

**RURAL WATER DISTRICT NO. 4
NEOSHO-LABETTE COUNTY, KANSAS**

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2014 and 2013



stafford & westervelt

Stafford & Westervelt, Chartered
Certified Public Accountants

Chanute, Parsons and Pittsburg, Kansas • Bentonville and Rogers, Arkansas

Table of Contents

	<u>Page</u>
AUDITED FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Statement 1: Statements of Net Position	3
Statement 2: Statements of Activities and Changes in Net Position	4-5
Statement 3: Statements of Cash Flows	6-7
Notes to Financial Statements	8-13
SUPPLEMENTARY INFORMATION	
Schedule 1: Schedule of Insurance Coverage	14
Schedule 2: Officers and Directors	14



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Offices in
Chanute, Parsons and Pittsburg, Kansas
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 4
Neosho-Labette County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Water District No. 4, Neosho-Labette County, Kansas which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of activities and changes of net position and cash flows for the years then ended, and the related notes to the financial statements.

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 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 audits 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 4, Neosho-Labette County, Kansas as of December 31, 2014 and 2013, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Water District No. 4, Neosho-Labette County, Kansas as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Rural Water District No. 4, Neosho-Labette County, Kansas. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

Other Matters

Rural Water District No. 4, Neosho-Labette County, Kansas, has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Parsons, Kansas
January 26, 2015

Stafford & Westervelt, Chartered

Rural Water District No. 4
Neosho-Labette County, Kansas

Statements of Net Position

December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash (Notes 1 and 2)	\$ 308,658	\$ 324,957
Certificates of deposit (Notes 1, 2, and 5)	300,530	250,690
Accounts receivable (Note 1)	62,713	61,585
Stored materials (Notes 1 and 8)	72,530	65,692
Interest receivable	238	321
Prepaid insurance	10,482	7,149
Total current assets	<u>755,151</u>	<u>710,394</u>
Property, plant and equipment: (Note 1)		
Land	10,797	10,797
Office equipment	18,021	16,671
Transportation equipment	59,213	32,628
Shop equipment	1,239	1,239
Construction in process (Note 3)	20,441	5,000
Building	130,746	130,746
Water distribution system	3,679,589	3,678,535
Total property, plant and equipment	<u>3,920,046</u>	<u>3,875,616</u>
Less allowance for accumulated depreciation	2,892,972	2,808,451
Net property, plant and equipment (Notes 4, 5 and 6)	<u>1,027,074</u>	<u>1,067,165</u>
Investment in electric cooperatives (Note 1)	23,129	23,168
Total assets	<u>\$ 1,805,354</u>	<u>\$ 1,800,727</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 7,634	\$ 7,023
Deferred revenue	300	400
Current installments of long term debt (Note 5)	37,000	29,000
Total current liabilities	<u>44,934</u>	<u>36,423</u>
Long term debt (Note 5)	132,466	176,619
Total liabilities	<u>177,400</u>	<u>213,042</u>
 <u>Net Position</u>		
Invested in capital assets (Note 1)	857,608	861,546
Unrestricted (Notes 1 and 9)	770,346	726,139
Total net position	<u>1,627,954</u>	<u>1,587,685</u>
Total liabilities and net position	<u>\$ 1,805,354</u>	<u>\$ 1,800,727</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Statements of Activities and Changes in Net Position

