

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

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended December 31, 2014 and 2013**

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
Geary County, Kansas

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Geary County, Kansas  
Rural Water District No. 4  
Milford, Kansas 66514

We have audited the accompanying financial statements of the business-type activities of Geary County Rural Water District No. 4, 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 generally 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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 auditors consider 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 opinion.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Geary County Rural Water District No. 4, as of December 31, 2014 and 2013 and the respective changes in financial position and cash

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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 and budgetary comparison information on pages 3, 4 and 15 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. 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 audits 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.

*Pottberg, Gassman & Hoffman, Chartered.*

POTTBERG, GASSMAN & HOFFMAN, CHARTERED  
Junction City, Kansas  
May 27, 2015

## GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas  
December 31, 2014

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Geary County Rural Water District No. 4 (District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2013. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

#### Financial Statements

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statements of net position provide information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as useful indicators of whether the District's financial position is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the net position of the District changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods. The statements of cash flows reverse the accruals to show the effect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

#### Financial Highlights

The District's total assets decreased by \$31,604 from December 2013 to December 2014. This was primarily due to a large well cleaning in the amount of \$29,756.

Capital assets increased \$108,741 from December 2013 to December 2014 due to the purchase of the new Automatic Meter Reader system, the addition of new Benefit Units, new hydrants and some office equipment.

Total liabilities decreased by \$44,995 due primarily to the long-term debt payments. Total net position increased \$13,391 between December 2013 and December 2014. Of the \$13,391 increase, \$80,160 was an increase in net investment in capital assets and \$66,769 was a decrease in unrestricted net position. The net assets restricted for the bond and loan reserve remained unchanged. The District made improvements this year cleaning the wells and filters.

Operating revenues remained fairly level with only a small increase of \$1,429. Water usage increased by 1.2 million gallons. The District continues to set aside funds for capital improvements and bond and note payments. Operating expenses increased \$28,742 from December 2013 to December 2014 primarily related to \$10,524 for filter cleaning and labor for the installation of the new Automatic Reader System. The decrease in non-operating revenues was primarily due to a decrease in interest income and other income related to meter pit installations. Accordingly, capital contributions decreased \$8,000.

The budget adopted by the board for 2014 is a basic budget to set guidelines for the District's expenditures. The district does not have any statutory requirements limiting expenses to those budgeted, but continues to monitor the budget and keep expenditures as close as possible to the budget.

#### **Additional Information**

During the year 2014, the main issues discussed by management and the board of directors were the improvement of the quality of water; the filtration system has had difficulties removing the iron and manganese. The District also discussed the lack of storage in the system and ways to improve it. The district remains in compliance with all guidelines set by KDHE and EPA.

Growth continues this year with the sale of 3 new benefit units. The district continues to absorb the growth.

The District did improvements this year by repairing and painting the filtration system and all of the filter plant outside, inside and floors. In addition, the well field for Well #3 was cleaned and disinfected along with both filters at the plant.

The District continued to set aside funds of \$18,000 and \$84,000 for capital improvements and for bond and note payments respectively. The budget adopted by the board for 2014 is a basic budget just to set guidelines for the District's expenditures. The district does not have any statutory requirements limiting expenses to those budgeted, but continues to monitor the budget and keep expenditures as close as possible to the budget.

The Board continues to discuss the possible early pay off of the State Revolving loan. Some discussion as to the direction the board should take as to sale of water has occurred and the board is dedicated to providing water first of all the residential customers.

This financial report is designed to provide a general overview of the District's finances and demonstrate the District commitment to public accountability. If you have any question about this report or would like to request additional information, contact the District office at 8425 Quarry Road, Milford, KS 66514.

