

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**Financial Statements for the
Years Ended December 31, 2014 and 2013
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 1
Morris County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 1 of Morris County, Kansas (the "District") as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 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. 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 district'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 organization'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 District as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 2 through 4 is 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.



January 30, 2015

Rural Water District No. 1

Morris County, Kansas

Management Discussion and Analysis

FOR YEAR ENDING DECEMBER 31, 2014

This section of the Rural Water District No. 1, Morris County, Kansas annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2014. This information is prepared and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

Rural Water District No. 1 Financial Overview for 2014

- The District's total assets of \$7,338,116 included capital assets of \$6,436,615. During 2014 the District made \$32,922 of additions to capital assets.
- The District's total liabilities of \$4,188,750 included \$4,146,744 of long-term debt.
- The District's operating revenues for 2014 totaled \$768,943 and was approximately a 6% increase over the prior year.
- The District's costs and operating expenses increased by \$4,502 from \$625,138 in 2013 to \$629,640 in 2014. The increase was related to an increase in utility expense and repairs and contract labor expense.
- During 2014 the District received \$30,500 from the sale of new benefit units.
- In 2014, the District's net position decreased by \$51,267.

Overview of the Financial Statements

This report will include the Management Discussion and Analysis, Financial Statements for the years ended December 31, 2014 and 2013, and the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position exhibit the District's revenues and expenses for the fiscal years ended December 31, 2014 and 2013. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2014	2013	Dollar Change	Percent Change
Current and other assets	570,754	470,588	100,166	21.3%
Noncurrent assets	330,747	330,747	-	0.0%
Capital assets, net	6,436,615	6,683,482	(246,867)	-3.7%
Total Assets	7,338,116	7,484,817	(146,701)	-2.0%
Long-term debt	4,146,744	4,249,150	(102,406)	-2.4%
Other liabilities	42,006	35,034	6,972	19.9%
Total Liabilities	4,188,750	4,284,184	(95,434)	-2.2%
Net position invested in capital assets, net of	2,289,871	2,434,332	(144,461)	-5.9%
Restricted net position	330,747	330,747	-	0.0%
Unrestricted net position	528,748	435,554	93,194	21.4%
Total Net Position	3,149,366	3,200,633	(51,267)	-1.6%

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	Dollar Change	Percent Change
Operating revenues	768,943	726,568	42,375	5.8%
Non-operating revenues	4,511	4,181	330	7.9%
Total Revenues	773,454	730,749	42,705	5.8%
Depreciation expense	279,789	277,992	1,797	0.6%
Other operating expense	349,851	347,146	2,705	0.8%
Non-operating expense	225,581	192,858	32,723	17.0%
Total Expenses	855,221	817,996	37,225	4.6%
Income (loss) before capital contributions	(81,767)	(87,247)	5,480	-6.3%
Capital contributions	30,500	45,500	(15,000)	-33.0%
Changes in net position	(51,267)	(41,747)	(9,520)	22.8%
Beginning net position	3,200,633	3,242,380	(41,747)	-1.3%
Total Net Position	3,149,366	3,200,633	(51,267)	-1.6%

Economic Factors and Next Year's Budget and Rates

The Board of Directors prepares a yearly budget. In preparing the budget, the staff and the Board of Directors continue to review water rates, debt schedules and benefit unit fees annually to insure the District is operating in a positive sound financial position. The Board does anticipate a rate adjustment for the upcoming year.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 1, Morris County, Kansas.

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 325,600	\$ 229,098
Certificates of deposit	145,763	144,942
Accounts receivable	68,253	61,758
Prepays and other current assets	4,159	13,688
Inventory	26,979	21,102
Total current assets	<u>570,754</u>	<u>470,588</u>
NONCURRENT ASSETS		
Reserve account	<u>330,747</u>	<u>330,747</u>
Total noncurrent assets	<u>330,747</u>	<u>330,747</u>
CAPITAL ASSETS		
Depreciable capital assets	10,217,547	10,184,625
Less accumulated depreciation	<u>(3,780,932)</u>	<u>(3,501,143)</u>
Depreciable capital assets, net	<u>6,436,615</u>	<u>6,683,482</u>
Total capital assets, net	<u>6,436,615</u>	<u>6,683,482</u>
Total assets	<u>7,338,116</u>	<u>7,484,817</u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	35,374	91,519
Accounts payable	13,273	13,767
Accrued liabilities	28,733	21,267
Total current liabilities	<u>77,380</u>	<u>126,553</u>
LONG-TERM DEBT, less current maturities	<u>4,111,370</u>	<u>4,157,631</u>
Total liabilities	<u>4,188,750</u>	<u>4,284,184</u>
NET POSITION		
Invested in capital assets, net of related debt	2,289,871	2,434,332
Restricted	330,747	330,747
Unrestricted	528,748	435,554
Total net position	<u>\$ 3,149,366</u>	<u>\$ 3,200,633</u>

