

RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2014

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
December 31, 2014

BOARD OF DIRECTORS

Don Benoit – Chairman

Norma Braun – Vice-Chairman

Roger Comeau – Secretary/Treasurer

Jimmy Jackson

James Ochampaugh

Darren Rubottom

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
December 31, 2014

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MAPES & MILLER LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3
2335 Highway 183
Plainville, KS 67663

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

Management's Responsibility for the Financial Statements

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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies use 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 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 Rural Water District No. 3, Rooks County, Kansas, 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 Rural Water District No. 3, Rooks County, Kansas as of December 31, 2014, and the aggregate receipts and expenditures for the year then 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 receipts and expenditures (Schedule 1 as listed in the table of contents) 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*. The schedule of changes in capital assets (Schedule 2 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement. 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.

The 2013 Actual column presented in the individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2014 basic financial statement upon which we rendered an unmodified opinion dated February 10, 2015. The 2013 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2013 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The 2013 comparative information was subjected to the auditing procedures applied in the audit of the 2013 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 2013 basic financial statement or to the 2013 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 2013 comparative information is fairly stated in all material respects in relation to the 2013 basic financial statement as a whole, on the basis of accounting described in Note 1.

Mapes & Miller LLP

Certified Public Accountants

February 10, 2015
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
Rooks County, 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 Fund:							
Water Utility Fund	\$ 609,489	\$ -	\$ 367,186	\$ 410,153	\$ 566,522	\$ 61,129	\$ 627,651

COMPOSITION OF CASH:

Stockton National Bank	
Stockton, Kansas	
Checking Account	\$ 366,213
Money Market Account	98,450
Money Market Account	20,140
Total Stockton National Bank	<u>484,803</u>
Midwest Community Bank	
Plainville, Kansas	
Super NOW Checking	23,045
Certificates of Deposit	119,803
Total Midwest Community Bank	<u>142,848</u>
Total Reporting Entity	<u>\$ 627,651</u>

The notes to financial statement are an integral part of this statement.

RURAL WATER DISTRICT NO.3
Rooks County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District was incorporated on September 21, 1976. Rural Water District No. 3 was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the District, and to others as authorized by the by-laws.

Regulatory Basis Fund Types

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specific purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

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

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.).

Trust Fund – funds used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, scholarship funds, etc.).

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, county treasurer tax collection accounts, etc.).

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

The Kansas Municipal Audit and Accounting Guide (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 of 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America (Cont.)

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.

2. RESTRICTED CASH

Under the terms of a loan resolution security agreement between the District and USDA Farmers Home Administration the following business fund cash is restricted for specific purposes:

	<u>2014</u>	<u>2013</u>
Cash Restricted for Reserve	\$118,745	\$118,745
Cash Available for Operations	<u>508,906</u>	<u>508,959</u>
Total Cash	<u>\$627,651</u>	<u>\$627,704</u>

3. 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%. All deposits were legally secured as of December 31, 2014.

At December 31, 2014, the District's carrying amount of deposits was \$627,651 and the bank balance was \$626,199. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$392,848 was covered by federal depository insurance, \$233,351 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

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.

4. COMPENSATED ABSENCES

The District provides two weeks of vacation and two weeks sick leave per year to the Operations Manager. No accrued benefits are paid upon termination.

5. LOAN AND RESERVE REQUIREMENTS

As shown in Note 12, on July 14, 2009 and April 17, 2012 the District entered into promissory note agreements with USDA Farmers Home Administration to borrow \$1,153,000 and \$942,000, respectively for the cost of construction of a water supply system and improvements. These agreements are secured by a real estate mortgage of the water system assets and operations.

Provisions of the loan agreements make the following requirements:

As required by the July 14, 2009 agreement each month the District shall transfer \$495 into a Reserve Account until such account accumulated to \$59,400. As shown in Note 2, this requirement has been met.

As required by the April 17, 2012 agreement each month the District shall transfer \$495 into a Reserve Account until such account accumulated to \$59,345. As shown in Note 2, this requirement has been met.

6. COMPLIANCE WITH KANSAS STATUTES

No statute violations noted in 2014.

7. RISK MANAGEMENT

Rural Water District No. 3 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 continues to carry commercial insurance coverage to cover these risks. The District has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

8. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the District utilizes services by companies owned and operated by a member of the board of directors. Services provided by these companies were for backhoe services to repair water leaks, snow removal and construction of a storage tank building. Total amount paid or to be paid to these companies for the year amounted to \$93,434.