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31,**

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Checking Account - CNB	\$ 83,663	\$ 104,591
Money Market - CNB Capital Improvement	17,339	70,303
Money Market - CNB Principal and Interest	223,667	216,281
Cash and Cash Equivalents	<u>324,669</u>	<u>391,175</u>
Accounts Receivable (net)	<u>24,871</u>	<u>21,386</u>
Total Current Assets	<u>349,540</u>	<u>412,561</u>
Noncurrent Assets		
Capital Assets		
Utility System	1,499,807	1,411,047
Building	111,274	111,274
Equipment	91,455	71,474
Vehicle	19,000	19,000
Land Improvements	40,000	40,000
Land	18,036	18,036
Filtration System	547,848	547,848
Well Project	420,729	420,729
Accumulated Depreciation	<u>(1,211,393)</u>	<u>(1,134,069)</u>
Total Capital Assets	<u>1,536,756</u>	<u>1,505,339</u>
Bond Reserve - CNB Certificate of Deposit	49,005	49,005
Loan Reserve	<u>38,397</u>	<u>38,397</u>
Total Noncurrent Assets	<u>1,624,158</u>	<u>1,592,741</u>
<b>TOTAL ASSETS</b>	<u><u>1,973,698</u></u>	<u><u>2,005,302</u></u>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities		
Payroll Liabilities	-	-
Accrued Interest Payable	3,687	563
Water Deposits	42,053	41,429
Current Portion of Long-Term Debt	<u>39,316</u>	<u>48,143</u>
Total Current Liabilities	<u>85,056</u>	<u>90,135</u>
Noncurrent Liabilities		
Public Water Supply Loan Fund	235,098	253,241
Revenue Bonds Payable - 2010 (net of bond discount)	214,400	245,000
Less Current Portion	<u>(39,316)</u>	<u>(48,143)</u>
Total Noncurrent Liabilities	<u>410,182</u>	<u>450,098</u>
Total Liabilities	<u>495,238</u>	<u>540,233</u>
Net Position		
Net Investment in Capital Assets	1,087,258	1,007,098
Restricted - Bond and Loan Reserve	70,397	70,397
Unrestricted	<u>320,805</u>	<u>387,574</u>
Total Net Position	<u>1,478,460</u>	<u>1,465,069</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$1,973,698</u></u>	<u><u>\$2,005,302</u></u>

The notes to the financial statements are an integral part of these statements.

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water Revenues	\$ 300,395	\$ 298,966
TOTAL OPERATING REVENUES	<u>300,395</u>	<u>298,966</u>
OPERATING EXPENSES		
Bank Charges	332	353
Billing Services	7,980	7,850
Chemicals	9,537	10,000
Dues	567	359
Insurance	13,979	11,876
Maintenance	24,311	8,514
Miscellaneous	1,529	803
Office Supplies	2,154	2,043
Officer's Fees	1,440	1,440
Payroll Taxes	3,540	3,317
Postage	1,419	1,674
Professional Fees	5,995	6,214
Recording Secretary	720	-
Reimbursements	3,605	3,189
Repairs	5,524	5,853
Retirement	1,206	1,166
Supplies	6,396	3,831
Taxes - Clean Water Fee	1,105	1,235
Taxes - Water Protection Fee	1,179	1,318
Telephone	2,970	2,677
Utilities	26,370	26,231
Vehicle Expenses	3,111	2,482
Wages	44,259	41,382
Water Conference Expense	2,395	71
Water Testing	2,635	1,638
TOTAL OPERATING EXPENSES	<u>174,258</u>	<u>145,516</u>
INCOME FROM OPERATIONS BEFORE		
DEPRECIATION	126,137	153,451
Depreciation	<u>(77,324)</u>	<u>(76,288)</u>
OPERATING INCOME	<u>48,813</u>	<u>77,163</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	195	1,261
Other Income	2,600	4,800
Well Cleaning	(29,756)	-
Rent and Rebate	2,882	2,763
Loan Fees	-	(435)
Interest Expense	<u>(17,343)</u>	<u>(11,464)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(41,422)</u>	<u>(3,075)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	7,391	74,088
Capital Contributions	<u>6,000</u>	<u>14,000</u>
CHANGE IN NET POSITION	13,391	88,088
NET POSITION, BEGINNING	1,465,069	1,376,981
NET POSITION, ENDING	<u>\$ 1,478,460</u>	<u>\$ 1,465,069</u>

The notes to the financial statements are an integral part of these statements.



