

**RURAL WATER DISTRICT NO. 3**

**ACCOUNTANT'S AUDIT REPORT**

For the Twelve Months Ended  
November 30, 2014

Prepared By

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Certified Public Accountant  
Winfield, Kansas

**RURAL WATER DISTRICT NO. 3**  
**Annual Financial Report**  
Year Ended November 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
RWD #3  
Cowley County Kansas

I have audited the accompanying financial statements of Rural Water District No. 3 Cowley County, Kansas as of and for the years ended November 30, 2014 and 2013 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 State 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *the Kansas Municipal Audit Guide*. Those standards require that I 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 risks 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 expressing of 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects the net position of Rural Water District No. 3 as of November 30, 2014 and November 30, 2013, and the respective net changes in net position and, where applicable, cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

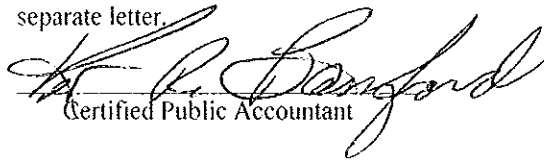
### Other Matters

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, it is considered 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, 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.

**Other Information**

I noted certain matters of importance that I have reported to the management of Rural Water District No. 3 in a separate letter.

  
Certified Public Accountant

Wellington, KS  
February 16, 2015

RURAL WATER DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended November 30, 2014 & 2013

Operations for the year ended November 30, 2014 increased due to rate increase. Total sales were \$297,864 compared to \$271,120 in the previous year. Interest income continues to decline because of historically low interest rates.

Total fixed assets increased by \$1,699. The total increase was accomplished by two factors. Property, plant, equipment acquisitions totaled \$71,219. Depreciation expense reduced total property by \$69,520.

Other current assets increased by \$49,359. The accounts that effected these changes were accounts receivable, prepaid insurance, and inventory. Changes in cash and certificate balances accounted for the other changes in current assets.

There was a net increase in cash and cash equivalents of \$39,962. The statement of cash flows should be reviewed to determine the details of this increase.

In summary, the District showed a net operating gain of \$42,124. Total operating expenses were similar to 2013. As for as non-operating revenues, there was little variation from 2013, the only difference coming from the sale of a vehicle for \$4,500. RWD #3 showed an overall income of \$42,124 compared to the \$971 overall income for 2013. The District showed a significant increase in net income which is partially attributable to the rate increase in effect for 2014. The \$26,744 increase in total revenues and reduction in operating expenses of \$9,723 is what contributed to the \$41,153 increase in net income.

**RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
November 2014 and 2013

Assets	2014 November 30	2013 November 30
<b>Current Assets</b>		
Cash in Bank - General	\$ 40,945	\$ 33,713
Cash in Bank - Certificate of Deposit/Savings	645,204	612,474
Accounts Receivable - Customers (Note 1)	27,382	19,312
Prepaid Expenses	7,640	6,908
Inventory	35,098	34,503
Total Current Assets	\$ 756,269	\$ 706,910
PROPERTY, PLANT AND EQUIPMENT	607,587	605,888
	\$ 1,363,856	\$ 1,312,798
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 4,667	\$ 4,897
Accrued Payroll and Payroll Taxes	1,864	1,697
Other Current Liabilities	735	1,218
Total Current Liabilities	\$ 7,266	\$ 7,812
 <b>NET POSITION</b>		
Restricted Net Assets	\$ -	\$ -
Investment in Capital Assets	607,587	605,888
Unrestricted Net Assets	749,003	699,098
Total Net Position	\$ 1,356,590	\$ 1,304,986

