

WATERWORKS BOARD

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FINANCIAL STATEMENTS  
with Independent Auditors' Report thereon

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For the Years Ended December 31, 2013 and 2012

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WATERWORKS BOARD  
FINANCIAL STATEMENTS  
For the Years Ended December 31, 2013 and 2012

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# *Kramer & Associates CPAs, LLC*

*Making the right move for your business*

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## INDEPENDENT AUDITORS' REPORT

To the Waterworks Board  
Leavenworth, Kansas

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Waterworks Board as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Waterworks Board'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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with the Kansas Municipal Audit and Accounting Guide and 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 of 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 opinions.

### **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks Board, as of December 31, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks Board's basic financial statements. The information on pages 25 - 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*KRAMER & ASSOCIATES CPAs, LLC*

Kramer & Associates CPAs, LLC

Leavenworth, Kansas

May 27, 2014

## **MANAGEMENT DISCUSSION AND ANALYSIS**

This discussion and analysis of the Waterworks Board's financial performance provides a narrative overview of the Board's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the accompanying financial statements.

### **HISTORY AND OVERVIEW OF LEAVENWORTH WATER DEPARTMENT**

The Water Department provides potable water to nearly 50,000 people in the City of Leavenworth and seven rural water districts (as authorized by K.S.A. 13-2418) in Leavenworth and Jefferson Counties (RWD-1, -2, -5, -8, -12, Consolidated No. 1, and Lan-Del). The total number of equivalent single-family taps served by the Water Department is around 12,000 in the water-service area.

The Water Department diverts water from the Missouri River at two locations - directly from the Missouri River through an intake located near the northeast corner of the City (at the North Plant intake), and indirectly through nine wells constructed in the alluvial aquifer located adjacent to the Missouri River southeast of the City (called the South Plant well field). Ground water pumped from the alluvial wells is tributary to the Missouri River. The Water Department also owns, operates, and maintains two water treatment plants, high-service pumps, a booster pumping station, a water-storage facility, and a complex network of water transmission, distribution, service lines, meters, valves, and fire hydrants.

#### **Early Waterworks System**

The City of Leavenworth and the Fort Leavenworth Water Company constructed the original municipal waterworks system in 1882. The system consisted of a water treatment plant (near the site of the current North Water Treatment Plant and next to Fort Leavenworth), 14 miles of transmission and water-distribution lines consisting of cast iron pipe, and an open five-million gallon water-storage reservoir constructed on the top of Pilot Knob. The water treatment plant included reciprocating pumps, a storage reservoir (now called the North Reservoir), and a nine million gallon settling basin. The Pilot Knob site was selected for reservoir storage because the elevation (about 1100 feet) would ensure adequate hydraulic pressure in the water transmission and distribution system.

In 1921, the City of Leavenworth purchased the waterworks system from Fort Leavenworth Water Company. From 1921 to 1937, the City operated the waterworks system.

#### **Formation of Waterworks Board and Water Department**

The citizens of Leavenworth voted in 1937 to establish a governing board separate from the city commission and a water-supply utility that would function independently from city public-works services. The Leavenworth Waterworks Board and the Leavenworth Water Department operate today, as established in 1937 and pursuant to K.S.A. 13-2414 through K.S.A. 13-2429.

#### **North Plant**

In 1938, the original water treatment plant was replaced with a four-million gallon per day (MGD) capacity water-filtration plant and a high-service pumping station. Pilot Knob Reservoir was also covered to protect the water quality. Two large settling basins from the original treatment plant were retained and are currently used today. The source of supply was (and continues to be) a direct diversion from the Missouri River. Since 1938, raw water has been diverted from the west bank of the Missouri River about two blocks south of the water treatment plant (at the western extent of Dakota Street). Treated water from the plant is pumped into the water-transmission and distribution system and into Pilot Knob Reservoir.

Over the years since 1938, many capital improvements were made to the water treatment plant to improve water quality and capacity. Today, the capacity of the North Plant is about 5.5 MGD with a single day peak capacity of 6 MGD.

### South Plant

A second water treatment plant was constructed in 1978 to meet increasing water demands and replace the aging North Plant. Known as the South Plant, water source for the South Plant is alluvia ground water pumped from nine wells.

### Administration and Operations

There are 37 employees in the Water Department including staff engaged in water treatment, water distribution, and administration. Day-to-day operations are coordinated by managers of finance and customer service, water distribution, and water treatment.

The Water Department also owns, operates, and maintains two water treatment plants, high-service pumps, a booster pumping station, a water-storage facility, and a complex network of water transmission, distribution, service lines, meters, valves, and fire hydrants. An inventory of water distribution materials is maintained by the Water Department for the replacement of the aging infrastructure. The water service meters are read monthly by the staff to record and report water usage by each water customer.

Administrative staff handles all billing and collections for the sale of water. By contract with the City of Leavenworth, the Water Department also handles billing and collection activities for the City's wastewater treatment and trash-collection services.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *additional information*.

