

**RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS
AUDIT REPORT DECEMBER 31, 2014**

**KICKHAEFER & ASSOCIATE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
MARYSVILLE, KANSAS 66508**

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	<u>ITEM</u>	<u>PAGE NUMBER</u>
Independent Auditors' Report		1-2
FINANCIAL INFORMATION		
Statement 1	Summary Statement of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash	3
Notes to the Financial Statement		4-8
REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION		
Schedule 1	Schedule of Regulatory Basis Receipts and Expenditures	9-10

KICKHAEFER & ASSOCIATE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Kenneth L. Kickhaefer, CPA

PO BOX 269, 1100 BROADWAY
MARYSVILLE, KS 66508-0269

(785) 562-2100
FAX (785) 562-2166

INDEPENDENT AUDITORS' REPORT

Member and Board of Directors
Rural Water District No. 3, Marshall County, Kansas
Beattie, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 3, Beattie, Kansas (District), as of and for the year ended December 31, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of

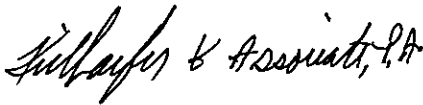
America, the financial position of the District as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2014, and the aggregate receipts and expenditures for the year ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures (Schedule 1) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.



Kickhaefer & Associate, P.A.
Marysville, Kansas
February 11, 2015

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

FINANCIAL INFORMATION

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Statement 1

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2014

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:							
Enterprise Fund	\$ 512,984	\$ 0	\$ 441,272	\$ 649,987	\$ 304,269	\$ 0	\$ 304,269
Capital Project Funds:							
Capital Project	6,234	0	240,843	216,457	30,620	0	30,620
Total Reporting Entity	<u>\$ 519,218</u>	<u>\$ 0</u>	<u>\$ 682,115</u>	<u>\$ 866,444</u>	<u>\$ 334,888</u>	<u>\$ 0</u>	<u>\$ 334,888</u>

Composition of Cash:

United Bank & Trust - Checking	\$ 17,879
United Bank & Trust - Certificates of Deposit	88,633
Citizens State Bank - Certificates of Deposit	198,031
Petty Cash	26
KDHE Reserve Account	<u>30,319</u>
Total Cash	<u>\$ 334,888</u>

The Notes to the Financial Statement are an integral part of this Statement.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Notes to the Financial Statement
December 31, 2014

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Rural Water District No. 3, Marshall County, Kansas (the District) is a quasi-municipal corporation governed by an elected seven-member board of directors organized to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located with the District.

The financial statement of the District consists of all the funds of the District and related municipal entities that are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The District has no related municipal entities at this time.

B. Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following category of funds comprises the financial activities of the District for the year ended December 31, 2014:

Business Fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

C. Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

D. Income Taxes

The District is recognized by the Internal Revenue Service as a quasi-municipal corporation, under K.S.A. 88a-616, and is exempt from Federal and state income taxes. Accordingly, this financial statement does not include a provision for income taxes.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Notes to the Financial Statement
December 31, 2014

1. Summary of Significant Accounting Policies (cont.)

E. Use of Estimates

Estimates and assumptions are used by management in preparing the financial statement and accompanying notes. The actual results may differ significantly from such estimates and assumptions.

F. Reimbursed Expenses

The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement.

G. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

H. Memberships

The District recognizes the cost of purchasing a benefit unit as revenue rather than an addition to District equity.

I. Cash and Cash Equivalents

The District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The cash and cash equivalents of the District are comprised of the following:

	December 31, 2014
Checking & Petty Cash accounts, United Bank & Trust	<u>\$ 17,905</u>

J. Encumbrances

The State of Kansas requires the District to recognize an outstanding commitment related to an unperformed contract for goods or services when the goods or services have not been received by the end of the fiscal year. The evidence of this type of commitment is generally in the form of an open purchase order to unexecuted contract. The District did not have any encumbrances as of December 31, 2014.

2. Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund types used by the District. The budget established by the District is for management use only. Expenditures are controlled by internal spending limits monitored by the Board.

3. Compliance With Finance-Related Legal and Contractual Provisions

A. KDHE Loan Requirements #2773

The District has agreed to fix, establish, maintain and collect such rates, fees and charges for the use and services furnished by the construction of a chlorination and pump station facility sufficient to pay the cost of the operation and maintenance of the system; pay the principal and interest on the loan as and when the payments become due; pay all existing revenue obligations; pay all other amounts due at any time under the loan

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Notes to the Financial Statement
December 31, 2014

3. Compliance With Finance-Related Legal and Contractual Provisions (cont.)

A. KDHE Loan Requirements #2773 (cont.)

agreement; maintain a debt service coverage ratio of 125%; maintain the loan reserve account at the loan reserve requirement; prepare and file an annual budget with the Secretary setting forth its estimated system revenues and operating expenses; and carry and maintain such reasonable amount of all risk insurance on all properties and all operations of the facility, including general liability insurance in amounts not less than the maximum liability of a governmental entity for claims arising out of a single occurrence, as provided by the Kansas Tort Claims Act or other similar future law. The construction was completed in the winter of 2014, with the first payment being made in August, 2014. The District is in compliance with this loan covenant.