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
WATER SALES	\$ 768,943	\$ 726,568
COST AND OPERATING EXPENSES:		
Personnel costs	92,827	90,847
Depreciation	279,789	277,992
Amortization	-	548
Insurance	14,675	14,715
Utilities	67,127	57,235
Telephone	2,792	2,618
Professional fees	6,639	13,706
Office supplies	5,031	3,455
Postage	3,561	2,167
Repairs and contract labor	55,094	45,678
Rent	6,035	6,035
Mileage and truck	20,908	23,288
License and fees	1,371	1,835
Chemicals and supplies	25,546	26,592
Water purchases	38,079	50,271
Kansas water fees	9,138	7,265
Miscellaneous	1,028	891
	<u>629,640</u>	<u>625,138</u>
INCOME FROM OPERATIONS	<u>139,303</u>	<u>101,430</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,311	2,981
Interest expense	(187,240)	(192,858)
Debt issue costs	(38,341)	-
Other	1,200	1,200
	<u>(221,070)</u>	<u>(188,677)</u>
LOSS BEFORE CONTRIBUTIONS	(81,767)	(87,247)
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>30,500</u>	<u>45,500</u>
DECREASE IN NET POSITION	(51,267)	(41,747)
NET POSITION, BEGINNING OF YEAR	<u>3,200,633</u>	<u>3,242,380</u>
NET POSITION, END OF YEAR	<u>\$ 3,149,366</u>	<u>\$ 3,200,633</u>

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 766,100	\$ 730,384
Cash payments to suppliers for goods and services	<u>(342,879)</u>	<u>(357,467)</u>
Net cash provided by operating activities	<u>423,221</u>	<u>372,917</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to capital assets	(32,922)	(81,125)
Contributions - benefit units and aid-in construction	30,500	45,500
Payments on long term debt	(102,406)	(143,341)
Debt issuance costs	(38,341)	-
Interest paid	<u>(187,240)</u>	<u>(192,858)</u>
Net cash used in capital and related financing activities	<u>(330,409)</u>	<u>(371,824)</u>
NON-CAPITAL FINANCING ACTIVITIES:		
Other	<u>1,200</u>	<u>1,200</u>
INVESTING ACTIVITIES:		
Interest received	3,311	2,981
Change in certificates of deposit	<u>(821)</u>	<u>(835)</u>
Net cash provided by investing activities	<u>2,490</u>	<u>2,146</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	96,502	4,439
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>229,098</u>	<u>224,659</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 325,600</u>	<u>\$ 229,098</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 139,303	\$ 101,430
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	279,789	278,540
Changes in:		
Accounts receivable	(6,495)	6,941
Inventory	(5,877)	(3,125)
Other current assets	9,529	-
Accounts payable	(494)	(10,552)
Accrued liabilities	<u>7,466</u>	<u>(317)</u>
Net cash provided by operating activities	<u>\$ 423,221</u>	<u>\$ 372,917</u>

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

1. DESCRIPTION OF ENTITY

- a. Organization – The Rural Water District (the “District”) was established as a tax exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the district. Total meters at December 31, 2014 and 2013 were 730 and 720.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting – The District’s financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statement of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- c. Capital Assets – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.