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Water sales	\$ 428,893	\$ 412,423
Basic charge	211,899	208,995
Penalties	15,818	13,386
Tower charge	41,047	40,627
Service income	54,899	6,973
Special railroad project	-0-	26,256
Total operating revenues	<u>752,556</u>	<u>708,660</u>
Operating expenses:		
Manager's salary	41,160	43,919
Other payroll	36,208	4,640
Water purchases (Note 7)	379,444	379,458
Depreciation	84,521	101,430
Repairs and maintenance	47,181	28,480
Material purchases for service income	33,091	4,051
Utilities	5,231	5,627
Bookkeeping salary	13,812	12,621
Directors' expense	4,106	3,883
Insurance and bonds	14,621	9,298
Employee benefits	10,849	8,896
Office expense	10,888	7,555
Audit and legal	3,545	5,530
Special railroad project	-0-	22,254
Miscellaneous	4,524	2,356
Telephone	4,207	2,959
Annual meeting	358	362
Payroll taxes	7,287	4,953
Water protection	2,173	2,555
Water analysis	882	416
Auto expense	13,944	11,044
Clean water drinking fee	2,037	2,395
Interest expense	4,776	4,662
Engineering study	3,550	825
Total operating expenses	<u>728,395</u>	<u>670,169</u>
Net operating revenues	<u>24,161</u>	<u>38,491</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Statements of Activities and Changes in Net Position (continued)

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Nonoperating revenues:		
Interest revenue	\$ 2,020	\$ 2,352
Patronage refunds	538	436
Benefit units	8,750	3,000
Miscellaneous income	4,800	4,800
Total nonoperating revenues	<u>16,108</u>	<u>10,588</u>
Changes in net position	40,269	49,079
Net position:		
Beginning of year	1,587,685	1,472,914
Changes in net position inventory adjustment (Note 8)	-0-	65,692
End of year	<u>\$ 1,627,954</u>	<u>\$ 1,587,685</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Operating revenues	\$ 751,428	\$ 703,953
Payments to suppliers	(529,839)	(477,601)
Payments to utilities	(5,307)	(5,412)
Payments to employees	(95,286)	(65,063)
Payments for employees benefits	(18,127)	(13,849)
Payments for interest	(4,875)	(5,011)
Net cash provided by operating activities	<u>97,994</u>	<u>137,017</u>
Cash flows from capital financing activities:		
Proceeds from long term debt	-0-	220,000
Payments on long term debt	(36,153)	(14,381)
Construction in process	(15,441)	(5,000)
Purchases of capital assets	(28,989)	(120,186)
Payments on line of credit	-0-	(80,000)
Net cash provided (used) by financing activities	<u>(80,583)</u>	<u>433</u>
Cash flows from noncapital financing activities:		
Net cash provided (used) by noncapital financing activities	<u>-0-</u>	<u>-0-</u>
Cash flows from investing activities:		
Benefit units sold	8,750	3,000
Proceeds from maturities of investments	-0-	238,248
Interest on investments	2,103	2,187
Patronage refunds	577	702
Other income	4,700	4,800
Purchases of investments	(49,840)	(251,309)
Net cash used by investing activities	<u>(33,710)</u>	<u>(2,372)</u>
Net increase (decrease) in cash	(16,299)	135,078
Cash - beginning of the year	324,957	189,879
Cash - end of year	<u>\$ 308,658</u>	<u>\$ 324,957</u>

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Statements of Cash Flows (continued)

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	\$ 24,161	\$ 38,491
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation expense	84,521	101,430
Changes in assets and liabilities:		
Receivables, net	(1,128)	(4,707)
Stored materials	(6,838)	-0-
Prepaid insurance	(3,333)	(570)
Accounts payable	611	2,373
Net cash provided by operating activities	<u>\$ 97,994</u>	<u>\$ 137,017</u>
Noncash Transactions:		
Investment in electric cooperatives	\$ 538	\$ 436
Patronage refunds	\$ (538)	\$ (436)

See accompanying independent auditors' report and accompanying notes to financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

Nature of Organization

Rural Water District No. 4, Neosho-Labette County, Kansas (the District) is principally engaged in the retail sale of water.

Fund Description

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. This type of fund accounts for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges--or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conforms to accounting principles generally accepted in the United States of America, which recognizes revenues when water is sold rather than when cash is received and recognizes expenses when they are incurred rather than when they are paid.

Net Position

Net position comprise the various net earnings (loss) from operating income, nonoperating revenues and expenses, capital contributions, and special items. Net position is classified in the following three components:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, that portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District does not currently have any restricted net position.

