

**RURAL WATER DISTRICT NO. 2
Clay County, Kansas**

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

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

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

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INDEPENDENT AUDITORS' REPORT

To: The Members and Board of Directors
Rural Water District No. 2
Clay County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 2, Clay 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 general 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. 2, Clay County, Kansas as of December 31, 2014 and 2013 and the results of its operations, the changes in its members' equity 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 black ink, appearing to read "Clubine and Rettele". The signature is written in a cursive style with a large, prominent initial 'C'.

Salina, Kansas
February 10, 2015

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit I

STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash	\$ 80,172.59	\$ 98,083.08
Accounts Receivable	16,045.28	17,854.07
Certificates of Deposit	293,454.21	292,138.36
Accrued Interest Receivable	139.69	140.67
Prepaid Insurance	8,152.13	7,562.30
	<u>397,963.90</u>	<u>415,778.48</u>
Total Current Assets		
Property and Equipment		
Water Transmission and Distribution System	2,140,228.24	2,140,228.24
Equipment	213,688.27	197,269.49
	<u>2,353,916.51</u>	<u>2,337,497.73</u>
Deduct - Accumulated Depreciation	1,346,106.81	1,301,832.05
	<u>1,007,809.70</u>	<u>1,035,665.68</u>
Total Property and Equipment		
Totals	<u>\$ 1,405,773.60</u>	<u>\$ 1,451,444.16</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable	\$ 5,468.56	\$ 3,152.10
Accrued Interest	1,640.37	2,542.27
Loans Payable	4,561.54	6,770.08
Taxes Payable	1,299.11	1,229.23
	<u>12,969.58</u>	<u>13,693.68</u>
Total Current Liabilities		
Long-term Liabilities		
Loans Payable	98,691.98	153,253.52
	<u>98,691.98</u>	<u>153,253.52</u>
Total Liabilities	111,661.56	166,947.20
Members' Equity - Exhibit III	1,294,112.04	1,284,496.96
Totals	<u>\$ 1,405,773.60</u>	<u>\$ 1,451,444.16</u>

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

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit II

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2014 and 2013

	2014	2013
Income		
Water Sales	\$ 210,919.28	\$ 213,071.46
Installation	10,015.12	7,207.03
Other Income	2,203.86	4,016.65
Total Income	223,138.26	224,295.14
Expenses		
Salaries	58,044.00	50,400.00
Interest Expense	5,171.23	6,524.39
Utilities	18,282.48	17,202.48
Repairs and Maintenance	23,811.07	28,444.58
Chemicals	8,914.64	8,828.05
Telephone	1,427.81	1,433.05
Payroll Taxes	4,498.21	3,854.45
Insurance	8,767.17	8,164.23
Office Supplies	1,072.82	2,898.62
Other Professional Fees	4,695.34	6,823.77
Depreciation	44,274.76	45,690.23
Machine hire	4,647.00	4,799.00
Miscellaneous	4,428.20	3,465.55
Mileage	26,064.93	17,262.55
Contract Labor	11,561.80	12,016.25
Total Expenses	225,661.46	217,807.20
Net Income (Loss) From Operations	(2,523.20)	6,487.94
Other Income		
Interest Income	1,638.28	3,613.43
Net Income (Loss)	\$ (884.92)	\$ 10,101.37

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

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit III

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ 1,284,496.96	\$ 1,270,895.59
Add - Sale of Benefit Units	10,500.00	3,500.00
Add - Net Income (Loss) - Exhibit II	<u>(884.92)</u>	<u>10,101.37</u>
Balance, End of Year	<u>\$ 1,294,112.04</u>	<u>\$ 1,284,496.96</u>

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

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

Exhibit IV

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

	2014	2013
Cash Flows From Operating Activities		
Cash received from customers	\$ 224,947.05	\$ 225,426.98
Interest received	1,639.26	4,018.77
Cash paid to suppliers and others	(174,418.96)	(164,947.34)
Interest Paid	(6,073.13)	(7,468.05)
Net Cash Provided by Operating Activities	46,094.22	57,030.36
Cash Flows From Investing Activities		
Purchase of equipment	(16,418.78)	-
Sale of benefit units	10,500.00	3,500.00
Net Cash Provided (Used) by Investing Activities	(5,918.78)	3,500.00
Cash Flows From Financing Activities		
Payments to retire note	(56,770.08)	(59,398.64)
Net Cash Used by Financing Activities	(56,770.08)	(59,398.64)
Net Increase (Decrease) in Cash	(16,594.64)	1,131.72
Cash at Beginning of Year	390,221.44	389,089.72
Cash at End of Year	\$ 373,626.80	\$ 390,221.44