The Board operates as a *proprietary fund*; it operates like a *business enterprise*.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *additional information* that further explains and supports the information in the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### Financial Statements

The financial statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The first two tables (Tables 1 and 2) report the Board's net position and how it has changed. Net position, the difference between the Board's assets and liabilities, is one way to measure the Board's financial health.

- Over time, increases or decreases in the Board's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Board one needs to consider additional nonfinancial factors such as changes in the populations of the areas the Board services.

As mentioned above, the Board has one category of fund, a proprietary fund, and all of the Board's services are included here. Fees for services finance most of these activities.

**FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE**

**Net position**

Net position may serve over time as a useful indicator of an entity's financial health. The assets of the Board exceeded its liabilities as of December 31, 2013 by \$39,615,694, increasing the net position of the board by 3.15% or \$1,209,259 as a result of this year's operations. Of this amount, \$14,334,137 (unrestricted net position) may be used to meet the entity's ongoing obligations to patrons and vendors, to perform daily operations, and to make capital improvements.

A significant portion of the Board's net position, 63.8%, reflects its investment in capital assets (e.g. buildings and plants, distribution system, equipment and vehicles, furniture and fixtures). The Board uses these capital assets to provide services to its patrons; consequently, these assets are not available for future spending.

Table 1

Waterworks Board  
Condensed Statement of Net Position

	Proprietary Activities		Total Percentage Change
	2012	2013	2012-2013
Current and other assets	\$ 15,299,813	\$ 16,154,168	5.58%
Capital assets	24,964,488	25,281,557	1.27%
<b>Total assets</b>	<b>40,264,301</b>	<b>41,435,725</b>	<b>2.91%</b>
Current liabilities	1,857,536	1,820,031	-2.02%
Long-term liabilities	-	-	0.00%
<b>Total liabilities</b>	<b>1,857,536</b>	<b>1,820,031</b>	<b>-2.02%</b>
Net position:			
Net investment in capital assets	24,964,488	25,281,557	1.27%
Unrestricted	13,441,947	14,334,137	6.64%
<b>Total net position</b>	<b>\$ 38,406,435</b>	<b>\$ 39,615,694</b>	<b>3.15%</b>

**Changes in assets**

The Waterworks Board's total assets increased \$1,171,424, or 2.91%. The overall increase occurred due to an increase to investments in the amount of \$1,444,308 in addition to increases in accounts receivable - operating of \$36,170, inventory of \$75,187, and net capital assets of \$317,069. Cash decreased \$657,177, accrued interest receivable showed a decrease of \$5,763, and prepaid expenses decreased \$38,370.

**Changes in liabilities**

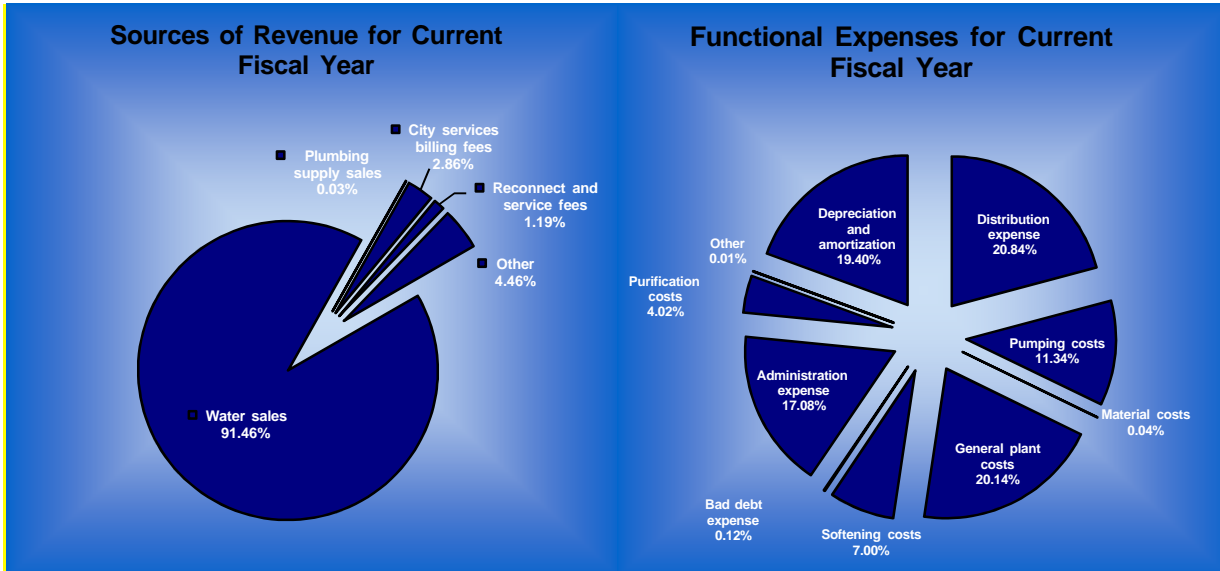
The Board's total liabilities showed a decrease, totaling \$24,835, or 1.34%. The decrease was mainly due to decreases in accrued employee benefits of \$32,761 and accounts payable of \$32,759 as well as decreases in accrued interest on meter deposits of \$4,768, accrued sludge removal of \$3,644, and terminated service fees of \$1,500. Increases were shown in accrued expenses of \$35,966 and meter deposits of \$1,631.