Unrestricted net position - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Government. The financial statements presentation required by GASB No. 34, provides a comprehensive, entity-wide perspective of the District's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities.

Accounts Receivable

The District records water revenues when collected during the year with an adjustment at year end to record accounts receivable as of December 31. The District reviews the outstanding receivables on a regular basis for collectibility. An allowance for doubtful accounts was considered unnecessary at each respective year end.

Concentration of Credit Risk

Financial instruments which potentially subject the District to concentration of credit risk consist principally of cash and cash equivalents, certificates of deposit and accounts receivable. The District places its cash with high credit quality financial institutions. Accounts receivable are primarily from high quality customers, substantially all of whom are agricultural related.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the respective assets.

Maintenance, repairs and minor renewals are charged to operations as incurred. Renewals and betterments are capitalized as additions to the appropriate asset accounts.

Depreciation is computed on the following basis:

Office equipment	7 - 10 years
Transportation equipment	7 years
Water distribution system	10 - 40 years
Shop equipment	7 years
Building	39 years

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(1) Summary of Significant Accounting Policies (continued)

Stored Materials

Stored materials consist of maintenance supplies for District use and resale to water customers, which is valued at the lower of cost or market.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management does not believe that any differences would materially affect the District's financial position or results.

Investment in Electric Cooperatives

The investment in electric cooperatives is stated at the District's share of Patrons' equity allocated, net of distributions received.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents include demand deposits with two financial institutions.

Certificates of Deposit

At December 31, 2014, the certificates of deposit balance was comprised of two certificates from one financial institution earning interest at 0.35% each. At December 31, 2013, the certificate of deposit balance was comprised of one certificate from a financial institution earning an interest rate of 0.55%.

At December 31, 2014 and 2013, a certificate of deposit, in the amount of \$200,355 and \$250,690, respectively, was pledged as collateral on the District's long term debt.

Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of carrying amount of an asset to estimated future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment on long-lived assets at December 31, 2014 or 2013.

Income Taxes

The District is a not-for-profit quasi-municipal corporation for income tax purposes and is, thus, exempt from Federal and state income taxes. Accordingly, no provision for income taxes has been reported on these financial statements.

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(2) Deposits

At December 31, 2014 and 2013, the carrying amounts of the District's deposits were \$609,188 and \$575,647, respectively, and the aggregate bank balances were \$647,373 and \$613,535, respectively. The differences between the carrying amounts and the aggregate bank balances were outstanding checks and deposits in transit. At December 31, 2014 and 2013, \$375,855 and \$375,167, respectively, were covered by FDIC insurance. At December 31, 2014 and 2013, \$271,518 and \$238,368, respectively, were secured by pledged securities.

(3) Construction in Process

During 2011, the District entered into a mutual agreement with Public Wholesale Water Supply District No. 23 to finance, construct, operate and maintain a water tower storage facility, to be built on land held jointly by the two parties. All costs are to be shared equally. During 2013, this storage facility was completed and placed into service.

Included in Construction in Progress at December 31, 2014 are engineering cost of \$5,000 associated with construction of a booster station and construction costs of \$15,441 associated with the Highway 400 project moving lines which is being substantially reimbursed by the Kansas Department of Transportation.

Included in Construction in Progress at December 31, 2013 are engineering costs of \$5,000 associated with construction of a booster station.

(4) Schedule of Property, Plant and Equipment

For the year ended December 31, 2014 and 2013.