**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 296,910	\$ 301,791
Cash payments to suppliers for goods and services	(110,324)	(85,313)
Cash payments to employees and professional contractors for services	<u>(63,934)</u>	<u>(60,203)</u>
Net cash provided (used) by operating activities	<u>122,652</u>	<u>156,275</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(108,741)	(62,615)
Principal paid on bonds and notes	(48,743)	(33,832)
Interest paid on bonds and notes	(14,219)	(11,506)
Loan fees	-	(435)
Customer deposits	624	1,399
Well Cleaning	(29,756)	-
Rent and rebate	2,882	2,763
Capital contributions	<u>8,600</u>	<u>18,800</u>
Net cash provided (used) by capital and related financing activities	<u>(189,353)</u>	<u>(85,426)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	<u>195</u>	<u>255</u>
Net cash provided (used) by investing activities	<u>195</u>	<u>255</u>
Net increase (decrease) in cash and cash equivalents	(66,506)	71,104
CASH AND CASH EQUIVALENTS AT JANUARY 1,	<u>391,175</u>	<u>320,071</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31,	<u>324,669</u>	<u>391,175</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	48,813	77,162
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	77,324	76,288
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	<u>(3,485)</u>	<u>2,825</u>
Total adjustments	<u>73,839</u>	<u>79,113</u>
Net cash provided by operating activities	<u>\$ 122,652</u>	<u>\$ 156,275</u>

The notes to the financial statements are an integral part of these statements.

## SUPPLEMENTAL INFORMATION

## GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas

December 31, 2014

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization Description

The Rural Water District No. 4, Geary County, Kansas, was declared incorporated as a quasi-municipal Corporation by the Board of Commissioners of Geary County, Kansas, in April of 1976. The District is located near Milford, Kansas and was organized pursuant to K.S.A. 89a-612 to provide water to its subscribers. The following is a summary of the District's significant accounting policies.

##### Basis of Accounting

The water District is a governmental organization operated as a business (propriety) type entity. The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The District performs proprietary activities and therefore, is subject to all Governmental Accounting Standards Board (GASB) pronouncements (GASB 34 and 65 have been implemented) as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GAS pronouncements.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the water district.

##### Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts, and certificates of deposits classified as current assets to be cash and cash equivalents. At December 31, 2014 and 2013, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Capital Assets

Capital assets purchased are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of the assets range from 5 to 50 years.

##### Allowance for Doubtful Accounts

The District bills customers on a monthly basis. Invoices not paid by the 16<sup>th</sup> of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. As most customers pay before they are disconnected and there have been no amounts written off in the past three years, management has set the allowance account at zero.

##### Noncurrent Assets

Noncurrent assets primarily include capital assets and reserve for bonds. The amounts placed in the reserve often exceed the amount legally required to be restricted. The amounts legally required to be restricted are included in the bonds and loans payable footnotes (Notes 7 and 8).

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
Geary County, Kansas  
December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Taxes

The District is exempt from federal and state income taxes.

Date of Management's Review

Management has performed an analysis of the activities and transactions subsequent to December 31, 2014, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through May 27, 2015, which is the date at which the financial statements were available to be issued.

**NOTE 2 – DEPOSITORY SECURITY**

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." The District has no designated "peak periods." All deposits were legally secured at December 31, 2014.

At December 31, 2014, the District's carrying amount of deposits was \$373,674 and the bank balance was \$383,202. The bank balance was held by one bank. Of the bank balance, \$250,000 was covered by federal depository insurance and \$133,202 was collateralized with securities held by the pledging financial institution's agents in the District's name. The amount on deposit in excess of the federal depository insurance corporation limit was more than 5% of the total bank balance which resulted in a concentration of credit risk per GASBS 40, paragraph 11.