**Changes in net position**

As noted above, the Board's net position increased \$1,209,259 as a result of changes incurred in the Board's revenues and expenses. The Board's total year to year operating revenues decreased by 5.91%. Approximately 96% of the Board's operating revenue came from water sales. The remaining 4% is comprised mainly of reconnect and

service fees, plumbing and supply sales, and service billing fees to the City of Leavenworth.

All revenues and costs are related to the one proprietary activity (water production and distribution).



The Board received sufficient revenue during the year ended December 31, 2013 to sustain its operations and increase its net position. See Table 2 below.

Table 2  
Waterworks Board  
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Proprietary Funds		Total Percentage Change
	2012	2013	2012-2013
<b>Revenues:</b>			
City services billing	\$ 195,103	\$ 195,103	0.00%
Water sales	6,622,929	6,244,977	-5.71%
Reconnect and service fees	91,830	81,245	-11.53%
Plumbing supply sales	9,868	2,337	-76.32%
Non-operating	158,498	304,557	92.15%
<b>Total revenues</b>	<b>7,078,228</b>	<b>6,828,219</b>	<b>-3.53%</b>
<b>Expenses:</b>			
Production	2,454,549	2,425,552	-1.18%
Distribution & administration	2,232,307	2,168,744	-2.85%
Depreciation	1,145,418	1,105,854	-3.45%
Non-operating	179,270	780	-99.56%
<b>Total expenses</b>	<b>6,011,544</b>	<b>5,700,930</b>	<b>-5.17%</b>
<b>Net income</b>	<b>\$ 1,066,684</b>	<b>\$ 1,127,289</b>	<b>5.68%</b>



**Total revenues**

Total operating revenues for the year decreased \$396,068, or 5.72%. A large part of this was due to a decrease in water sales of \$377,952, or 5.71%.

**Costs of Production**

The Board's total costs of production decreased \$28,977, or 1.18%. The costs associated with purification and softening decreased \$56,996 of \$51,327, respectively. Material costs decreased \$2,473 while increases were shown in general plant costs and pumping costs of \$73,689 and \$8,110, respectively.

**Total Distribution and Administration expenses**

Distribution costs decreased \$204,679, or 14.69% Administration costs increased \$143,744, or 17.32%.

**Non-Operating expenses**

Miscellaneous expenses showed an increase of \$303,617 over the prior year. This was partly due to an Atrazine lawsuit settlement received during the year as well as an easement payment received.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

As of December 31, 2013, the Board had \$25,281,557 in capital assets, including buildings and plants, distribution system, and furniture and fixtures. This amount represents an increase from the prior year of \$317,069, net of accumulated depreciation.

During the year ended December 31, 2013, the Board invested a total of \$1,571,293 in capital additions and improvements:

North Plant	\$ 70,838
South Plant	\$ 83,708
Distribution center	\$ 567
Distribution system	\$ 675,849
Softening equipment	\$ 56,791
Tools and equipment	\$ 462,361
Office furniture & equipment	\$ 11,316
Wells	\$ 93,277
Computer system	\$ 48,054
Pilot Knob Cottage	\$ 13,622
Booster station	\$ 54,910

Patron contributions totaled \$81,970 for meter upgrades, new services, main extensions, and system development fees.

**SUMMARY OF 2013 OPERATIONS**

The Board remains committed to providing quality drinking water at economical rates. Steady moderate rate increases should continue to help with unfunded federal mandates, increased chemical cost, and maintenance to an aging infrastructure.

Selling more water will help utilize the treatment plants' excess capacities and give better economy of scale. Selling more water also will help to fund future capital improvement projects.

#### CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Chair of the Waterworks Board or the Board's Manager of Collections and Accounts, 601 Cherokee, Leavenworth, Kansas 66048.

WATERWORKS BOARD  
STATEMENTS OF NET POSITION  
December 31,

	2013	2012
ASSETS		
Current assets:		
Cash	\$ 859,626	\$ 1,516,803
Investments	13,556,124	12,111,816
Accounts receivable - operating	745,586	709,416
Accrued interest receivable	16,961	22,724
Inventory	911,538	836,351
Prepaid expenses	60,003	98,373
Total current assets	16,149,838	15,295,483
Noncurrent assets:		
Capital assets, net of accumulated depreciation	25,281,557	24,964,488
Total noncurrent assets	25,281,557	24,964,488
Other assets:		
Other receivables	4,330	4,330
Total other assets	4,330	4,330
Total assets	41,435,725	40,264,301

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

WATERWORKS BOARD  
STATEMENTS OF NET POSITION  
December 31,

	2013	2012
LIABILITIES		
Current liabilities:		
Accounts payable	525,294	558,053
Accrued expenses	205,898	169,932
Accrued employee benefits	428,402	461,163
Meter deposits	480,575	478,944
Accrued interest on meter deposits	55,595	60,363
Accrued sludge removal	119,267	122,911
Terminated service fees	5,000	6,500
Total current liabilities	1,820,031	1,857,866
Total liabilities	1,820,031	1,857,866
NET POSITION		
Net investment in capital assets	25,281,557	24,964,488
Unrestricted - undesignated	14,285,480	13,405,190
Unrestricted - designated	48,657	36,757
Total net position	\$ 39,615,694	\$ 38,406,435

