

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Independent Auditor's Report

December 31, 2014

Rural Water District No. 1, Harvey County, Kansas

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# Knudsen Monroe Company LLC

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Rural Water District No. 1, Harvey County, Kansas, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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 and the *Kansas Municipal Audit and Accounting Guide*; 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 an opinion on these financial statements based on our audits. We conducted our audits 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 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 opinion.

### ***Opinion***

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

***Other Matters***

*Required Supplemental Information*

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Knudsen, Monroe + Company, LLC*

Certified Public Accountants  
Newton, Kansas  
February 9, 2015

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF NET POSITION

December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 599,190	761,261
Certificates of deposit	582,169	579,967
Accounts receivable - customers	54,103	49,295
Accounts receivable - other	57	2,208
Accrued interest income	395	416
Inventory	27,557	27,939
Prepaid expenses	5,610	5,299
Total current assets	<u>1,269,081</u>	<u>1,426,385</u>
<b>CAPITAL ASSETS, net of accumulated depreciation when applicable</b>		
Capital assets not being depreciated	571,164	7,422
Capital assets, net of depreciation	<u>4,685,690</u>	<u>4,906,542</u>
Total capital assets	<u>5,256,854</u>	<u>4,913,964</u>
<b>OTHER ASSETS</b>		
Loan fees - net of accumulated amortization of \$14,298 and \$11,983 respectively	31,997	34,312
Restricted investment - KDHE loan reserve	<u>370,363</u>	<u>370,363</u>
Total other assets	<u>402,360</u>	<u>404,675</u>
Total assets	<u>\$ 6,928,295</u>	<u>6,745,024</u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 133,568	154,184
Accounts payable	7,081	5,500
Accrued interest payable	<u>39,150</u>	<u>41,309</u>
Total current liabilities	179,799	200,993
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	<u>2,887,900</u>	<u>2,796,468</u>
Total liabilities	<u>3,067,699</u>	<u>2,997,461</u>
<b>NET POSITION, Page 4</b>		
Net Investment in capital assets	2,235,386	1,963,312
Restricted	483,713	500,380
Unrestricted	<u>1,141,497</u>	<u>1,283,871</u>
Total net position	<u>3,860,596</u>	<u>3,747,563</u>
Total liabilities and net position	<u>\$ 6,928,295</u>	<u>6,745,024</u>

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>		
Water sales	\$ 711,787	701,451
Miscellaneous income	<u>27,210</u>	<u>29,391</u>
Total operating revenues	<u>738,997</u>	<u>730,842</u>
<b>EXPENSES</b>		
Cost of water purchased	2,085	2,517
Office supplies and expenses	13,312	13,646
Professional fees	7,632	5,911
Salaries	160,413	157,245
Payroll taxes and benefits	20,097	18,715
Utilities	39,766	38,098
Depreciation	244,134	246,208
Dues and fees	2,648	2,061
Insurance	17,328	17,553
Repairs and maintenance	23,559	14,803
Vehicle and mileage	16,465	15,000
Other expenses	<u>8,465</u>	<u>6,712</u>
Total operating expenses	<u>555,904</u>	<u>538,469</u>
Operating income	<u>183,093</u>	<u>192,373</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	3,519	3,962
Interest expense	(99,264)	(101,307)
Amortization of bond issuance costs	<u>(2,315)</u>	<u>(4,830)</u>
Total nonoperating revenues (expenses)	<u>(98,060)</u>	<u>(102,175)</u>
Income before other revenues	85,033	90,198
<b>OTHER REVENUES</b>		
Benefit unit sales	<u>28,000</u>	<u>36,000</u>
Changes in net position	113,033	126,198
NET POSITION, beginning of year	<u>3,747,563</u>	<u>3,621,365</u>
NET POSITION, end of year	<u>\$3,860,596</u>	<u>3,747,563</u>

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from water sales	\$ 706,979	692,878
Other cash received	<u>29,361</u>	<u>45,319</u>
	<u>736,340</u>	<u>738,197</u>
Cash paid for:		
Water purchases	(2,091)	(2,523)
Salaries and payroll taxes	(180,547)	(175,963)
Other expenses	<u>(128,430)</u>	<u>(118,889)</u>
	<u>(311,068)</u>	<u>(297,375)</u>
Net cash provided by operating activities	<u>425,272</u>	<u>440,822</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(2,202)	(2,627)
Interest income received	3,540	4,064
Purchase of capital assets	<u>(586,074)</u>	<u>(64,316)</u>
Net cash used in investing activities	<u>(584,736)</u>	<u>(62,879)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt payments		
Principal paid	(229,184)	(236,039)
Interest paid	(101,423)	(105,815)
Proceeds from long-term debt	300,000	-
Benefit unit sales	<u>28,000</u>	<u>36,000</u>
Net cash used in financing activities	<u>(2,607)</u>	<u>(305,854)</u>
Net increase (decrease) in cash and cash equivalents	(162,071)	72,089
CASH AND CASH EQUIVALENTS, beginning of year	<u>761,261</u>	<u>689,172</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 599,190</u>	<u>761,261</u>