At December 31, 2013, the District's carrying amount of deposits was \$440,180 and the bank balance was \$444,285. The bank balance was held by one bank. Of the bank balance, \$250,000 was covered by federal depository insurance and \$194,285 was collateralized with securities held by the pledging financial institution's agents in the District's name. The amount on deposit in excess of the federal depository insurance corporation limit was more than 5% of the total bank balance which resulted in a concentration of credit risk per GASBS 40, paragraph 11.

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
 Geary County, Kansas  
 December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowances for doubtful accounts. The following is an aging of accounts receivable for the District at December 31, 2013 and 2014:

	<u>Total</u>	<u>Current</u>	<u>Over 30 Days</u>
2013	\$21,386	\$21,386	\$ -
2014	\$24,871	\$24,871	\$ -

**NOTE 4 – CAPITAL ASSETS**

Capital assets are carried at cost. Depreciation of property and equipment are provided on the straight-line method over the following estimated useful lives:

Original Water System	50 years
Additions to System	40 years
Building	40 years
Machinery and Equipment	7 years
Computer Equipment	5 years
Computer Software	3 years

Capital Asset Activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Capital Acquisitions / (Depreciation)</u>	<u>(Sales) / Disposals</u>	<u>Ending Balance</u>
<b>Capital Assets not Being Depreciated:</b>				
Land	\$ 18,036	-	-	\$ 18,036
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	40,000	-	-	40,000
Building	111,274	-	-	111,274
Vehicle	19,000	-	-	19,000
Equipment	71,474	19,981	-	91,455
Filtration System	547,848	-	-	547,848
Utility System	1,831,776	88,760	-	1,920,536
Total Capital Assets Being Depreciated	2,621,372	108,741	-	2,730,113
<b>Less Accumulated Depreciation For:</b>				
Land Improvements	(40,000)	-	-	(40,000)
Building	(36,520)	(3,012)	-	(39,532)
Vehicle	(19,000)	-	-	(19,000)
Equipment	(22,270)	(5,357)	-	(27,627)
Filtration System	(121,731)	(13,696)	-	(135,427)
Utility System	(894,548)	(55,259)	-	(949,807)
Total Accumulated Depreciation	(1,134,069)	(77,324)	-	(1,211,393)
Net Being Depreciated	1,487,303	31,417	-	1,518,720
<b>Total Capital Assets and CIP</b>	<b>\$ 1,505,339</b>	<b>31,417</b>	<b>-</b>	<b>\$ 1,536,756</b>

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
 Geary County, Kansas  
 December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS, CONTINUED**

Capital Asset Activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
<b>Capital Assets not Being Depreciated:</b>				
Land	\$ 18,036	-	-	\$ 18,036
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	40,000	-	-	40,000
Building	111,274	-	-	111,274
Vehicle	19,000	-	-	19,000
Equipment	37,676	33,798	-	71,474
Filtration System	536,573	11,275	-	547,848
Utility System	1,814,234	17,542	-	1,831,776
<b>Total Capital Assets Being Depreciated</b>	<b>2,558,757</b>	<b>62,615</b>	<b>-</b>	<b>2,621,372</b>
<b>Less Accumulated Depreciation For:</b>				
Land Improvements	(40,000)	-	-	(40,000)
Building	(33,508)	(3,012)	-	(36,520)
Vehicle	(19,000)	-	-	(19,000)
Equipment	(17,470)	(4,800)	-	(22,270)
Filtration System	(108,082)	(13,649)	-	(121,731)
Utility System	(839,721)	(54,827)	-	(894,548)
<b>Total Accumulated Depreciation</b>	<b>(1,057,781)</b>	<b>(76,288)</b>	<b>-</b>	<b>(1,134,069)</b>
<b>Net Being Depreciated</b>	<b>1,500,976</b>	<b>(13,673)</b>	<b>-</b>	<b>1,487,303</b>
<b>Total Capital Assets and CIP</b>	<b>\$ 1,519,012</b>	<b>(13,673)</b>	<b>-</b>	<b>\$ 1,505,339</b>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$77,324 and \$76,288 respectively.