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

WATERWORKS BOARD  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
For the years ended December 31,

	2013	2012
Revenues:		
City services billing fees	\$ 195,103	\$ 195,103
Water sales	6,244,977	6,622,929
Reconnect and service fees	81,245	91,830
Plumbing supply sales	2,337	9,868
Total revenues	6,523,662	6,919,730
Costs of production:		
Pumping	646,582	638,472
Purification	229,222	280,549
Softening	399,150	456,146
General plant	1,148,163	1,074,474
Material	2,435	4,908
Total costs of production	2,425,552	2,454,549
Operating margin	4,098,110	4,465,181
Operating expenses:		
Bad debt	6,606	9,234
Distribution	1,188,246	1,392,925
Administration	973,892	830,148
Depreciation and amortization	1,105,854	1,145,418
Total operating expenses	3,274,598	3,377,725
Operating income	823,512	1,087,456
Non-operating revenue (expense):		
FEMA reimbursements	67,912	63,960
Income from investments	38,545	50,245
Miscellaneous revenue (expense)	162,651	(142,198)
Rent income	32,268	30,094
Interest on bonded debt	-	(36,304)
Interest on meter deposits	(780)	(768)
Gain (loss) on asset disposals	3,181	14,199
Total non-operating revenue (expense)	303,777	(20,772)
Net income	1,127,289	1,066,684
Patron capital contributions	81,970	100,245
Change in net position	1,209,259	1,166,929
Net position - beginning of year	38,406,435	37,239,506
Net position - end of year	\$ 39,615,694	\$ 38,406,435

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

WATERWORKS BOARD  
STATEMENTS OF CHANGES IN PATRON CONTRIBUTIONS AND RETAINED EARNINGS  
For the years ended December 31, 2013 and 2012

	Patron Contributions	Other Contribution FEMA	Retained Earnings	Total Net Position
Balance at December 31, 2011	\$ 6,620,787	\$ 1,060,232	\$ 29,558,487	\$ 37,239,506
Contributions in aid of construction	100,245	-	-	100,245
Net income	-	-	1,066,684	1,066,684
Balance at December 31, 2012	6,721,032	1,060,232	30,625,171	38,406,435
Contributions in aid of construction	81,970	-	-	81,970
Net income	-	-	1,127,289	1,127,289
Balance at December 31, 2013	<u>\$ 6,803,002</u>	<u>\$ 1,060,232</u>	<u>\$ 31,752,460</u>	<u>\$ 39,615,694</u>

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

WATERWORKS BOARD  
STATEMENTS OF CASH FLOWS  
For the years ended December 31,

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 6,487,492	\$ 6,905,868
Cash paid to employees	(2,383,400)	(2,251,906)
Cash paid to suppliers	<u>(2,274,174)</u>	<u>(2,348,153)</u>
Net cash provided by (used in) operating activities	<u>1,829,918</u>	<u>2,305,809</u>
Cash flows from capital related financing activities:		
Proceeds from the sale of assets	60,157	13,000
Purchase of capital assets	(1,479,899)	(933,518)
Patron contributions	81,970	100,245
Principal payments on notes payable	-	(1,641,992)
Interest paid on notes payable	(5,548)	(68,631)
Other receipts (payments)	188,313	(121,338)
FEMA activity	<u>67,912</u>	<u>181,860</u>
Net cash provided by (used in) capital related financing activities	<u>(1,087,095)</u>	<u>(2,470,374)</u>
Cash flows from investing activities:		
Net activity of investments	(1,444,308)	(153,620)
Interest received	<u>44,308</u>	<u>53,619</u>
Net cash provided by (used in) investing activities	<u>(1,400,000)</u>	<u>(100,001)</u>
Net increase (decrease) in cash	(657,177)	(264,566)
Cash balance at beginning of year	<u>1,516,803</u>	<u>1,781,369</u>
Cash balance at end of year	<u><u>\$ 859,626</u></u>	<u><u>\$ 1,516,803</u></u>

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

WATERWORKS BOARD  
STATEMENTS OF CASH FLOWS  
For the years ended December 31,

	2013	2012
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	<u>\$ 823,512</u>	<u>\$ 1,087,456</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,105,854	1,145,418
Bad debt expense	6,606	9,234
(Increase) decrease in:		
Accounts receivable	(36,170)	(13,862)
Inventory	(75,187)	71,567
Prepaid expenses	38,370	23,635
Increase (decrease) in:		
Accounts payable	(32,759)	145,940
Accrued expenses	35,966	(114,094)
Accrued employee benefits	(32,761)	21,624
Meter deposits	1,631	27,998
Accrued sludge removal	(3,644)	(94,607)
Terminated service fees	<u>(1,500)</u>	<u>(4,500)</u>
Total adjustments	<u>1,006,406</u>	<u>1,218,353</u>
Net cash provided by (used in) operating activities	<u>\$ 1,829,918</u>	<u>\$ 2,305,809</u>

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



WATERWORKS BOARD  
Notes to the Financial Statements  
December 31, 2013 and 2012

1. Summary of significant accounting policies

a. Reporting entity

The Waterworks Board, as provided in Kansas Statutes Annotated 13-2414 through 13-2428, has full control of the municipal water plant of Leavenworth, Kansas. The Board is composed of five members, each elected to serve for a period of four years. In the case of a vacancy, the remaining members shall appoint a successor to serve until the next ensuing city election (K.S.A. 13-2416). By resolution of the board, officers are to be elected from its membership at the first meeting in May of each year.