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income, Page 4	\$ 183,093	192,373
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation	244,134	246,208
Increase in receivables - customers	(4,808)	(8,573)
Decrease in receivables - other	2,151	15,928
(Increase) decrease in inventory	382	(2,663)
Increase in prepaid expenses	(311)	(383)
Increase (decrease) in accounts payable	<u>631</u>	<u>(2,068)</u>
Net cash provided by operating activities	<u>\$ 425,272</u>	<u>440,822</u>
<b>NONCASH ACTIVITY</b>		
Amortization of bond issuance costs	<u>\$ 2,315</u>	<u>4,830</u>
Capital asset addition included in accounts payable	<u>\$ 950</u>	<u>-</u>
Loan reserve applied against long-term debt	<u>\$ -</u>	<u>53,968</u>



Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Harvey County, Kansas was incorporated and organized on March 24, 1975, by order of the Board of County Commissioners, Harvey County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Harvey and Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over an estimated useful life of six to twenty-five years.

At December 31, 2014 and 2013, capital assets consist of the following:

	<u>2014</u>	<u>2013</u>
Capital assets not being depreciated		
Land	<u>\$ 571,164</u>	<u>7,422</u>
Capital assets being depreciated		
Water system and line	\$7,927,195	7,919,665
Buildings and improvements	167,871	167,871
Equipment and furnishings	118,131	115,220
Vehicles	<u>65,640</u>	<u>66,918</u>
	8,278,837	8,269,674
Less accumulated depreciation	<u>3,593,147</u>	<u>3,363,132</u>
	<u>\$4,685,690</u>	<u>4,906,542</u>

Amortization

Issuance costs of water revenue bonds are amortized under the interest method over the repayment terms of the bonds.

Inventory

Inventory, consisting of meters, pipes and fittings, is stated at lower of cost or market on the first-in, first-out basis.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2014 and 2013, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND DEPOSITS

At December 31, 2014, the bank balance of the District's deposits, including certificates of deposit, was \$1,184,600. Of this balance \$403,827 was covered by FDIC insurance and \$780,773 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Certificates of Deposit

Certificates of deposit at several local banks consisted of the following at December 31:

<u>Date of Deposit</u>	<u>Maturity Date</u>	2014		2013 <u>Amount</u>
		<u>Interest Rate</u>	<u>Amount</u>	
04/09/10	04/09/15	0.35	\$ 177,344	176,681
05/05/06	05/05/15	0.40	56,341	56,117
08/03/06	08/03/15	0.35	66,359	66,127
10/21/08	10/21/15	0.35	125,076	124,639
12/06/07	12/06/15	0.35	59,564	59,355
07/24/08	01/24/16	0.45	97,485	97,048
			<u>\$ 582,169</u>	<u>579,967</u>

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

3. RESTRICTED INVESTMENT - KDHE LOAN RESERVE

The loan agreement with the Kansas Department of Health and Environment (KDHE) requires ten percent of the loan proceeds to be held in a loan reserve account with the Kansas Development Finance Authority. Monies held in the loan reserve account are invested as a separate fund by the Kansas Development Finance Authority with earnings being credited to the District.

4. LONG-TERM DEBT

The following is an analysis of long-term debt at December 31:

	<u>2014</u>	<u>2013</u>
Walton State Bank - due in annual installments of \$75,000 principal plus interest payment at a fixed rate of 2.35%. Secured by certificates of deposit, due December 3, 2017.	\$ 225,000	-
Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$76,021 at a fixed rate of 3.36% including service fee. Payments increase to \$151,177 starting Feb. 2019. Due August 1, 2028.	<u>2,796,468</u>	<u>2,950,652</u>
	3,021,468	2,950,652
Less current portion	<u>133,568</u>	<u>154,184</u>
Long-term portion	<u>\$2,887,900</u>	<u>2,796,468</u>

Scheduled maturities of long-term debt:

2015	\$ 133,568
2016	135,552
2017	137,604
2018	64,725
2019	218,493
Thereafter	<u>2,331,526</u>
	<u>\$ 3,021,468</u>

Net revenues of the District have been pledged as security for the Kansas Department of Health and Environment debt, and the District is required to have net revenues, as defined in the debt agreement, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2014.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

5. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 2008. Basically, all employees are eligible to participate. The District matches employee contributions to the plan up to three percent of compensation. The District's contributions were \$3,907 and \$4,527 for the years ended December 31, 2014 and 2013, respectively.

6. NET POSITION – RESTRICTED

	<u>2014</u>	<u>2013</u>
<u>Principal and Interest Account</u>		
Under the terms of the debt agreements, the District is required to add to a reserve account each month an amount necessary to meet, on the next payment date, all interest and principal of the District's Kansas Department of Health and Environment long-term debt on that date.	\$ 63,350	105,017
<u>Bond Reserve Account</u>		
Kansas Department of Health and Environment requires a 10% reserve account.	370,363	370,363
<u>Maintenance Reserve</u>		
The Board of Directors periodically designates an amount for future maintenance costs	<u>50,000</u>	<u>25,000</u>
Total restricted net position	<u>\$ 483,713</u>	<u>500,380</u>

7. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2014, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 9, 2015, which is the date at which the financial statements were available to be issued.