

RURAL WATER DISTRICT NO. 1

SEDGWICK COUNTY, KANSAS

Independent Auditor's Report

December 31, 2014

Rural Water District No. 1  
Sedgwick County, Kansas

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# Knudsen Monroe Company LLC

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Rural Water District No. 1, Sedgwick 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 Water 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 Water District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial 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 Water District, 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 Supplementary 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 omitted 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 omitted information.

*Krudsen, Monroe & Company, LLC*

Certified Public Accountants  
Newton, Kansas  
February 23, 2015

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 240,688	113,135
Investments	1,056,873	1,050,506
Accounts receivable	27,962	30,976
Prepaid insurance	<u>192</u>	<u>186</u>
Total current assets	1,325,715	1,194,803
CAPITAL ASSETS, net of accumulated depreciation	<u>714,154</u>	<u>737,412</u>
Total assets	<u>\$ 2,039,869</u>	<u>1,932,215</u>
 <u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 41,269	38,209
Accounts payable	576	1,761
Other accrued expenses	<u>3,309</u>	<u>3,898</u>
Total current liabilities	45,154	43,868
LONG-TERM DEBT, net of current portion	<u>18,969</u>	<u>60,332</u>
Total liabilities	<u>64,123</u>	<u>104,200</u>
 NET POSITION, Page 4		
Net investment in capital assets	653,916	638,871
Unrestricted	<u>1,321,830</u>	<u>1,189,144</u>
Total net position	<u>1,975,746</u>	<u>1,828,015</u>
Total liabilities and net position	<u>\$ 2,039,869</u>	<u>1,932,215</u>

Rural Water District No. 1, Sedgwick 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	\$ 229,381	213,715
Other	<u>400</u>	<u>300</u>
Total operating revenues	<u>229,781</u>	<u>214,015</u>
<b>EXPENSES</b>		
Water purchases	76,138	67,558
Personnel	38,392	38,569
Utilities	1,225	510
Office supplies	4,289	5,283
Water protection fee	1,555	1,603
Insurance	4,332	3,851
Repairs	36,038	29,935
Mileage	3,909	3,617
Professional fees	24,802	20,892
Depreciation	44,855	44,288
Other	<u>296</u>	<u>346</u>
Total operating expenses	<u>235,831</u>	<u>216,452</u>
Operating loss	<u>(6,050)</u>	<u>(2,437)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	6,403	6,826
Interest expense	<u>(6,192)</u>	<u>(9,159)</u>
Total nonoperating revenues (expenses)	<u>211</u>	<u>(2,333)</u>
Loss before other revenues	(5,839)	(4,770)
<b>OTHER REVENUES</b>		
Gain on property released	142,770	50,000
Benefit unit sales	<u>10,800</u>	<u>7,500</u>
	<u>153,570</u>	<u>57,500</u>
Changes in net position	147,731	52,730
NET POSITION, beginning of year	<u>1,828,015</u>	<u>1,775,285</u>
NET POSITION, end of year	<u>\$ 1,975,746</u>	<u>1,828,015</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick 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	\$ 231,203	214,027
Other cash received	<u>400</u>	<u>300</u>
	<u>231,603</u>	<u>214,327</u>
Cash paid for:		
Water purchases	(76,138)	(67,558)
Salaries and payroll taxes	(38,848)	(38,180)
Other expenses	<u>(76,578)</u>	<u>(66,563)</u>
	<u>(191,564)</u>	<u>(172,301)</u>
Net cash provided by operating activities	<u>40,039</u>	<u>42,026</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(937,593)	(582,872)
Redemption of investments	931,226	577,701
Interest income received	6,403	6,869
Purchase of property assets	<u>(21,597)</u>	<u>(23,256)</u>
Net cash used in investing activities	<u>(21,561)</u>	<u>(21,558)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Long-term debt payments		
Interest paid	(6,192)	(9,159)
Principal paid	(38,303)	(35,336)
Proceeds from property released	142,770	50,000
Benefit unit sales	<u>10,800</u>	<u>7,500</u>
Net cash provided by financing activities	<u>109,075</u>	<u>13,005</u>
Net increase in cash and cash equivalents	127,553	33,473
CASH AND CASH EQUIVALENTS, beginning of year	<u>113,135</u>	<u>79,662</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 240,688</u>	<u>113,135</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick 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 loss, Page 4	\$ (6,050)	(2,437)
Adjustments to reconcile change in operating loss to net cash provided by operating activities		
Depreciation	44,855	44,288
(Increase) decrease in receivables	3,014	(1,720)
Increase in prepaid expenses	(6)	(1)
Increase (decrease) in accounts payable and accrued expenses	<u>(1,774)</u>	<u>1,896</u>
Net cash provided by operating activities	<u>\$ 40,039</u>	<u>42,026</u>



Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Sedgwick County, Kansas was incorporated and organized on January 12, 1967, by order of the Board of County Commissioners, Sedgwick County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Sedgwick County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the Water 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 over 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 seven to forty years. At December 31, 2014 and 2013, property assets consist of the following:

	<u>2014</u>	<u>2013</u>
Capital assets being depreciated		
Water system and line	\$ 1,658,524	1,636,927
Less accumulated depreciation	<u>944,370</u>	<u>899,515</u>
	<u>\$ 714,154</u>	<u>737,412</u>

The Water District has entered into an agreement with the City of Wichita to build a chlorine booster pump station. The Water District is responsible for one-half of the total cost of the station, which is unknown at this time.

Statement of Cash Flows

For purposes of the statement of cash flows, the Water 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.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The Water District reports accounts receivable for water used at net realizable amounts. Customer accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debt based on individual credit evaluation and specific circumstances of the account.

2. CASH AND DEPOSITS

At December 31, 2014 the carrying amount of The Water District's deposits, including certificates of deposit, was \$1,297,561. The bank balance was \$1,304,401. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. At December 31, 2014, all of the bank balance was covered by FDIC insurance.

Certificates of Deposit

The Water District invests in the Certificate of Deposit Account Registry Service (CDARS), which is a private, for-profit service that breaks up large deposits and places them across a network of banks and savings associations around the United States. This allows the Water District to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank. The Water District's CDARS deposits consisted of the following at December 31:

2014				2013	
Date of Deposit	Maturity Date	Interest Rate	Amount		
8/22/2013	8/21/2014	0.40%	\$ -	234,069	
9/19/2013	9/18/2014	0.40%	-	239,045	
10/11/2012	10/9/2014	0.80%	-	145,210	
11/23/2012	11/20/2014	0.80%	-	308,508	
3/14/2013	3/12/2015	0.80%	124,667	123,674	
8/21/2014	8/20/2015	0.40%	145,792	-	
9/18/2014	9/17/2015	0.40%	309,745	-	
10/9/2014	10/8/2015	0.40%	235,732	-	
11/20/2014	11/17/2016	0.70%	240,937	-	
			\$ 1,056,873	1,050,506	

3. CONCENTRATIONS OF RISK

Major Supplier

The Water District purchases 100 percent of their water from the City of Wichita.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

4. LONG-TERM DEBT

A summary of the long term debt obligations at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Simmons First National Bank -		
due in monthly installments of \$3,708 including principal and interest at a rate of 7.73%, due June 14, 2016.	\$ 60,238	98,541
Less current portion	<u>41,269</u>	<u>38,209</u>
Long-term portion	<u>\$ 18,969</u>	<u>60,332</u>

Scheduled maturities of long-term debts:

2015	\$ 41,269
2016	<u>18,969</u>
	<u>\$ 60,238</u>

The loan is guaranteed by USDA Rural Development.

Net revenues of The Water District have been pledged as security for the debt, and the Water 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.

5. AGREEMENTS

The Water District has reached a compensation agreement with the City of Bel Aire, Kansas for loss of service areas, as land is developed within the City. The second payment in this agreement was received in December, 2014.

6. SUBSEQUENT EVENT

The Water District is currently in negotiations with the City of Kechi, Kansas regarding service to new developments within the City.

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 23, 2015, which is the date at which the financial statements were available to be issued.