The same statutes establish the positions of Manager of Production and Distribution and Manager of Collections and Accounts. Persons in those positions serve at the direction of the board and manage the Waterworks daily operations. The board has authorization to appoint other positions such as Engineer or Operations Manager to supplement positions established by statutes.

b. Basis of presentation and basis of accounting

Basis of presentation:

The following fund type comprises the financial activities of the Waterworks Board for the years ended December 31, 2013 and 2012.

Proprietary fund category:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The Waterworks Board has one type of proprietary fund:

Enterprise fund: Used to account for any activity in which a fee is charged to an external user for goods or services. However, they must be used to account for activities (a) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (b) when laws or regulations require that the activity's cost of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges (not taxes), or (c) the pricing policies of the activity establish fees and charges designed to recover its costs. Such operations are financed and operated in a manner similar to private businesses and are intended to be self-supporting through charges to users.

1. Summary of significant accounting policies

b. Basis of presentation and basis of accounting (continued)

Basis of accounting:

The Waterworks Board has established a system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The proprietary fund financial statements are reported using the total economic resources measurement focus and the accrual basis of accounting.

c. Net position

Net position represents the difference between assets and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or law or regulations of other governments. Any remaining net position is considered unrestricted. The Waterworks Board has designated a portion of its unrestricted net position to be used for continuing education.

d. Accounts receivable

The Waterworks Board adopted a policy to write-off directly all accounts that are twelve months overdue. With the current software capability, in management's opinion, direct write-offs are an accurate method of determining the loss due to bad debts. Management considers all remaining accounts receivable to be collectible.

e. Compensated absences liabilities

The Board's policy regarding sick pay is to grant to full-time employees sick leave at the rate of 8 hours per month with no maximum limitation on accumulation. Upon retirement or death, employees will be paid for one-third of their unused sick leave.

All full-time employees are granted 8 hours of vacation pay per month from their first year through their fifth year of service. Beginning with an employee's sixth year of full-time service, 10 hours of vacation pay are earned each month. There is a 200 hour maximum accumulation at the end of any year, with 100 percent vesting upon an employee's retirement or death.

The liability on December 31, 2013 and 2012 for accumulated sick and vacation pay which amounted to \$428,402 and \$461,163, respectively, is classified in the financial statements as accrued employee benefits.

f. Use of estimates

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

1. Summary of significant accounting policies (continued)

g. Investments and cash flows

Investments in money market instruments, including certificates of deposit, are recorded at cost plus any accrued interest.

For the purposes of the statement of cash flows, the Waterworks Board considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

h. Inventory

Inventory is valued at the lower of average cost or market. Inventory consisted of materials and supplies at year-end.

i. Capital assets

Purchased capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed capital assets are reported at estimated fair value at the time received.

Depreciation methods and estimated useful lives of capital assets reported in the proprietary funds are as follows:

	<u>Depreciation method</u>	<u>Estimated useful life</u>
Buildings and plants	Straight-line	10-100 years
Water distribution system	Straight-line	10-100 years
Wells	Straight-line	20-50 years
Tools and equipment	Straight-line	5-15 years
Office furniture and equipment	Straight-line	3-25 years
Trucks	Straight-line	3-5 years
Computer system	Straight-line	3-5 years

2. Budgets

The Waterworks Board is not subject to statutory budget requirements. The Waterworks Board is not legally required to establish budgeting accounts; however, for monitoring purposes, the Board utilizes operating budgets for operations control and compliance with debt service requirements.

3. Compliance with Kansas statutes

For the year ended December 31, 2013, bank deposits were under-secured at times during the months of January, February , and March (K.S.A. 9-1402). Management is not aware of any other statutory violations for the period under audit.

4. Deposits and investments

At December 31, 2013, the Board had the following investments and maturities, including certificates of deposit:

Investment Type	Fair Value	Investment Maturities in Years	
		Less than 1	1 - 5
Certificates of deposit:			
First National Bank	\$ 597,440	\$ 597,440	\$ -
Mutual Savings Association	1,139,363	1,139,363	-
Citizens Savings & Loan Association	1,638,095	756,021	882,074
Commerce Bank, N.A.	1,013,099	1,013,099	-
Country Club Bank	3,547,596	2,346,523	1,201,073
Kansas Municipal Investment Pool	<u>5,620,531</u>	<u>5,620,531</u>	<u>-</u>
Total	<u>\$ 13,556,124</u>	<u>\$ 11,472,977</u>	<u>\$ 2,083,147</u>

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

K.S.A. 12-1675 limits the Board'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 Board has no investment policy that would further limit its investment choices. The rating of the Board's investments is noted below.

