

RURAL WATER DISTRICT NO. 4

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2014

Rural Water District No. 4, Marion County, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Rural Water District No. 4, Marion County, Kansas, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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 and the *Kansas Municipal Audit and Accounting Guide*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water District, as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such omitted 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

Krudsen, Monroe & Company, LLC

Certified Public Accountants

Newton, Kansas
February 9, 2015

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF NET POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 138,726	50,517
Investments	1,038,385	1,231,187
Accounts receivable	<u>26,626</u>	<u>28,966</u>
Total current assets	<u>1,203,737</u>	<u>1,310,670</u>
CAPITAL ASSETS		
Capital assets not being depreciated	288,693	4,500
Capital assets, net of accumulated depreciation	<u>1,746,651</u>	<u>1,894,415</u>
Total capital assets	<u>2,035,344</u>	<u>1,898,915</u>
Total assets	<u>\$ 3,239,081</u>	<u>3,209,585</u>
<u>LIABILITIES AND NET POSITION</u>		
LIABILITIES		
Accounts payable	\$ 51,036	51,694
Other accrued expenses	<u>2,987</u>	<u>1,911</u>
Total liabilities	<u>54,023</u>	<u>53,605</u>
NET POSITION, Page 4		
Net investment in capital assets	2,035,344	1,898,915
Unrestricted	<u>1,149,714</u>	<u>1,257,065</u>
Total net position	<u>3,185,058</u>	<u>3,155,980</u>
Total liabilities and net position	<u>\$ 3,239,081</u>	<u>3,209,585</u>

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Water sales	\$ 396,067	374,203
Rent and other	<u>5,260</u>	<u>3,931</u>
Total operating revenues	<u>401,327</u>	<u>378,134</u>
EXPENSES		
Water purchases	75,437	54,845
Personnel	62,926	40,821
Utilities	17,861	18,291
Office supplies	13,512	5,061
Meeting expense	5,345	4,909
Insurance	11,489	9,007
Repairs	82,612	62,653
Mileage	11,100	11,150
Professional fees	3,875	3,775
Depreciation	147,764	142,530
Other	<u>8,874</u>	<u>7,951</u>
Total operating expenses	<u>440,795</u>	<u>360,993</u>
Operating Income (loss)	<u>(39,468)</u>	<u>17,141</u>
NONOPERATING REVENUES		
Interest income	<u>9,646</u>	<u>12,128</u>
Income (loss) before other revenues	<u>(29,822)</u>	<u>29,269</u>
OTHER REVENUES		
Benefit unit sales	<u>58,900</u>	<u>9,500</u>
Changes in net position	29,078	38,769
NET POSITION, beginning of year	<u>3,155,980</u>	<u>3,117,211</u>
NET POSITION, end of year	<u>\$ 3,185,058</u>	<u>3,155,980</u>

See notes to financial statements

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 398,407	377,927
Other cash received	5,206	3,947
	<u>403,613</u>	<u>381,874</u>
Cash paid for:		
Water purchases	(74,029)	(55,046)
Salaries and payroll taxes	(61,732)	(40,651)
Other expenses	(156,798)	(125,875)
	<u>(292,559)</u>	<u>(221,572)</u>
Net cash provided by operating activities	<u>111,054</u>	<u>160,302</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(169,475)	(818,640)
Redemption of certificates of deposit	362,277	746,518
Interest income received	9,646	12,128
Purchase of capital assets	(284,193)	(86,965)
Net cash used in investing activities	<u>(81,745)</u>	<u>(146,959)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Benefit unit sales	58,900	9,500
Net cash provided by financing activities	<u>58,900</u>	<u>9,500</u>
Net increase in cash and cash equivalents	88,209	22,843
CASH AND CASH EQUIVALENTS, beginning of year	<u>50,517</u>	<u>27,674</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 138,726</u>	<u>50,517</u>

Rural Water District No. 4, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (loss), Page 4	\$ (39,468)	17,141
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation	147,764	142,530
Decrease in receivables - customers	2,340	3,724
Increase (decrease) in accounts payable and accrued expenses	<u>418</u>	<u>(3,093)</u>
Net cash provided by operating activities	<u>\$ 111,054</u>	<u>160,302</u>
NONCASH ACTIVITY		
Capital asset addition included in accounts payable	<u>\$ -</u>	<u>(43,978)</u>

Rural Water District No. 4, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 4, Marion County, Kansas was incorporated and organized on February 27, 1977, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Marion County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the Water District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over an estimated useful life of five to thirty years. At December 31, 2014 and 2013, capital assets consist of the following:

	<u>2014</u>	<u>2013</u>
Capital assets not being depreciated		
Land	\$ 4,500	4,500
Construction in progress	284,193	-
	<u>\$ 288,693</u>	<u>4,500</u>
Capital assets being depreciated		
Water system and line	\$ 4,810,016	4,810,016
Buildings and improvements	86,012	86,012
Equipment and furnishings	27,175	27,175
	4,923,203	4,923,203
Less accumulated depreciation	<u>3,176,552</u>	<u>3,028,788</u>
	<u>\$ 1,746,651</u>	<u>1,894,415</u>

Statement of Cash Flows

For purposes of the statement of cash flows, the Water District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2014 and 2013, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

2. CASH AND DEPOSITS

At December 31, 2014, the carrying amount of the Water District's deposits, including certificates of deposit, was \$1,177,111. The bank balance was \$1,183,392. The difference between the carrying amount and the bank balance is outstanding checks. Of the bank balance, \$542,556 was covered by FDIC insurance and \$640,836 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the Water District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the Water District, the pledging bank, and the independent third-party bank holding the pledged securities.

Certificates of Deposit

Certificates of deposit at several banks consisted of the following at December 31:

2014				2013
Date of Deposit	Maturity Date	Interest Rate	Amount	Amount
05/12/12	05/01/14	1.00%	\$ -	360,782
09/25/12	09/25/14	0.85%	-	60,640
07/16/13	07/16/15	0.75%	289,391	287,229
09/25/14	03/25/17	1.29%	221,740	-
04/18/13	04/18/17	0.90%	527,254	522,536
			<u>\$ 1,038,385</u>	<u>1,231,187</u>

3. DEFINED BENEFIT PENSION PLAN

Plan Description

The Water District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

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 establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 employees and at 6% of covered salary for Tier 2 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

4. CONCENTRATIONS OF RISK

Major Supplier

The Water District purchases 100 percent of their water from the City of Moundridge.

5. CAPITAL PROJECT

During the current year, the Water District entered into a Memorandum of Understanding with Rural Water District No. 5, McPherson County, Kansas pursuant to the provisions of K.S.A. 82a-650. Rural Water District No. 5 will transfer its entire water supply and distribution system and all other assets it owns or in which it has an interest to the Rural Water District No. 4. These assets include, but are not limited to, real property, equipment and personal property, contracts, records and reports, and funds and investments.

This capital project includes construction of a new line, replacement of a line and approximately 70 new customers for the Water District.

	<u>Project Authorization</u>	<u>Expenditures to Date</u>
Construction of new water supply line and replacement of 1.5 miles of line	<u>\$ 800,000</u>	<u>284,193</u>

6. 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 February 9, 2015, which is the date at which the financial statements were available to be issued.