B. Kansas Statutes

K.S.A. 60-1111 requires that a statutory bond be in place and filed with the county whenever any public official enters into a contract exceeding \$100,000 for constructing or remodeling a public building. On February 15, 2014, the District entered into an agreement with JD Construction, Inc. for \$295,558 to construct a new office / storage building. The District failed to obtain a statutory bond from the company and file it with the Marshall County Clerk of the District Court. This represents a statutory violation of K.S.A. 60-1111.

4. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has not designated any "peak periods". All deposits were legally secured at December 31, 2014.

At December 31, 2014, the District's carrying amount of deposits including certificates of deposit was \$304,569, and the bank balance was \$310,290. The bank balances were held in three banks resulting in a concentration of credit risk. Of the bank balance, \$310,290 was covered by federal depository insurance. All deposits were legally secured at December 31, 2014.

Debt reserve – At December 31, 2014, reserve accounts established with the State of Kansas had a balance of \$30,319.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Notes to the Financial Statement
December 31, 2014

4. Deposits and Investments (cont.)

had no investments (including repurchase agreements) as of December 31, 2014.

5. Capital Projects

Capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	Project Authorization	Expenditures To Date
Chlorination and Pump Station Facility	\$338,000	\$303,186
District Office / Storage Building	318,750	293,957

6. Long-term Debt

Changes in long-term liabilities for the District for the 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	Balance End of Year	Interest Paid
KDHE Loans:									
KS Public Water Supply Loan, Project No. 2773	2.25%	10/29/12	338,000.00	02/01/34	\$ 62,343	\$ 240,843	\$ 9,132	\$ 294,053	\$ 1,408
Total Contractual Indebtedness					\$ 62,342.55	\$ 240,842.80	\$ 9,132.40	\$ 294,052.95	\$ 1,407.82

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Year								
	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	Total
Principal:									
KOHE Loan, Project No. 2773	\$ 13,637	\$ 13,953	\$ 14,276	\$ 14,606	\$ 14,944	\$ 80,067	\$ 89,766	\$ 52,805	\$ 294,053
Total principal	13,637	13,953	14,276	14,606	14,944	80,067	89,766	52,805	294,053
Interest:									
KOHE Loan, Project No. 2773	7,527	7,193	6,854	6,509	6,158	25,316	15,602	4,343	79,503
Total interest	7,527	7,193	6,854	6,509	6,158	25,316	15,602	4,343	79,503
Total principal and interest	\$ 21,165	\$ 21,146	\$ 21,130	\$ 21,115	\$ 21,102	\$ 105,382	\$ 105,368	\$ 57,148	\$ 373,556

7. Litigation Contingencies

The District is not involved in any threatened or pending litigation as of December 31, 2014.

8. Defined Benefit Pension Plan

Plan Description. The District participates in the Kansas Public Employees Retirement System (KPERs). KPERs is a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. KPERs issues a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Notes to the Financial Statement
December 31, 2014

8. Defined Benefit Pension Plan (cont).

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law established the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Effective January 1, 2014 the KPERS member-employee contribution rate changed to 5% of covered salary for Tier 1 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

9. Related Parties

The District purchased locating wire through Rueger Electric for \$2,285. Rueger Electric is owned by John Rueger, the current Operations Manager of the District.

10. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

11. Subsequent Events

Management evaluated the effects on the financial statement of the subsequent events occurring through February 11, 2015 which is the date of which the financial statement was available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statement.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Schedule 1
Page 1 of 2

Enterprise Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2014

	<u>2014</u>
Cash Receipts	
Water Sales	\$ 335,273
Supplies	8,022
Interest Income	2,397
Benefit Units	14,260
Reimbursements	77,844
Miscellaneous Income	<u>3,477</u>
Total Cash Receipts	<u>441,272</u>
Expenditures	
Salaries	55,943
Employee Benefits	5,421
Payroll Taxes	4,280
Board Expenses	9,594
Transportation	12,724
Insurance	17,544
Interest	1,408
Maintenance & Repairs	169,938
Mileage	1,566
Office Supplies & Postage	12,325
Professional Fees: Legal, Accounting, Engineering	8,545
Taxes - Other	4,873
Lease & Service Charges	640
Utilities	41,797
District Office / Storage Building	293,957
Debt Retirement	<u>9,132</u>
Total Expenditures	<u>649,686</u>
Receipts Over (Under) Expenditures	(208,414)
Unencumbered Cash, December 31, 2013	<u>512,984</u>
Unencumbered Cash, December 31, 2014	<u>\$ 304,570</u>

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

Schedule 1
Page 2 of 2

Capital Project
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2014

	<u>2014</u>
Cash Receipts	
Loan Proceeds	\$ <u>240,843</u>
Total Cash Receipts	<u>240,843</u>
Expenditures	
Construction Costs	<u>216,759</u>
Total Expenditures	<u>216,759</u>
Receipts Over (Under) Expenditures	24,084
Unencumbered Cash, December 31, 2013	<u>6,234</u>
Unencumbered Cash, December 31, 2014	\$ <u><u>30,318</u></u>