*Concentration of credit risk.* State statutes place no limit on the amount the Board may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Board's allocation of investments as of December 31, 2013, is as follows:

Investment Type	Rating	Percentage
Certificates of deposit:		
First National Bank	Not Available	4.4%
Mutual Savings Association	Not Available	8.4%
Citizens Savings & Loan Association	Not Available	12.1%
Commerce Bank, N.A.	Not Available	7.5%
Country Club Bank	Not Available	26.2%
Kansas Municipal Investment Pool	S&P AAf/S1+	41.5%

*Custodial credit risk - deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. State statutes require the Board'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, 2013.

4. Deposits and investments (continued)

At December 31, 2013, the Board's carrying amount of deposits was \$8,795,219 and the bank balance was \$8,908,671. The bank balance was held by five banks resulting in a concentration of credit risk. Of the bank balance, \$1,250,000 was covered by the federal depository insurance, and the remaining \$7,658,671 was collateralized with securities held by the pledging financial institutions' agents in the Board's name.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Board 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.

At December 31, 2013, the Board had invested \$5,620,531 in the State's municipal investment pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

5. Defined benefit pension plan

*Plan description.* The Waterworks Board, Leavenworth, Kansas, participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas Law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

*Funding Policy.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

5. Defined benefit pension plan (continued)

The average employer rates established for calendar years 2013 and 2012 are 8.94% and 8.34%, respectively.

6. Other post-employment benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Water Department makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for the coverage. The premium is paid in full by the insured. There is no cost to the Water Department under this program.

7. Accrued sludge removal and well treatment expense

a. Accrued sludge removal

Water is softened at both water treatment plants to remove carbonate hardness and organics from the water. The by-product of the treatment process is lime sludge, which is largely the chemical equivalent of limestone and water. Since 1948, lime sludge generated at the North Plant has been discharged directly to the Missouri River at a point just east of the treatment plant.

About ten years ago, an NPDES permit application for the North Plant lime sludge discharge into the Missouri River was submitted to KDHE for review and approval. The permit application was accompanied by an engineering analysis report (published by Black and Veatch in 1996 for the Leavenworth Water Department) indicating that lime sludge disposal into the Missouri River is not detrimental to the river water quality. Issuance of the NPDES permit by KDHE to the Water Department has not yet occurred. Moreover, KDHE has not objected to the continuing direct discharge of lime sludge into the Missouri River from the North Plant.

Lime sludge generated by the South Plant is stored temporarily in four lagoons (ponds) near the plant. After each pond is filled and following a period of settlement and drying, the sludge is excavated from the filled pond(s) and transported periodically to nearby agricultural land where it is applied as a soil amendment to promote commercial crop production. On December 31, 2013, one of the four ponds was full of lime sludge and one pond was 1/3<sup>rd</sup> full of lime sludge. The other two ponds were empty.

To provide for these costs and charge current operations, the Board has established a liability called Accrued Sludge Removal. The Board believes this amount is reasonable for future sludge removal costs.

7. Accrued sludge removal and well treatment expense (continued)

b. Well treatment expense

At December 31, 2013 and 2012, accrued well treatment expense was \$185,747 and \$162,638, respectively.

8. Patrons contributions

Contributions in aid to construction were not capitalized prior to the year ended April 30, 1975. It was the opinion of management that the amounts by which the financial statements might change, if these items were included, were not material to the financial statements.

9. Sewer charges

The Waterworks Board, under agreement with the City of Leavenworth, Kansas, bills and collects sewer and trash pick-up charges from water customers for the City. A fee is charged to the City for such service which is calculated on an annual basis and collected over the course of the year.

10. Insurance coverage

The Board reviews insurance coverage annually to determine that insurance policies in force are appropriate, and written with insurance companies authorized to transact business in Kansas. The Board has insurance for property, fire, and theft coverage.

11. Fidelity bonds

Fidelity bonds of elective and appointive officials were in effect on December 31, 2013 and 2012. These bonds meet statutory requirements and were approved by the Board.

