

**RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the Year Ended December 31, 2014 and 2013**

**CLUBINE AND RETTELE, CHARTERED
CERTIFIED PUBLIC ACCOUNTANTS
Salina, Kansas**

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

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INDEPENDENT AUDITORS' REPORT

To: The Members and Board of Directors
Rural Water District No. 1
Dickinson County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 1, Dickinson County, Kansas as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements are free from 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.

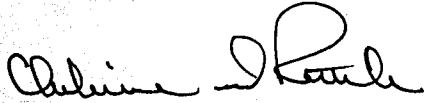
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 1, Dickinson County, Kansas as of December 31, 2014 and 2013 and the results of its operations, the changes in net position, and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, management has elected to omit this information.

Clubine and Rettele, Chartered

A handwritten signature in cursive script, appearing to read "Delina J. Rettele".

Salina, Kansas
March 12, 2015

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

Exhibit I

STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 200,967.75	\$ 146,514.20
Accounts Receivable	18,538.61	19,520.20
Inventory	20,763.61	28,213.84
Prepaid Insurance	<u>8,741.00</u>	<u>7,225.00</u>
Total Current Assets	<u>249,010.97</u>	<u>201,473.24</u>
Property and Equipment		
Equipment	1,499,494.44	1,486,688.01
Building	22,282.76	22,282.76
Vehicles	24,460.00	24,460.00
Compound Meters	<u>115,789.57</u>	<u>115,789.57</u>
	1,662,026.77	1,649,220.34
Accumulated Depreciation	<u>(813,431.43)</u>	<u>(796,425.30)</u>
Total Property and Equipment	<u>848,595.34</u>	<u>852,795.04</u>
Other Assets		
Loan Reserve	<u>23,739.37</u>	<u>23,744.09</u>
Total Assets	<u>\$ 1,121,345.68</u>	<u>\$ 1,078,012.37</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 2,207.05	\$ 3,337.82
Accrued Interest	988.31	1,099.00
Current Portion of Long-Term Debt	18,748.83	18,268.04
Sales Tax Payable	177.77	313.19
Payroll Liabilities	<u>1,202.63</u>	<u>1,267.44</u>
Total Current Liabilities	<u>23,324.59</u>	<u>24,285.49</u>
Long-term Liabilities		
Promissory Note	11,492.77	17,004.00
Kansas Water Supply Loan Fund	113,899.75	126,657.17
Less Current Portion	<u>(18,748.83)</u>	<u>(18,268.04)</u>
Total Long-term Liabilities	<u>106,643.69</u>	<u>125,393.13</u>
Total Liabilities	<u>129,968.28</u>	<u>149,678.62</u>
Net Position - Exhibit II	<u>991,377.40</u>	<u>928,333.75</u>
Total Liabilities and Net Position	<u>\$ 1,121,345.68</u>	<u>\$ 1,078,012.37</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

Exhibit II

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014 and 2013

	2014	2013
Operating Revenue		
Water Sales	\$ 245,843.00	\$ 234,762.99
Installation	-	300.00
Reimbursement	2,730.24	1,679.21
Trencher/Backhoe Income	1,162.50	825.00
Other Income	10,462.40	2,998.41
Total Operating Revenue	260,198.14	240,565.61
Operating Expenses		
Salaries	68,996.47	64,522.63
Gas and Fuel	7,830.68	11,559.70
Insurance	17,932.00	15,270.00
Repairs and Maintenance	30,273.42	31,807.04
Utilities	19,659.25	20,172.19
Payroll Taxes	7,220.75	6,753.97
Other Taxes	2,081.49	2,557.83
Miscellaneous	1,425.01	1,787.33
Membership/Fees	3,319.27	1,392.40
Chlorine/Propane	1,636.69	1,250.10
Legal Fees	668.30	-
Permits	600.00	-
Service Contracts	3,409.19	2,200.83
Truck Expense	2,398.78	2,809.66
Backhoe/Trencher Expense	2,532.00	4,043.41
Office Expense	7,073.99	6,065.82
Health Insurance	17,415.83	16,555.38
Interest Expense	3,299.96	3,429.69
Mileage	2,271.15	3,521.05
Bank Service Charge	60.00	27.00
Depreciation	49,136.13	34,016.65
Total Operating Expenses	249,240.36	229,742.68
Net Operating Income	10,957.78	10,822.93
Non-Operating Revenue		
Interest Income	85.87	70.42
Gain on sale of fixed assets	13,600.00	-
Total Non-Operating Revenue	13,685.87	70.42
Net Income Before Contributions	24,643.65	10,893.35
Contributions - Benefit Units	38,400.00	6,600.00
Change in Net Position	63,043.65	17,493.35
Net Position, Beginning of Year	928,333.75	910,840.40
Net Position, Ending of Year	\$ 991,377.40	\$ 928,333.75