See accompanying notes and accountant's report

**RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF REVENUES AND EXPENSES**  
November 2014 and 2013

	2014 November 30	2013 November 30
WATER SALES	\$ 297,864	\$ 271,120
<b>COSTS AND OPERATING EXPENSES</b>		
Salaries - Field	\$ 30,276	\$ 29,540
Salaries - Office	34,359	32,810
Payroll Taxes	5,119	4,990
Retirement Contribution	6,170	4,090
Health Insurance/Medical	4,738	4,995
Electricity	31,368	32,199
Contract Labor	17,401	20,260
Natural Gas	1,210	953
Telephone	3,657	3,926
Repairs-Machinery	1,246	198
Repairs-Water System	14,923	27,090
Insurance	14,078	12,081
Accounting and auditing	4,694	2,965
Chemicals	4,381	6,256
Field Expenses	1,583	3,119
Mileage	1,776	1,538
Vehicle Expense	8,445	9,538
Water Protection Fees	3,446	4,005
Water Testing	600	403
Office Expense	9,976	8,575
Other Service	2,562	2,954
Depreciation Expense	69,520	67,583
Memberships and Dues	828	797
Other Expenses	1,524	2,738
Total Operating Expense	\$ 273,880	\$ 283,603
Net Income (Loss) from Operations	\$ 23,984	\$ (12,483)
<b>NONOPERATING REVENUES:</b>		
Penalties	\$ 6,629	\$ 6,614
Interest Income	2,782	3,835
Other Income	4,229	3,005
Gain On Sale of Assets	4,500	-
	\$ 18,140	\$ 13,454
Net Income (Loss)	\$ 42,124	\$ 971

See accompanying notes and accountant's report.

**RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF CHANGES IN NET POSITION**  
For the Year Ended November 30, 2014 and 2013

	<u>Restricted Net Assets</u>	<u>Invested In Capital Assets, Net of Debt</u>	<u>Unrestricted Net Assets</u>	<u>Net Assets</u>
BALANCE, November 30, 2012	\$ -	\$ 605,888	\$ 692,127	\$ 1,298,015
Benefit Units	-	-	6000	6,000
Net Income			<u>971</u>	<u>971</u>
BALANCE, November 30, 2013	\$ -	\$ 605,888	\$ 699,098	\$ 1,304,986
Other Changes			(502)	(502)
Net Benefit Units	-		9,982	9,982
Net Changes		1,699	(1,699)	
Net Income			<u>42,124</u>	<u>42,124</u>
BALANCE November 30, 2014	<u>\$ -</u>	<u>\$ 607,587</u>	<u>\$ 749,003</u>	<u>\$ 1,356,590</u>

See Accompanying notes and Accountant's report



**RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended November 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>	<b>November 30</b>	<b>November 30</b>
Operating (Loss) Income	\$ 42,124	\$ 971
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	69,520	67,583
Changes in:		
Accounts Receivable	(8,070)	3,749
Prepaid Expenses	(732)	(672)
Inventory	(595)	536
Accounts Payable and Accrued Liabilities	<u>(546)</u>	<u>(2,094)</u>
	<u>\$ 101,701</u>	<u>\$ 70,073</u>
 <b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Cash from sale of benefits units and line extensions	<u>\$ 9,982</u>	<u>\$ 6,000</u>
Net cash used by capital and related financing activities	<u>\$ 9,982</u>	<u>\$ 6,000</u>
 <b>INVESTING ACTIVITIES:</b>		
Equipment Purchases	\$ 71,721	\$ 99,623
Prior Period Adjustment		<u>\$ 826</u>
Net cash provided (used) by investing activities	<u>\$ 71,721</u>	<u>\$ 100,449</u>
 <b>NET CHANGE IN CASH AND EQUIVALENTS</b>	 \$ 39,962	 \$ (24,376)
 <b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	 <u>646,187</u>	 <u>670,563</u>
 <b>CASH AND EQUIVALENTS, END OF THE YEAR</b>	 <u>\$ 686,149</u>	 <u>\$ 646,187</u>
Interest paid in cash	<u>\$ -</u>	<u>\$ -</u>
Taxes paid in cash	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and accountant's report.

**RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
NOVEMBER 30, 2014 AND 2013

**1. Summary of Significant Accounting Policies**

**Organization**

The Rural Water District (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.