12. Property and equipment transactions

	Costs			
	Balance	Additions	Disposals	Balance
	December 31, 2012			December 31, 2013
Real estate & easements	\$ 804,010	\$ -	\$ -	\$ 804,010
Office building	544,804	-	-	544,804
Office furniture & equip.	112,519	11,316	3,757	120,078
Office computer system	482,756	32,336	2,979	512,113
Distributions system	19,712,613	675,849	-	20,388,462
Distribution center	574,100	567	-	574,667
Booster station	143,746	54,910	-	198,656
Pilot Knob Cottage	30,447	13,622	-	44,069
Dist. tools & equipment	650,928	462,361	57,085	1,056,204
Distribution trucks	234,408	-	-	234,408
Dist. furniture & equipment	2,922	-	-	2,922
Dist. computer system	-	675	-	675
North Plant-bldgs & equip.	3,882,130	70,838	41,247	3,911,721
North plant softening equip.	478,481	56,791	46,159	489,113
Intake building	1,368,669	-	204,427	1,164,242
North Plant computer system	291,709	6,160	-	297,869
North Plant tools & equip.	96,083	-	-	96,083
North Plant trucks	39,019	-	16,287	22,732
North Plant furniture & equip	2,241	-	-	2,241
North Plant purification	2,888,719	-	606	2,888,113
South Plant-bldgs & equip.	5,995,851	75,658	-	6,071,509
Lagoons	252,351	-	-	252,351
Wells	1,636,348	93,277	43,904	1,685,721
South Plant computer system	265,723	8,883	3,934	270,672
South Plant tools & equip.	87,239	-	-	87,239
South Plant trucks	46,872	-	-	46,872
South Plant furniture & equip	10,371	-	-	10,371
South Plant purification	2,464,946	-	-	2,464,946
Pumping	118,719	-	-	118,719
Softening equipment	108,154	-	-	108,154
Hwy 5 building & equip.	-	8,050	-	8,050
Other assets	-	-	-	-
Operational asset total	<u>43,326,878</u>	<u>1,571,293</u>	<u>420,385</u>	<u>44,477,786</u>
Construction in progress	<u>147,171</u>	<u>-</u>	<u>-</u>	<u>56,485</u>
Total costs	<u>\$ 43,474,049</u>	<u>\$ 1,571,293</u>	<u>\$ 420,385</u>	<u>\$ 44,534,271</u>



12. Property and equipment transactions (continued)

	Accumulated Depreciation			
	Balance			Balance
	December 31, 2012	Additions	Disposals	December 31, 2013
Real estate & easements	\$ -	\$ -	\$ -	\$ -
Office building	425,030	26,589	-	451,619
Office furniture & equip.	102,763	3,117	3,757	102,123
Office computer system	458,977	9,958	2,979	465,956
Distributions system	4,467,046	269,037	-	4,736,083
Distribution center	473,903	26,625	-	500,528
Booster station	137,908	2,552	-	140,460
Pilot Knob Cottage	28,675	1,112	-	29,787
Dist. tools & equipment	449,736	55,348	-	505,084
Distribution trucks	164,073	20,729	-	184,802
Dist. furniture & equipment	2,540	142	-	2,682
Dist. computer system	-	124	-	124
North Plant-bldgs & equip.	2,239,412	142,562	40,650	2,341,324
North plant softening equip.	392,653	5,937	46,159	352,431
Intake building	921,271	75,830	204,427	792,674
North Plant computer system	291,505	1,264	-	292,769
North Plant tools & equip.	46,009	7,123	-	53,132
North Plant trucks	18,722	3,248	16,287	5,683
North Plant furniture & equip	2,241	-	-	2,241
North Plant purification	1,240,660	101,349	606	1,341,403
South Plant-bldgs & equip.	3,816,611	157,378	-	3,973,989
Lagoons	195,313	3,355	-	198,668
Wells	1,179,465	63,635	43,904	1,199,196
South Plant computer system	265,417	1,502	3,933	262,986
South Plant tools & equip.	36,480	4,807	-	41,287
South Plant trucks	37,555	5,590	-	43,145
South Plant furniture & equip	10,371	-	-	10,371
South Plant purification	982,950	101,762	-	1,084,712
Pumping	69,423	8,261	-	77,684
Softening equipment	52,852	6,152	-	59,004
Hwy 5 building & equip.	-	767	-	767
Total accumulated depreciation	<u>\$ 18,509,561</u>	<u>\$ 1,105,855</u>	<u>\$ 362,702</u>	<u>\$ 19,252,714</u>