**NOTE 5 – BUDGETS AND BUDGETARY ACCOUNTING**

The District is not required to adopt a legal budget; therefore, no budgetary comparison is prepared as a financial statement. The Board approves an estimated budget each year per K.S.A. 82a-628, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

**NOTE 6 – RETIREMENT PLAN**

The District has adopted a SEP-IRA plan. The plan allows the District to make contributions into individual retirement arrangements on behalf of the employees. Contributions are made at the financial institution where the employee maintains his or her SEP account. As an IRA the employee is always fully vested in the account. Eligible employees have reached age 21, worked for the employer in at least three of the immediately preceding five years, and received at least \$500 in compensation. All eligible employees receive the same percentage contribution from the District up to a maximum of 25% of their wages up to \$49,000. For the year ended December 31, 2014 the total retirement expense was \$1,166 (3% plus fees).

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**

Geary County, Kansas  
December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7 – BONDS PAYABLE**

On August 19, 2010, the district issued \$320,000 in Kansas Rural Water Finance Authority Refunding Revenue Bonds, Series C 2010 at an interest rate of 2.993%. Water revenues are used as security for these bonds.

The bonds were issued at various rates from 1.0% to 3.2% which mature as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	30,000	6,160	36,160
2016	30,000	5,400	35,400
2017	30,000	4,720	34,720
2018	30,000	3,880	33,880
2019	30,000	3,040	33,040
2020	65,000	2,080	67,080
<b>Totals</b>	<b>\$ 215,000</b>	<b>\$ 25,280</b>	<b>\$ 240,280</b>

Issuance costs of \$15,200 were paid and expensed at the time these revenue bonds were issued. The bonds were issued at a discount of \$4,800, which is amortized and charged to interest expense over the life of the bonds using the straight line method. Interest expense for 2014 was \$600.

A bond reserve account of \$32,000 is required to be maintained for the life of the bonds. This amount plus interest earned is in a certificate of deposit at Central National Bank and is shown as a noncurrent asset in the statements of net position.

**NOTE 8 – NOTE PAYABLE**

In September 2003 the District started construction on a Filtration Plant with money received from the Kansas Water Supply Loan Fund administered by the Kansas Department of Health and Environment. Construction was completed in September 2004. Loan fees in the amount of \$4,800 were paid and expensed at the time the loan was issued. A reserve account is held by the State in the amount of \$38,397. The loan is secured by water revenue.

The repayment schedule for this loan is as follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total Payment</u>
2015	18,800	7,466	807	27,073
2016	19,481	6,852	740	27,073
2017	20,187	6,215	671	27,073
2018	20,918	5,555	600	27,073
2019	21,676	4,871	526	27,073
2020-2024	120,739	13,199	1,426	135,364
2025	13,297	215	23	13,535
<b>Totals</b>	<b>\$ 235,098</b>	<b>\$ 44,373</b>	<b>\$ 4,793</b>	<b>\$ 284,265</b>

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
 Geary County, Kansas  
 December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 – LONG TERM DEBT SUMMARY**

The following schedule shows the changes in long-term debt and related maturities.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-14</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-14</u>	<u>Date Due</u>	<u>Interest Paid in 2014</u>
State Loan	12/17/04	\$383,965	253,241	18,143	235,098	2/1/2025	8,930
Bond 2010	08/19/10	\$320,000	<u>245,000</u>	<u>30,000</u>	<u>215,000</u>	12/01/2020	<u>6,760</u>
Total Indebtedness			<u>\$ 498,241</u>	<u>\$ 48,143</u>	<u>\$ 450,098</u>		<u>\$ 15,690</u>

**NOTE 10 – DEBT SERVICE RATIO**

The bond issue and state loan covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the years ending:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Change in Net Position	\$ 13,391	88,088
Interest Expense	17,343	11,464
Depreciation	77,324	76,288
Less Capital Contributions	<u>(6,000)</u>	<u>(14,000)</u>
Total Revenue Available for Debt Service	<u>\$ 102,058</u>	<u>\$ 161,840</u>
Debt Service Payments	\$ 48,143	\$ 45,338
Debt Service Ratio	<u>2.12</u>	<u>3.57</u>

**NOTE 11 - LITIGATION**

There were no legal actions involving the Geary County Rural Water District No. 4 as of December 31, 2014.