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

Exhibit III

STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from customers	\$ 261,179.73	\$ 243,291.77
Interest received	85.87	70.42
Cash paid to suppliers and others	(192,201.04)	(199,668.35)
Interest Paid	(3,410.65)	(2,244.02)
Net Cash Provided by Operating Activities	65,653.91	41,449.82
Cash Flows From Investing Activities		
Acquisition and construction of fixed assets	(44,936.43)	(122,049.57)
Sale of fixed assets	13,600.00	-
Sale of benefit units	38,400.00	6,600.00
Net Cash Provided (Used) by Investing Activities	7,063.57	(115,449.57)
Cash Flows From Financing Activities		
Proceeds of note payable	-	17,004.00
Proceeds of loan payable	-	112,168.77
Proceeds of loan reserve account	4.72	-
Payments to retire note	(18,268.65)	(9,052.31)
Payments to loan reserve account	-	(21,372.34)
Net Cash Provided (Used) by Financing Activities	(18,263.93)	98,748.12
Net Increase in Cash	54,453.55	24,748.37
Cash at Beginning of Year	146,514.20	121,765.83
Cash at End of Year	\$ 200,967.75	\$ 146,514.20

RECONCILIATION OF NET INCOME BEFORE CONTRIBUTIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Income Before Contributions - Exhibit II	\$ 24,643.65	\$ 10,893.35
Adjustments to reconcile net income before contributions to net cash provided by operating activities		
Depreciation and amortization	49,136.13	34,016.65
Gain on sale of fixed assets	(13,600.00)	-
Decrease in accounts receivable	153.27	1,945.32
Decrease in water revenue receivable	828.32	780.84
Decrease (Increase) in inventory	7,450.23	(9,804.61)
Decrease (Increase) in prepaid insurance	(1,516.00)	820.00
Increase (Decrease) in accounts payable	(1,130.77)	1,151.77
Increase (Decrease) in payroll taxes payable	(64.81)	147.64
Increase (Decrease) in sales tax payable	(135.42)	313.19
Increase (Decrease) in accrued interest expense	(110.69)	1,185.67
Total Adjustments	41,010.26	30,556.47
Net Cash Provided by Operating Activities	\$ 65,653.91	\$ 41,449.82

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

1. Rural Water District No. 1, Dickinson County, Kansas, (the District) was organized under Section 82a – 612 et seq. of Kansas Statutes annotated, as amended, for the purpose of providing a water supply system for the landowners within the area of the District. The District is a quasi-municipality and the following is a summary of its significant accounting policies:

- A. The District's policy is to prepare its financial statements on the accrual basis. Under this basis, income is recognized when earned, and expenses are recognized when incurred.
- B. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- C. The property and equipment are reported at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of each asset. The estimated useful lives in computing depreciation are:

Buildings	20-50 years
Water distribution system	20-50 years
Equipment and vehicles	5-10 years

D. Cash in checking and money market are considered to be cash and cash equivalents. The District considers these funds available for current operations. These accounts can be summarized at December 31, as follows:

	2014	2013
Petty Cash	\$ 89.45	93.77
Checking	154,517.64	100,892.94
Money Markets	<u>46,360.66</u>	<u>46,337.49</u>
 Total Operating	 <u>\$ 200,967.75</u>	 <u>\$ 146,514.20</u>

- E. The District is exempt from federal and state income taxes.
- F. Accounts receivable are stated at face value, less any allowance for doubtful accounts. The District considers accounts receivable to be fully collectible; therefore no allowance for doubtful accounts has been established. If accounts become uncollectable, they will be charged to operations when that determination is made.
- G. Inventory consists of pipe, valves, meters, etc. to repair water lines and is stated at cost. The district uses the FIFO inventory method.
- H. The District has vacation and sick leave available for full-time employees. Upon completion of one year of continuous employment, employees earn five days of vacation; upon completion of two years of employment, employees will earn 10 days; upon completion of three years and up, employees will earn 10 days plus one day for each year of employment over three, with the maximum vacation leave allowed of 15 days per year. The District allows a maximum of one-half of earned vacation to carry over to the following calendar year. Sick leave is accumulated at the rate of one-half day per month. A maximum of 90 days of sick leave may be accrued. Upon retirement, an employee with 90 days accumulated can elect to use this sick leave to retire one month early with pay. There is no payment of sick leave upon termination of employment.

RURAL WATER DISTRICT NO. 1
Dickinson County, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

2. At December 31, 2014 and 2013, the carrying amount of deposits were \$200,967.75 and \$146,514.20, and the bank balances were \$202,546.85 and \$173,131.80, respectfully. The bank balances were fully insured as of December 31, 2014 and 2013.
3. The District's management has evaluated events and transactions occurring after the statement of financial position date through March 12, 2015. The aforementioned date represents the date the financial statements were available to be issued.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (Cont.)

December 31, 2014

4. Long-Term Debt

Changes in long-term liabilities for the municipality for the fiscal year ended December 31, 2014, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Long-Term Debt:										
KPWSLF Proj. No. 2751	2.07%	4/25/2012	\$ 237,517.07	8/1/2022	\$ 126,657.17	\$ -	\$ 12,757.42	\$ -	\$ 113,899.75	\$ 2,988.38
Ford Truck Loan	3.00%	12/30/2013	17,004.00	12/30/2016	17,004.00	-	5,511.23	-	11,492.77	262.21
Total Long-Term Debt					\$ 143,661.17	\$ -	\$ 18,268.65	\$ -	\$ 125,392.52	\$ 3,250.59

Current estimated maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

	Year						
	2015	2016	2017	2018	2019	2020-2022	Total
Principal:							
KPWSLF Proj. No. 2751	\$ 13,068.02	\$ 13,386.17	\$ 13,712.08	\$ 14,045.92	\$ 14,387.88	\$ 45,299.68	\$ 113,899.75
Ford Truck Loan	5,680.20	5,812.57	-	-	-	-	11,492.77
Interest:							
KPWSLF Proj. No. 2751	2,290.50	2,018.36	1,739.59	1,454.03	1,161.53	1,657.42	10,321.43
Ford Truck Loan	271.19	95.74	-	-	-	-	366.93
Service Fee:							
KPWSLF Proj. No. 2751	387.28	341.27	294.13	245.85	196.39	280.30	1,745.22
Ford Truck Loan	-	-	-	-	-	-	-
Total Principal and Interest	\$ 21,697.19	\$ 21,654.11	\$ 15,745.80	\$ 15,745.80	\$ 15,745.80	\$ 47,237.40	\$ 137,826.10

Debt Service Ratio Calculation	December 31, 2014	December 31, 2013
Change in Net Position	\$ 63,043.65	\$ 17,493.35
Interest Expense	3,299.96	3,429.69
Depreciation	49,136.13	34,016.65
Total Revenue Available for Debt Service	115,479.74	54,939.69
Debt Service Payments	21,087.04	17,772.73
Debt Service Ratio	5.48	3.09