12. Property and equipment transactions (continued)

	Costs			
	Balance			Balance
	December 31, 2011	Additions	Disposals	December 31, 2012
Real estate & easements	\$ 541,115	\$ 262,895	\$ -	\$ 804,010
North Plant	5,253,628	16,515	19,344	5,250,799
South Plant	5,994,334	3,017	1,500	5,995,851
Distribution center	574,100	-	-	574,100
Distributions system	19,443,859	268,754	-	19,712,613
Softening equipment	838,986	-	-	838,986
Purification	5,346,316	7,349	-	5,353,665
Pumping	114,109	4,610	-	118,719
Trucks	297,632	26,244	3,577	320,299
Tools & equipment	661,472	222,891	50,113	834,250
Office furniture & equipment	122,175	5,878	-	128,053
Office & storage building	541,845	2,959	-	544,804
Wells	1,606,450	50,474	20,576	1,636,348
Computer system	1,035,434	4,754	-	1,040,188
Pilot Knob Cottage	28,996	1,451	-	30,447
Booster station	143,746	-	-	143,746
Other assets	-	-	-	-
Operational asset total	<u>42,544,197</u>	<u>877,791</u>	<u>95,110</u>	<u>43,326,878</u>
Construction in progress	<u>84,342</u>	<u>221,537</u>	<u>158,708</u>	<u>147,171</u>
Total costs	<u>\$ 42,628,539</u>	<u>\$ 1,099,328</u>	<u>\$ 253,818</u>	<u>\$ 43,474,049</u>
	Accumulated Depreciation			
	Balance			Balance
	December 31, 2011	Additions	Disposals	December 31, 2012
Real estate & easements	\$ -	\$ -	\$ -	\$ -
North Plant	2,928,049	250,432	17,798	3,160,683
South Plant	3,664,312	153,799	1,500	3,816,611
Distribution center	448,497	25,406	-	473,903
Distributions system	4,203,054	263,992	-	4,467,046
Softening equipment	626,898	13,920	-	640,818
Purification	2,003,190	220,420	-	2,223,610
Pumping	60,595	8,828	-	69,423
Trucks	192,646	31,281	3,577	220,350
Tools & equipment	541,722	38,690	48,187	532,225
Office furniture & equipment	116,054	1,861	-	117,915
Office & storage building	398,812	26,218	-	425,030
Wells	1,136,860	60,750	18,145	1,179,465
Computer system	1,006,893	9,006	-	1,015,899
Pilot Knob Cottage	28,261	414	-	28,675
Booster station	<u>137,491</u>	<u>417</u>	<u>-</u>	<u>137,908</u>
Total accumulated depreciation	<u>\$ 17,493,334</u>	<u>\$ 1,105,434</u>	<u>\$ 89,207</u>	<u>\$ 18,509,561</u>

13. Operating leases

The Waterworks Board, as lessee, entered into a five year noncancelable lease for office equipment in 2006, which was classified as an operating lease. During 2011, the Waterworks Board renewed this lease for another five years. Rent expense under these noncancelable leases was \$1,848 and \$1,848 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease obligations as of December 31, 2013 are as follows:

2014	\$	1,848
2015		1,848
2016		<u>924</u>
Total	\$	<u>6,468</u>

**ADDITIONAL INFORMATION**

WATERWORKS BOARD  
 SCHEDULE OF COSTS OF PRODUCTION  
 For the years ended December 31,

	2013	2012
<u>Pumping costs</u>		
Utilities	\$ 424,131	\$ 422,609
Repairs	142,478	145,717
Insurance	79,973	70,146
Total pumping costs	646,582	638,472
<u>Purification costs</u>		
Chemicals	165,618	233,995
Repairs to equipment	31,366	12,035
Water analysis	11,696	11,618
Other expense	20,542	22,901
Total purification costs	229,222	280,549
<u>Softening costs</u>		
Chemicals	304,562	309,113
Sludge removal - lagoons	80,000	120,000
Repairs to equipment	14,588	27,033
Total softening costs	399,150	456,146
<u>General plant costs</u>		
Operators salaries	814,954	789,963
Payroll expense	235,278	204,846
Repairs	67,986	61,417
Other	29,945	18,248
Total general plant costs	1,148,163	1,074,474
Material costs	2,435	4,908
Total costs of production	\$ 2,425,552	\$ 2,454,549

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WATERWORKS BOARD  
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES  
For the years ended December 31,

	2013	2012
<u>Distribution Expense before Depreciation</u>		
Salaries	\$ 520,681	\$ 513,922
Repairs-booster, mains, valves, lines, and meters	357,681	592,554
Payroll expense	134,255	126,517
Truck and heavy equipment expense	71,660	58,013
Insurance	45,976	40,836
Utilities	23,924	21,251
Building maintenance and supplies	12,507	11,698
Miscellaneous	7,431	6,065
Small tools and equipment expense	5,772	9,646
Uniforms	5,047	4,334
Training, dues and subscriptions	2,757	3,579
Travel	304	160
Terminated service	251	4,350
 Total distribution expense before depreciation	 \$ 1,188,246	 \$ 1,392,925
<u>Administration Expense before Depreciation</u>		
Salaries	\$ 565,633	\$ 468,939
Payroll expense	140,313	121,761
Office expense	91,997	88,328
Computer expense	52,475	48,249
Legal and professional services	35,566	23,767
Training, dues and subscriptions	22,490	20,098
Insurance and fidelity bonds	19,105	16,324
Utilities - office	16,998	13,316
Repairs	15,788	15,025
Miscellaneous	11,806	11,757
Traveling expense	1,721	2,584
 Total administration expense before depreciation	 \$ 973,892	 \$ 830,148

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WATERWORKS BOARD  
SCHEDULE OF INVESTMENTS

	Balance 12/31/11	Net Additions (Reductions)	Balance 12/31/12	Net Additions (Reductions)	Balance 12/31/13
Certificates of Deposit	\$ 7,842,525	\$ 51,402	\$ 7,893,927	\$ 41,666	\$ 7,935,593
Kansas Municipal Investment Pool	4,115,671	102,218	4,217,889	1,402,642	5,620,531
Accrued interest	26,098	N/A	22,724	N/A	16,961
<b>Total</b>	<b><u>\$ 11,984,294</u></b>	<b><u>\$ 153,620</u></b>	<b><u>\$ 12,134,540</u></b>	<b><u>\$ 1,444,308</u></b>	<b><u>\$ 13,573,085</u></b>

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