**NOTE 12 – RISK MANAGEMENT**

Geary County Rural Water District No. 4 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. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

**NOTE 13 – RELATED PARTIES**

All of the members of the board of directors and employees are water district customers. No material transactions occurred in 2014 between the District and the directors and employees other than payment for water used on the same basis as other water customers. No amounts are past due.



**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
Geary County, Kansas  
December 31, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 14 – COMPENSATED ABSENCES**

Vacation and sick leave is awarded at 8 hours per month for full-time employees over the age of 21. Forty hours of vacation may be carried over into the next year, or additional hours carried over or paid at the discretion of the board, while all sick leave is accumulative and carried over year to year until employees leave the District's employment. The board may pay for all or some of the accumulated sick leave upon retirement of employees. As the District's employee is not set to retire in the near-term and there is a range of payment possibilities, no accrual is made in the financial statements for compensated absences.

**GEARY COUNTY RURAL WATER DISTRICT NO. 4**  
**BUDGET REPORT - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
<b>OPERATING REVENUE</b>			
Water Revenues	\$ 280,000	\$ 296,910	\$ 16,910
<b>TOTAL OPERATING REVENUES</b>	<u>280,000</u>	<u>296,910</u>	<u>16,910</u>
<b>EXPENDITURES</b>			
Amortization	2,729	-	(2,729)
Bank Charges	505	332	(173)
Billing Services	7,800	7,980	180
Chemicals	11,750	9,537	(2,213)
Dues	479	567	88
Insurance	10,947	13,979	3,032
Maintenance	12,998	24,311	11,313
Miscellaneous	130	1,529	1,399
Office Supplies	6,814	2,154	(4,660)
Officer's Fees	1,440	1,440	-
Payroll Taxes	3,159	3,540	381
Postage	2,199	1,419	(780)
Professional Fees	7,583	5,995	(1,588)
Recording Secretary	-	720	720
Reimbursements	2,385	3,605	1,220
Repairs	14,635	5,524	(9,111)
Retirement	1,525	1,206	(319)
Supplies	7,483	6,396	(1,087)
Taxes - Clean Water Fee	806	1,105	299
Taxes - Water Protection Fee	1,462	1,179	(283)
Telephone	2,518	2,970	452
Utilities	25,721	26,370	649
Vehicle Expenses	3,109	3,111	2
Wages	39,238	44,259	5,021
Water Conference Expense	2,015	2,395	380
Water Testing	592	2,635	2,043
<b>TOTAL OPERATING EXPENDITURES</b>	<u>170,022</u>	<u>174,258</u>	<u>4,236</u>
<b>DEBT RETIREMENT:</b>			
Principal Paid	55,855	48,743	(7,112)
Interest	18,642	14,219	(4,423)
<b>TOTAL EXPENDITURES</b>	<u>244,519</u>	<u>237,220</u>	<u>(7,299)</u>
<b>OTHER INCOME (EXPENSES)</b>			
Capital Improvements	-	(108,741)	(108,741)
Interest Income	1,538	195	(1,343)
New Benefit Units	14,000	6,000	(8,000)
Well Cleaning	-	(29,756)	(29,756)
Rent Income	600	600	-
Water Deposits	-	624	624
Meter Pit	5,531	2,600	(2,931)
Insurance Rebate	2,165	2,282	117
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>23,834</u>	<u>(126,196)</u>	<u>(150,030)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>\$ 59,315</u>	<u>\$ (66,506)</u>	<u>\$ (125,821)</u>

The notes to the financial statements are an integral part of these statements.



