RURAL WATER DISTRICT NO. 1

MARION COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2017

Rural Water District No. 1, Marion County, Kansas

For the Year Ended December 31, 2017

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 1, Marion County, Kansas, (Water District) as of and for the year ended December 31, 2017 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 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 Water 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 Water 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 Water 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 Water District as of December 31, 2017, 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 Water District as of December 31, 2017, 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 2017 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for additional analysis and is not a required part of the 2017 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 2017 basic financial statement. The 2017 information has been 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 information is fairly stated in all material respects in relation to the 2017 basic financial statement as a whole, on the basis of accounting described in Note 1.

Krudsen, Monroe & Company, LLC

Certified Public Accountants
Newton, Kansas
March 8, 2018

Rural Water District No. 1, Marion County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis

For the Year Ended December 31, 2017

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Business Fund						
Water Utility	\$ 167,007	178,766	172,401	173,372	15,678	189,050

Composition of Cash:

Tampa State Bank

Checking

\$ 127,354

Certificates of Deposit

61,696

Total Reporting Entity

\$ 189,050

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

NOTES TO FINANCIAL STATEMENT

December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Rural Water District No. 1, Marion County, Kansas was incorporated and organized on July 8, 1968, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Marion County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes. The Water District had 362 benefit units at the end of December 31, 2017.

Change in Accounting Principle

The Water District previously reported its financials using accounting principles generally accepted in the United States of America. For the year ended December 31, 2017, the Water 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 Water District to use the regulatory basis of accounting, recognized by the State of Kansas, as described below.

Regulatory Basis Fund Type

Business Fund – fund financed in whole or in part by fees charged to users of the goods and 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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2017.

NOTES TO FINANCIAL STATEMENT

December 31, 2017

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that may be used by the Water District. The statute requires banks eligible to hold the Water District's funds have a main or branch bank in the county in which the Water 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 Water District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water 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 Water 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 Water 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 Water District's deposits may not be returned to it. State statutes require the Water 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, 2017.

At December 31, 2017, the carrying amount of The Water District's deposits, including certificates of deposit, was \$189,050. The bank balance was \$189,050. The bank balance was held by one bank, resulting in a concentration of credit risk. At December 31, 2017, all of the bank balance was covered by FDIC insurance.

4. BENEFIT UNITS

Members of the Water District are required to pay a deposit for a benefit unit prior to connecting to the Water District's lines. New benefit units added during the year totaled \$10,500.

5. LONG-TERM DEBT

Changes in the long-term liabilities for the Water District for the year ended December 31, 2017 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Maturity Date	Balance 12-31-16	Additions	Reductions/ Payments	Balance 12-31-17	Interest Paid
KDHE Loan	3.59%	07/15/03	\$ 328,522	08/01/25	<u>\$157,389</u>	<u>-</u>	<u>16,143</u>	<u>141,246</u>	<u>2,911</u>

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 ending December 31						Total
	2018	2019	2020	2021	2022	2023-2025	
KDHE Loan							
Principal	\$ 16,727	17,333	17,961	18,612	19,286	51,327	141,246
Interest	<u>4,922</u>	<u>6,333</u>	<u>3,688</u>	<u>3,038</u>	<u>2,363</u>	<u>2,797</u>	<u>23,141</u>
Total principal and interest	<u>\$ 21,649</u>	<u>23,666</u>	<u>21,649</u>	<u>21,650</u>	<u>21,649</u>	<u>54,124</u>	<u>164,387</u>

6. RISK MANAGEMENT

The Water District is exposed to risk of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injury to employees; and natural disasters. To ensure against risk of these types of losses, the Water District has purchased commercial insurance coverage from EMC Insurance Companies through The Insurance Center, Hillsboro, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three years.

7. RELATED PARTIES

All members of the Board of Directors and several employees are Water District customers. The only material transactions were water purchases made on the same terms as all other water customers. These accounts were current as of December 31, 2017.

8. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through March 8, 2018, which is the date at which the financial statement was available to be issued.

RURAL WATER DISTRICT NO. 1
MARION COUNTY
REGULATORY REQUIRED
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

Rural Water District No. 1, Marion County, Kansas

SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

For the Year Ended December 31, 2017

	<u>2017</u>
RECEIPTS	
Water sales	\$ 159,757
Interest income	263
Rental income	4,800
Other income	3,446
Benefit unit deposits	<u>10,500</u>
Total receipts	<u>178,766</u>
EXPENDITURES	
Salaries	49,878
Payroll taxes	3,816
Utilities	15,070
Office supplies	5,426
Insurance	9,220
Repairs	49,643
Mileage	8,815
Professional fees	3,350
Chemicals and lab fees	5,382
Water fees	2,016
Conference	195
Loan fees	536
Bond principal	16,143
Interest	<u>2,911</u>
Total expenditures	<u>172,401</u>
Receipts over expenditures	6,365
UNENCUMBERED CASH, beginning	<u>167,007</u>
UNENCUMBERED CASH, ending	<u><u>\$ 173,372</u></u>