	Balance <u>12/31/2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/2014</u>
<u>Cost</u>				
Land	\$ 10,797	\$ -0-	\$ -0-	\$ 10,797
Office equipment	16,671	1,350	-0-	18,021
Transportation equipment	32,628	26,585	-0-	59,213
Shop equipment	1,239	-0-	-0-	1,239
Construction in process (Note 3)	5,000	15,441	-0-	20,441
Building	130,746	-0-	-0-	130,746
Water distribution system	<u>3,678,535</u>	<u>1,054</u>	<u>-0-</u>	<u>3,679,589</u>
	<u>3,875,616</u>	<u>44,430</u>	<u>-0-</u>	<u>3,920,046</u>
<u>Accumulated depreciation</u>				
Office equipment	15,399	801	-0-	16,200
Transportation equipment	32,050	4,592	-0-	36,642
Shop equipment	664	177	-0-	841
Building	11,974	3,353	-0-	15,327
Water distribution system	<u>2,748,364</u>	<u>75,598</u>	<u>-0-</u>	<u>2,823,962</u>
	<u>2,808,451</u>	<u>84,521</u>	<u>-0-</u>	<u>2,892,972</u>
Net property and equipment	<u>\$ 1,067,165</u>	<u>\$ (40,091)</u>	<u>\$ -0-</u>	<u>\$ 1,027,074</u>

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(5) Long Term Debt

Long term debt at December 31, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Note payable with interest at 2.55% per annum, due in monthly installments of \$2,866 including interest (last payment due July 30, 2020). Currently, the District is making monthly payments based on tower receipts which exceed the required monthly payment of \$2,866. Secured by certificate of deposit in the amount of \$200,355, and real estate mortgage at December 31, 2014.	\$ <u>169,466</u>	\$ <u>205,619</u>
Total long term debt, including current installments	169,466	205,619
Less current installments of long term debt	<u>37,000</u>	<u>29,000</u>
Total long term debt	\$ <u>132,466</u>	\$ <u>176,619</u>

Long term debt will become due as follows:

Year ending December 31, 2016	\$ 38,000
Year ending December 31, 2017	39,000
Year ending December 31, 2018	40,000
Year ending December 31, 2019	<u>15,466</u>
Total long term debt	\$ <u>132,466</u>

Rural Water District No. 4
Neosho-Labette County, Kansas

Notes to Financial Statements

December 31, 2014 and 2013

(6) Retirement Plan

The District maintains SIMPLE IRA, a defined contribution pension plan, accounts for its employees. The District contributes 3% of gross wages to the participating employees' SIMPLE IRA accounts. Contributions totaled \$1,649 and \$1,696 for the years ended December 31, 2014 and 2013, respectively.

(7) Major Vendors

The District had two major vendors which accounted for 99.36% and 99.51% of net water purchases for the years ended December 31, 2014 and 2013, respectively.

(8) Inventory Adjustment

Prior to January 1, 2013, the District's management had determined that stored materials were immaterial to the financial statements. Therefore, no stored materials valuation at December 31, 2012.

(9) Subsequent Events

The District did not have any reportable subsequent events through January 26, 2015, which is the date the financial statements were available to be issued, for events requiring recognition or disclosure in the financial statements for the year ended December 31, 2014.

SUPPLEMENTARY INFORMATION

Rural Water District No. 4
Neosho-Labette County, Kansas

Schedule of Insurance Coverage

December 31, 2014

<u>Coverage</u>		
Liability	\$	1,000,000
Building and contents coverage	\$	961,331
Professional Liability:		
Directors and officers	\$	1,000,000
Automobile	\$	1,000,000
Workers Compensation	\$	100,000/500,000
Fidelity bond:		
Treasurer and bookkeeper	\$	50,000

Public liability:	Employers Mutual Casualty Company
Building and contents:	Employers Mutual Casualty Company
Fidelity bond:	Ohio Casualty Insurance Company
Builders risk:	Employers Mutual Casualty Company

Officers and Directors

December 31, 2014

<u>Name</u>	<u>Expiration</u>	<u>Title</u>
Ron Giefer	2017	Chairman
Rex Houghton	2015	Vice-Chairman
Ron Simoncic	2015	Secretary
Tom Giefer	2017	Treasurer
Charlie Wheeler	2015	Director
Glen Novotny	2016	Director
Brenda Elsworth	2017	Director
Jim Lubbers	2017	Director
Wes Roberts	2016	Director