**PGA**  
Certified Public Accountants

*Pottberg, Gassman & Hoffman, Chtd.*

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## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

May 27, 2015

To the Board of Directors of  
Geary County Rural Water District No. 4  
Milford, Kansas 66514

We have audited the financial statements of Geary County Rural Water District No. 4 (District) for the years ended December 31, 2014 and 2013 and have issued our report thereon dated May 27, 2015. Professional standards require that we provide you with our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audits. We have communicated such information in our letter to you dated January 5, 2015 and in our discussion at your board meeting on April 2, 2015. Professional standards also require that we communicate to you the following information related to our audits.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the periods ended December 31, 2014 and 2013. We noted no transactions entered into by the District during the years for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

Management's estimate of depreciation expense is based on the estimated useful life of each asset using the straight-line method. We evaluated the key factors and assumptions used to develop the estimate for depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audits.

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### *Significant Audit Adjustments*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the more significant adjustments were as follows:

- \$107,330 to adjust fund balance to the prior year;
- \$30,000 to adjust bond principal payment from an expense to a reduction in the liability account;
- \$18,143 to adjust the loan principal payment from an expense to a reduction in the liability account;
- 77,324 to record depreciation expense; and,
- \$47,951 to reclassify items posted as capital assets to the appropriate revenue and expense accounts.

A listing of all audit adjustments and reclassifications is attached to this letter. A schedule summarizing uncorrected misstatements of the financial statements is also attached. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial, accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audits.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 27, 2015.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

#### *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America. The Budget Report does not comply with U.S. GAAP, but is presented on the cash basis of accounting, which has not changed from the prior period. We did not audit the information and express no opinion on it.

### Restriction on Use

This information is intended solely for the use of the board of directors and management of Geary County Rural Water District No. 4 and the Kansas Department of Administration, Division of Accounts

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and Reports and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Pottberg, Gassman & Hoffman, Chd.*

Pottberg, Gassman & Hoffman, Chartered  
Junction City, Kansas

Prepared by \_\_\_\_\_

**GEARY COUNTY RWD #4  
Adjusting Journal Entries**

J0898  
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Reviewed by \_\_\_\_\_

TB-2 ssf 5/1/15
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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
AJE1	Adjusting	12/31/14					
		4089	Misc. Revenue	103,425.00			
		2300	Interest Payable	3,905.00			
		3030	Earnings		107,330.00		
			Adjust to Prior Year			(103,425.00)	
AJE10	Adjusting	12/31/14					
		F.5	1513 Equipment:Tools		78,560.00		
			1551 Utility System	78,560.00			
			1510 Equipment		3,150.00		
			1551 Utility System	3,150.00			
			Reclassify New AMR System and Hydrants			0.00	
AJE10	Adjusting	12/31/14					
		F.4	1510 Equipment	950.00			
			7411 Reimbursement:Equipment/suppli		950.00		
			Capitalize New Desktop			950.00	
AJE11	Adjusting	12/31/14					
		F.1	1750 A/D Building		16,708.00		
			1751 A/D Utility System		54,907.00		
			6400 Depreciation Expense	77,324.00			
			1710 A/D Equipment		5,709.00		
			Record Depreciation Expense			(77,324.00)	
AJE2	Adjusting	12/31/14					
		6011	Bond Payments		33,380.00		
		2704	Revenue Bonds Series C, 2010	30,000.00			
		6750	Interest Expense	3,380.00			
			Adjust Bond Liabilities for Payments			30,000.00	
AJE3	Adjusting	12/31/14					
		6750	Interest Expense	8,059.00			
		2480	State Revolving Loan Fund	18,143.00			
		6013	Loan Repayment 2319		27,035.00		
		8900	Misc	833.00			

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**GEARY COUNTY RWD #4  
Adjusting Journal Entries**