9. SUBSEQUENT EVENTS

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

10. 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
Loan Agreements:									
USDA Rural Development	4.125%	07/14/09	1,153,000	07/14/49	\$ 1,096,693	\$ -	\$ 13,969	\$ 1,082,724	\$ 44,975
USDA Rural Development	2.750%	04/17/12	942,000	04/17/52	919,925	-	13,767	906,158	25,125
Total Loan Agreements					<u>\$ 2,016,618</u>	<u>\$ -</u>	<u>\$ 27,736</u>	<u>\$ 1,988,882</u>	<u>\$ 70,100</u>

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

	2015	2016	2017	2018	2019	2020-2024	2025-2029
PRINCIPAL							
Loan Agreements	\$ 28,672	\$ 29,677	\$ 30,719	\$ 31,799	\$ 32,918	\$ 182,872	\$ 217,715
INTEREST							
Loan Agreements	69,164	68,159	67,117	66,037	64,918	306,308	271,465
Total Principal & Interest	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 489,180</u>	<u>\$ 489,180</u>
	2030-2034	2035-2039	2040-2044	2045-2049	2050-2052	Total	
PRINCIPAL							
Loan Agreements	\$ 259,499	\$ 309,659	\$ 369,937	\$ 407,703	\$ 87,712	\$ 1,988,882	
INTEREST							
Loan Agreements	229,681	179,521	119,243	47,093	3,036	1,491,742	
Total Principal & Interest	<u>\$ 489,180</u>	<u>\$ 489,180</u>	<u>\$ 489,180</u>	<u>\$ 454,796</u>	<u>\$ 90,748</u>	<u>\$ 3,480,624</u>	

RURAL WATER DISTRICT NO. 3
REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
BUSINESS FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

Schedule 1

For The Year Ended December 31, 2014
(With Comparative Amounts for the Prior Year Ended December 31, 2013)

WATER UTILITY FUND

	2014	2013
Receipts:		
Operating Receipts		
Water Sales	\$ 223,319	\$ 230,098
Monthly Meter Fees	124,920	120,847
Late Charges and Other Revenue	15,351	11,495
Back Flow Preventer and Flow Control Charges	-	220
Other Income	1,892	1,492
Total Operating Receipts	365,482	364,152
Non-Operating Income		
Interest Income	1,704	1,947
Member Investments	-	60,000
Transfers:		
Water Improvement Fund	-	1,071
Total Non-Operating Receipts	1,704	63,018
Total Receipts	367,186	427,170
Expenditures:		
Operator/Manager Salary	51,876	49,731
Secretary/Bookkeeper Salary	20,124	19,527
Director's Fees	11,113	12,828
Payroll Taxes	6,003	5,448
Auditing and Accounting	270	3,068
Contract Labor	-	1,600
Engineering Fees	3,563	2,731
Legal Fees	434	1,758
Lab Fees	185	1,570
Utilities	25,952	25,106
Operating Supplies, Maintenance and Repairs	47,940	30,620
Telephone and Internet	2,401	2,651
Postage	823	1,240
Office Supplies	927	2,098
Insurance	9,609	8,868
Vehicle Expense	12,779	14,760
Licenses, Dues and Subscriptions	274	554
Meeting Expense	930	980
Miscellaneous	2,295	2,906
USDA Interest Expense	70,100	71,036
USDA Loan Principal Payments	27,736	26,800
Capital Asset Purchases	114,819	38,219
Total Expenditures	410,153	324,099
Receipts Over (Under) Expenditures	(42,967)	103,071
Unencumbered Cash, Beginning	609,489	492,618
Cancelled Prior Year Encumbrances	-	13,800
Unencumbered Cash, Ending	\$ 566,522	\$ 609,489

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

Schedule 2

SCHEDULE OF CHANGES IN CAPITAL ASSETS

December 31, 2014

	Capital Assets 1/1/2014	Additions	Deductions	Capital Assets 12/31/2014
Equipment and Tools	\$ 104	\$ -	\$ -	\$ 104
Pumps, Treatment Equipment and Facilities	492,124	12,033	29,779	474,378
Wells	61,448	-	-	61,448
Transmission Lines and Storage Facilities	4,984,318	19,125	-	5,003,443
Easements	64,256	5,000	-	69,256
Office Equipment and Furniture	5,825	-	-	5,825
Vehicles	46,864	-	-	46,864
Buildings	<u>574,358</u>	<u>78,661</u>	<u>-</u>	<u>653,019</u>
 Total Capital Assets	 6,229,297	 114,819	 29,779	 6,314,337
 Less: Accumulated Depreciation	 <u>2,374,847</u>	 <u>191,228</u>	 <u>29,779</u>	 <u>2,536,296</u>
 Net Capital Assets	 <u><u>\$ 3,854,450</u></u>			 <u><u>\$ 3,778,041</u></u>

Capital assets are recorded above at cost and are being depreciated over their estimated useful lives by use of the straight-line method. The following table reflects depreciation expense for 2014:

	Estimated Useful Life	
Equipment and Tools	10 years	\$ -
Pumps, Treatment Equipment and Facilities	10 years	17,186
Wells	30 years	1,138
Transmission Lines and Storage Facilities	36-40 years	147,733
Office Equipment and Furniture	5-10 years	287
Vehicles	5 years	4,703
Buildings	39 years	<u>20,181</u>
 Total Depreciation		 <u><u>\$ 191,228</u></u>