**Cash Equivalents**

For purposes of the statement of cash flows the District considers all highly liquid investments having original maturities of six months or less to be cash equivalents.

**Accounts Receivable**

The District requires its members to read their own meters on the first day of each month or the earliest date thereafter. Payments for water service are due the 10th day of the month or will be subject to a late charge of 10 %. Failure to pay for water service by the first day of the month following the month in which the water service was provided shall result in discontinuance of service.

**Inventories**

Inventories consist primarily of meters, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

**Property, Plant and Equipment**

Property, Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

**Benefit Units**

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$1,200 and are included in members' equity.

**Income Taxes**

The District is a quasi-governmental unit, not subject to federal and state income taxes.

**Bank Deposit**

At November 30, 2014 and 2013, the District's deposits (bank account and certificate of deposit) were covered by federal depository insurance and by collateral held by the District's agent in the District's name.

**Uncompensated Absences**

Uncompensated absences cannot be reasonably estimated.

**RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
November 30, 2014 and 2013

**2. Property, Plant and Equipment**

	<u>2014</u>	<u>2013</u>
Land	\$ 2,000	\$ 2,000
Machinery and equipment	219,807	219,807
Plant	253,602	253,602
Water utility system	1,678,671	1,654,448
Office building	49,610	49,610
Office equipment	19,289	19,289
Pump house	149,465	149,465
Vehicle	32,633	46,755
Water tower	90,444	90,444
Easement	45,808	5,808
	<u>\$ 2,541,329</u>	<u>\$ 2,491,228</u>
Less accumulated depreciation	<u>1,933,742</u>	<u>1,885,340</u>
	<u>\$ 607,587</u>	<u>\$ 605,888</u>

**3. Concentration of Credit Risk**

The District is engaged in the sale of water to customers located in Cowley County, Kansas. The District grants credit to those customers and requires no collateral.

**4. Pension Plan**

The District's full-time employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The payroll for employees covered by the System for 2014 and 2013 was \$64,106 and \$62,350 respectively; the District's total payroll for 2014 and 2013 was \$64,106 and \$62,350 respectively. Financial reports are prepared by KPERs and may be obtained from the Kansas Public employees Retirement System website.

The District's full-time employees participate in the Kansas Public Employees Retirement System. Covered employees are required by state statute to contribute 5 to 6% of their salary to the System. The District is required by statute to contribute the remaining amounts, using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the years ended November 30, 2014 and 2013 were \$9,649 and \$6,276, which consisted of \$3,473 and \$2,186 from employees and \$6,176 and \$4,090 from the District.

**RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
November 30, 2014 and 2013

**5. 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 year ended November 30, 2014 and 2013.

**6. Insurance**

RWD #3 has insured itself against potential risks by purchasing insurance policies to cover potential losses. RWD #3 has purchased eight separate coverages which include property liability, employee bonds, machine and equipment, automobile, workers compensation, umbrella liability, and linebacker public officials and employment practices coverage. The total annual premium for the policy is \$14,785. The policy includes coverage from June 12, 2014, through June 11, 2015.

**7. Phase II Development**

RWD #3 has a plan for system improvements which are estimated to cost \$1,764,400. The District will use some of its cash and a loan to finance the project. This is a long range project and could take several years to complete. The District has executed a loan agreement dated July 21, 2014 with the Kansas Department of Health and Environment for \$1,995,944. The loan proceeds will cover the cost of the project as well as applicable loan fees. The loan is payable over 20 years at 2.6 % interest with annual loan payments of \$64,308. As of the balance sheet date, none of the loan proceeds had been received.

**8. Subsequent Events**

Subsequent event have been evaluated through February 16, 2015.

**9. Affordable care act**

The District has changed its health insurance and medical reimbursement programs to comply with the Affordable Care Act. The District no longer offers health insurance or a medical reimbursement plan for its employees. It does offer a taxable insurance supplement which is not required to be used for health insurance.