- d. Accounts receivable – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.
- e. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.
- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.
- h. Net position – In the proprietary fund financial statements, equity is classified as net position and displayed in three components:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – Consists of net assets with constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of all other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

- i. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

3. CASH AND DEPOSITS

At December 31, 2014 and 2013, the carrying amounts of the District's deposits, including certificates of deposit, were covered by depository insurance or by collateral held by the District's agent in the District's name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2013	Additions	Disposals	2014
Depreciable capital assets:				
Water system	9,825,080	29,312		9,854,392
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	135,520	3,610		139,130
Vehicles	50,252			50,252
	10,184,625	32,922	-	10,217,547
Less accumulated depreciation	(3,501,143)	(279,789)		(3,780,932)
Total capital assets, net	6,683,482	(246,867)	-	6,436,615

	2012	Additions	Disposals	2013
Depreciable capital assets:				
Water system	9,781,778	43,302		9,825,080
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	112,346	23,174		135,520
Vehicles	48,347	23,145	(21,240)	50,252
	10,116,244	89,621	(21,240)	10,184,625
Less accumulated depreciation	(3,235,895)	(277,992)	12,744	(3,501,143)
Total capital assets, net	6,880,349	(188,371)	(8,496)	6,683,482

5. LONG-TERM DEBT

Series 2014 Revenue Bond

In March 2014 the District issued Series 2014 Revenue Bonds in the amount of \$1,800,000 to refinance existing debt. The average net interest rate of the bond issue is 3.37% with a final bond maturity scheduled for September 1, 2033. The bond issue funded refinancing of existing debt only. There were no additional asset purchases associated with this bond issue.

Details of revenue bonds and other long-term debt outstanding at December 31, 2014 and 2013 are as follows:

	2014	2013
KRWFA, Revenue Bonds, Series 2014, due in annual installments of \$85,000 to \$140,000, including interest at 3.37% through maturity in 2033.	\$ 1,800,000	\$ -
Note payable, USDA, Rural Development, due in monthly installments of \$1,453, including interest of 4.125%, through maturity in 2045 (A).	301,933	306,805
Note payable, USDA, Rural Development, due in monthly installments of \$2,034, including interest of 4.125%, through maturity in 2045 (A).	422,729	429,547
Note payable, USDA, Rural Development, due in monthly installments of \$11,639, including interest of 5.125%, through maturity in 2033.	-	1,706,628
Note payable, Rural USDA, Rural Development, due in monthly installments of \$1,001, including interest of 5.00%, through maturity in 2038.	-	161,778
Note payable, Rural USDA, Rural Development, due in monthly installments of \$4,282, including interest of 4.125%, through maturity in 2049.	939,475	951,829
Note payable, Rural USDA, Rural Development, due in monthly installments of \$2,908, including interest of 3.625%, through maturity in 2049.	<u>682,607</u>	<u>692,563</u>
	4,146,744	4,249,150
Less current portion	<u>35,374</u>	<u>91,519</u>
	<u>\$ 4,111,370</u>	<u>\$ 4,157,631</u>

(A) The District is required to establish and fund, a reserve account with a balance of at least one average annual loan installment. The balance in the reserve account totaled \$330,747 as of December 31, 2014 and 2013. The loans are also secured by the District's revenues and substantially all of its assets.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 110%.

Interest expense on long-term debt totaled \$187,240 and \$192,858 for the years ended December 31, 2014 and 2013, respectively.

Changes in long-term debt were as follows:

	2013	Additions	Retirements	2014	Due in One Year
Long-term debt	\$ 4,249,150	1,800,000	1,902,406	\$ 4,146,744	\$ 35,374

Maturities of long-term debt for years subsequent to December 31, 2014 are as follows:

	Principal	Interest	Total
2015	\$ 35,374	\$ 148,692	\$ 184,066
2016	36,808	151,976	188,784
2017	123,300	235,484	358,784
2018	124,852	231,067	355,919
2019	131,468	231,587	363,055
2020-2024	733,973	1,133,448	1,867,421
2025-2029	875,452	1,081,818	1,957,270
2030-2034	798,301	776,019	1,574,320
2035-2039	425,041	215,579	640,620
2040-2044	518,751	121,869	640,620
2045-2049	343,424	27,523	370,947
	\$ 4,146,744	\$ 4,355,062	\$ 8,501,806

Debt Service Coverage Calculation:

Income from operations	\$ 139,303
Add:	
Depreciation and amortization	279,789
Interest income	3,311
Income available for debt service	\$ 422,403
Debt service	
Interest expense	\$ 187,240
Principal payments	35,374
	\$ 222,614
Debt service coverage ratio	1.90

7. GASB – PENDING NEW STANDARDS

As of December 31, 2014, GASB has issued several statements that are not yet effective for the District and have not yet been implemented. These include:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for fiscal years beginning after June 15, 2014.

8. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the years ended December 31, 2014 and 2013.

9. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Morris and surrounding counties. The District grants credit to those customers and requires no collateral.

* * * * *