

**RURAL WATER DISTRICT NO. 4
BUTLER COUNTY, KANSAS**

Independent Auditors' Report
And Financial Statement with
Supplemental Information

For the Year Ended
December 31, 2014

RURAL WATER DISTRICT NO. 4
Butler County, Kansas

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 4
Butler County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 4, Butler 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 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.

Auditors' 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 auditors' 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 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 Rural Water District No. 4, Butler County, Kansas 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 Rural Water District No. 4, Butler 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. 4, Butler 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 basis receipts and expenditures-actual (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. 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.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

July 5, 2016
Chanute, Kansas

Statement 1

RURAL WATER DISTRICT NO. 4
 Butler County, Kansas
 Summary Statement of Receipts, Expenditures, and Unencumbered Cash
 Regulatory Basis
 For the Year Ended December 31, 2014

Funds	Beginning		Ending		Ending Cash December 31, 2014
	Unencumbered Cash Balance	Receipts	Expenditures	Unencumbered Cash Balance	
Business Funds:					
Water Utility	\$ 150,913.71	\$ 1,048,473.04	\$ 1,081,041.85	\$ 118,344.90	\$ 139,101.54
Total Reporting Entity	\$ 150,913.71	\$ 1,048,473.04	\$ 1,081,041.85	\$ 118,344.90	\$ 139,101.54

Composition of Cash:	
Intrust Bank	
Checking Account	\$ 33,528.02
Commerce Bank	
Money Market Account.....	59,556.07
Edward Jones	
Investments.....	46,017.45
Total Cash and Investments	\$ 139,101.54

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

RURAL WATER DISTRICT NO. 4

Butler County, Kansas

Notes to Financial Statement
For the Year Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Rural Water District No. 4, Butler County, Kansas (the District) was organized under Kansas law and provides water to rural Butler County in Kansas. Rural Water District No. 4, Butler County, Kansas, is a municipal corporation governed by an elected six-member board.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the District. Related municipal entities are not required to be included in the District's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types

A fund is defined as 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 types of funds comprise the financial activities of the Rural Water District No. 4, Butler County, Kansas for the year of 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.)

Basis of Accounting

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 (Continued)

Basis of Accounting (Continued)

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 municipality to use the regulatory basis of accounting.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statement comparisons presented in this report, reimbursements and refunds follow these guidelines.

Income Tax Status

Rural Water District No. 4, Butler County, Kansas is recognized by the Internal Revenue Service as a quasi-municipal corporation under K.S.A. 88a-616, and is exempt from Federal and Kansas income taxes. Accordingly, this financial statement does not present a provision for income taxes.

Budgetary Information

Rural water districts are not subject to Kansas statutes requiring a legally adopted budget.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Kansas Statutes

Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas. As shown in Note No. 3, the District has investments which are not in compliance with K.S.A. 12-1675, as the District has invested in taxable municipal bonds which are not allowable investments.

3. DEPOSITS AND INVESTMENTS

As of December 31, 2014, the Rural Water District has the following investments.

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Rating</u>
Taxable Municipal Bonds			
Over five year maturity	\$ 46,017.45	\$ 52,094.70	N/A
 Total Investment	 \$ 46,017.45	 \$ 52,094.70	

These investments are reflected at cost in this regulatory basis financial statement of Rural Water District No. 4, Butler County, Kansas.

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 branch 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.

8. LONG-TERM DEBT

Changes in long-term debt for the District for the year ended December 31, 2014, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Intrust Bank Line of Credit	2.925%	2013	\$ 650,020.00	2020	\$ -	\$ 621,678.76	\$ 82,899.35	\$ 538,779.41	\$ 12,784.19
Total Long-Term Debt					\$ -	\$ 621,678.76	\$ 82,899.35	\$ 538,779.41	\$ 12,784.19

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

Issue	2015	2016	2017	2018	2019	2020-2024	Totals
Principal							
Intrust Bank Line of Credit	\$ 93,198.11	\$ 95,961.00	\$ 98,805.79	\$ 101,734.94	\$ 104,750.89	\$ 44,328.68	\$ 538,779.41
Total Principal Payments	93,198.11	95,961.00	98,805.79	101,734.94	104,750.89	44,328.68	538,779.41
Interest							
Intrust Bank Line of Credit	14,516.46	11,753.55	8,908.77	5,979.64	2,963.67	302.30	44,424.39
Total Interest Payments	14,516.46	11,753.55	8,908.77	5,979.64	2,963.67	302.30	44,424.39
Total Principal and Interest	\$ 107,714.57	\$ 107,714.55	\$ 107,714.56	\$ 107,714.58	\$ 107,714.56	\$ 44,630.98	\$ 583,203.80

9. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 4

Butler County, Kansas

Water Utility Fund

Schedule of Receipts and Expenditures - Actual
Regulatory Basis

For the Year Ended December 31, 2014

(With Comparative Actual Amounts for the Year Ended December 31, 2013)

	Prior Year Actual	Current Year Actual
Receipts		
Charges for Services		
Water Sales	\$ 383,698.63	\$ 405,524.99
Benefit Units	7,000.00	17,500.00
Use of Money and Property		
Interest Income	3,383.01	3,417.00
Loan Proceeds	-	621,678.76
Other Receipts		
Reimbursed Expense	324.90	352.29
Total Receipts	394,406.54	1,048,473.04
Expenditures		
Commodities		
Water Purchased	182,226.90	170,513.14
Materials and Supplies	12,424.39	10,800.78
Office Supplies	671.35	-
Contractual Services		
Bookkeeping	31,493.50	31,413.67
Construction	9,230.00	11,257.83
Office - Other	7,228.33	10,114.68
Maintenance	75,863.46	92,032.60
Dues	1,860.20	1,910.00
Engineering Services	58,865.00	11,685.00
Kansas One Call Fee	1,168.35	10,337.65
Insurance	6,212.00	-
Legal and Professional Fees	3,593.30	3,575.00
Miscellaneous	435.35	319.54
Postage and Delivery	3,229.50	3,542.51
Utilities	5,311.86	3,030.93
Water Fees and Water Testing	3,295.86	3,146.22
Capital Outlay	-	621,678.76
Debt Service		
Loan Principal	-	82,899.35
Loan Interest	-	12,784.19
Total Expenditures	403,109.35	1,081,041.85
Receipts Over (Under) Expenditures	(8,702.81)	(32,568.81)
Unencumbered Cash, Beginning	159,616.52	150,913.71
Unencumbered Cash, Ending	\$ 150,913.71	\$ 118,344.90



Board of Directors
Rural Water District No. 4
Butler County, Kansas

In planning and performing our audit of the financial statement of Rural Water District No. 4, Butler County, Kansas as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the District's internal control to be material weaknesses:

Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the District staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a district your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

July 5, 2016
Chanute, Kansas