J0898

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Reviewed by \_\_\_\_\_

Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
			Adjust Loan Liability for Payment			18,143.00	
AJE4	Adjusting	12/31/14					
		1992	Deposit of Filter Plant	74.00			
		2741	Water Deposits		74.00		
			Reclassify			0.00	
AJE5	Adjusting	12/31/14					
		7758	Payroll Expenses		1,043.00		
		7700	Payroll:Gross	1,043.00			
			Reclassify Vacation Salary to Wages			0.00	
AJE6	Adjusting	12/31/14					
		2300	Interest Payable		3,124.00		
		6750	Interest Expense	3,124.00			
			Adjust Accrued Interest Payable			(3,124.00)	
AJE7	Adjusting	12/31/14					
		2700	Discount on Bond	600.00			
		6750	Interest Expense		600.00		
			Record Interest Expense for Bond Issuance and Discount			600.00	
AJE8	Adjusting	12/31/14					
		1100	Receivables	3,485.00			
		4000	Deposits		3,485.00		
			Adjust AR			3,485.00	

F.2

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**GEARY COUNTY RWD #4  
Adjusting Journal Entries**

J0898

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
AJE9	Adjusting	12/31/14					
		4000	Deposits		1,295.00		
		7008	Maintenance:Routine Maintenance	17,594.00			
		7550	Supplies	1,645.00			
		8900	Misc	30,007.00			
		1710	A/D Equipment		2,305.00		
		1511	Equipment:Chlorine Room		345.00		
		1512	Equipment:Filter		10,624.00		
		1520	Equipment:New Truck		250.00		
		1513	Equipment:Tools		403.00		
		1510	Equipment		898.00		
		1551	Utility System		3,370.00		
		1552	Well Project		29,756.00		
			Reclassify Capital Assets to Expense			(47,951.00)	
		<b>TOTAL</b>		<u>385,301.00</u>	<u>385,301.00</u>	<u>(178,646.00)</u>	





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## COMMUNICATION OF SIGNIFICANT DEFICIENCIES

May 27, 2015

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To the Board of Directors  
Geary County Rural Water District No. 4  
Milford, Kansas 66514

505 NW 3rd, Suite 1  
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In planning and performing our audits of the financial statements of Geary County Rural Water District No. 4 (District) as of and for the years ended December 31, 2014 and 2013, 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 our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

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

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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies.

### Financial Reporting

A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). For the year ended December 31, 2014, there was no one on staff with sufficient knowledge to prepare GAAP-based financial statements. As a result, and as with previous years, certain adjustments were required to be made to the accounting records prior to the start of the audit process. Material adjustments included the recording of adjustments from the prior year to agree your beginning balances to the

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prior audit, depreciation expense, separating principal and interest on the loan and bond payments, recording bond principal payments as a reduction of the liability versus an expense, and adjusting capital assets. In addition, several other adjustments were required to prepare the financial statement in conformity with GAAP such as accruing for interest payable and adjusting accounts receivable. The use of a month or year-end closing checklist could help to ensure that certain required entries are made and allow for a reconciliation of other items such as hook-up deposits and gross payroll expenses.

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management is as responsible for outsourced functions performed by a service provider, as it would be for such functions performed internally. Specifically, management is responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of your financial statement and regulatory-required supplementary information, including the related notes to the financial statement. Management reviewed, approved, and accepted responsibility for the financial statement and regulatory-required supplementary information, including the related notes, prior to their issuance; however, management does not have the ability to evaluate the completeness of financial statement disclosures.

#### Segregation of Duties

An internal control structure is the procedures and policies in effect which ensure that the District's financial activity is properly processed, summarized, recorded, and reported in the financial statements. A weakness in internal 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 the small staff size and the fact that the Operator and Biller are related, it is not possible for independent 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, the board members and others within the District, and the Kansas Department of Administration, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than those specified parties.

*Pottberg, Gassman & Hoffman, Chld.*

Pottberg, Gassman & Hoffman, Chartered  
Junction City, Kansas