RECONCILIATION OF NET INCOME (LOSS)
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Income (Loss) - Exhibit II	\$ (884.92)	\$ 10,101.37
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	44,274.76	45,690.23
Decrease in accounts receivable	1,808.79	1,131.84
Decrease in interest receivable	0.98	405.34
Increase in prepaid insurance	(589.83)	(515.77)
Decrease in accrued interest	(901.90)	(943.66)
Increase (Decrease) in taxes payable	69.88	(47.01)
Increase in accounts payable	2,316.46	1,208.02
Total Adjustments	46,979.14	46,928.99
Net Cash Provided by Operating Activities	\$ 46,094.22	\$ 57,030.36

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

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

1. Rural Water District No. 2, Clay 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 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 of assets in the water transmission and distribution system range from five to fifty years. The estimated useful lives of equipment range from five to twenty five years.
- C. Cash in checking, money market, and certificates of deposits 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
Operating	\$ 11,285.87	\$ 4,747.84
Money Market	68,886.72	93,335.24
Total Operating	80,172.59	98,083.08
Certificates of Deposit	293,454.21	292,138.36
Totals	\$ 373,626.80	\$ 390,221.44

- D. The District is exempt from federal and state income taxes.
- E. Accounts Receivable is reported at net realizable value. Bad debts are directly written to expense when management considers them uncollectible. No allowance for bad debts has been recorded. The direct write-off method is not acceptable for the purposes of generally accepted accounting principles. This departure does not result in a material misstatement of the financial statements.
- F. The District has a vacation policy that only applies to the Operator. In this policy, the Operator is allowed two weeks of paid vacation based on a rate of 25 hours per week. There was no unused vacation. The District does not have a sick leave policy.
- G. Effective January 1, 2013, the District implemented the provisions of GASB No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. Implementation of this statement required decreasing the previously reported amount of Members' Equity. The beginning balance at January 1, 2013 was reduced by \$49,254.16. This amount represents the items previously reported as "Other Assets". This restatement was necessary to reflect the change in accounting policy of recognizing bond issue and related cost in the year of issuance.
- H. 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 liabilities and disclosure of contingent 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 these estimates.

2. The Certificates of Deposit at December 31, 2014, consist of the following:

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701324948	0.55%	\$ 71,660.73
United Bank and Trust	1701326242	0.35%	54,126.44
Union State Bank	0068768	0.45%	50,832.28
Clay County National Bank	22688424	0.41%	40,690.24
Clay County National Bank	22688425	0.41%	76,144.32
Total			\$293,454.01

RURAL WATER DISTRICT NO. 2
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2013 AND 2012

2. (Cont.)

The Certificates of Deposit at December 31, 2013, consist of the following:

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701324948	0.55%	\$ 71,267.94
United Bank and Trust	1701325182	0.40%	53,909.49
Union State Bank	0068768	0.45%	50,604.17
Clay County National Bank	22688424	0.41%	40,523.83
Clay County National Bank	22688425	0.41%	75,832.93
Total			<u>\$292,138.36</u>

3. At year-end, the carrying amount and bank balance of the Clay County Rural Water District No. 2 deposits, including certificates of deposit, was \$373,626.60, and the bank balance, held by three banks, was \$375,912.90. The bank balances were fully insured by FDIC coverage as of December 31, 2014 and 2013.
4. The District's management has evaluated events and transactions occurring after the statement of financial position date through February 10, 2015. The aforementioned date represents the date the financial statements were available to be issued.

CLAY COUNTY RURAL WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS (Cont.)

December 31, 2014

Note 5 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. 2530	3.44%/35%	10/8/2008	\$ 256,013.16	8/1/2029	\$ 160,023.60	\$ -	\$ 56,770.08	\$ -	\$ 103,253.52	\$ 6,693.58

Changes in long-term liabilities for the municipality for the fiscal year ended December 31, 2013, 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
φ Long-Term Debt: KPWSLF PROJ. NO. 2530	3.44%/35%	10/8/2008	\$ 256,013.16	8/1/2029	\$ 219,422.24	\$ -	\$ 59,398.64	\$ -	\$ 160,023.60	\$ 7,468.05

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							Total
	2015	2016	2017	2018	2019	2020-2024	2025-2029	
Principal: KPWSLF PROJ. NO. 2530	\$ 4,561.54	\$ 5,460.14	\$ 5,669.04	\$ 5,885.94	\$ 6,111.13	\$ 34,246.82	\$ 41,318.91	\$ 103,253.52
Interest: KPWSLF PROJ. NO. 2530	4,164.11	3,348.49	3,158.88	2,962.02	2,757.62	10,437.79	4,018.77	30,847.68
Service Fee: KPWSLF PROJ. NO. 2530	423.67	340.69	321.40	301.36	280.57	1,061.99	408.92	3,138.60
Total Principal and Interest	\$ 9,149.32	\$ 9,149.32	\$ 9,149.32	\$ 9,149.32	\$ 9,149.32	\$ 45,746.60	\$ 45,746.60	\$ 137,239.80