

Accounting

Certified Public Accountants
A Professional Association

March 17, 2015

To the Board of Directors
Rural Water District No. 7, Jefferson County, Kansas

We have audited the financial statements of the business-type activities for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

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 Rural Water District No. 7, Jefferson County, Kansas 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 2014. We noted no transactions entered into by the governmental unit during the year 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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, internal control for the District is limited due to there being limited office personnel. As this is a single person office, separation of duties is not possible.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 17, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

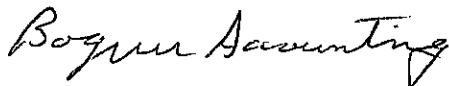
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

(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 which demonstrate compliance with the cash basis and budget laws of Kansas, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit to the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Rural Water District No. 7, Jefferson County, Kansas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Bogner Accounting
A Professional Association
Certified Public Accountants

RURAL WATER DISTRICT NO. 7,
JEFFERSON COUNTY, KANSAS

REGULATORY BASIS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2014

AND

INDEPENDENT AUDITORS' REPORT

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

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Certified Public Accountants
A Professional Association

Board of Directors
Rural Water District No. 7, Jefferson County, Kansas
Oskaloosa, Kansas

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 7, Jefferson County, Kansas, as of and for the year ended December 31, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 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 statement.

We believe that the audit evidences 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. 7, Jefferson 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. 7, Jefferson 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. 7, Jefferson 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 Regulatory-Required 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 summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are 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.



BOGNER ACCOUNTING
A Professional Association
Certified Public Accountants

March 17, 2015

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS
 Summary Statement of Receipts, Expenditures and Unencumbered Cash
 For the Year Ended December 31, 2014

Statement 1

Funds	Beginning Unencumbered Cash	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Type Funds:							
Water Utility	\$ 2,150,573	\$ 0	\$ 401,978	\$ 294,919	\$ 2,257,632	\$	\$ 2,257,632
Total Reporting Entity	<u>\$ 2,150,573</u>	<u>\$ 0</u>	<u>\$ 401,978</u>	<u>\$ 294,919</u>	<u>\$ 2,257,632</u>	<u>\$ 0</u>	<u>\$ 2,257,632</u>

Composition of Cash:

Certificates of Deposit	\$ 1,796,758
Checking Account	460,874
Total Reporting Entity	<u>\$ 2,257,632</u>

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

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Regulatory Basis Fund Types

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 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 revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless the 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.

The municipality 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.

Definition of Entity

The Rural Water District No. 7, Jefferson County, Kansas (the District) is a water utility that provides service to 650 customers as of December 31, 2014. The District was organized as a quasi-municipal corporation to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the District.

RWD No. 7 is a municipal corporation governed by an elected five member board. The District as an entity has been defined to include, on a combined basis, (a) RWD No. 7, (b) organizations for which RWD No. 7 is financially accountable, and (c) other organizations for which the nature and significance of their relationship with RWD No. 7 are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the District's report.

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies (continued)

Income Taxes

The District is exempt from income taxes under Section 115 of the Internal Revenue Code both because it is a public utility under Section 247 and because it is a political subdivision of the State of Kansas (K.S.A. 82a-601, et. seq.).

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the Municipality. The statute requires banks eligible to hold the Municipality's funds have a main or branch bank in the county in which the Municipality is located, or in an adjoining county if such institution has been designated as an official depository, and the bank 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 Municipality has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Municipality'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 Municipality has no investment policy that would further limit its investment choices. The Municipality had no investments during 2014.

Concentration of Credit Risk

State statutes place no limit on the amount the Municipality may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The District had no investments as of December 31, 2014.

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - Deposits and Investments (continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Municipality's deposits may not be returned to it. State statutes require the Municipality's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. Deposits were not legally secured at December 31, 2014.

At December 31, 2014, the Municipality's carrying amount of deposits was \$2,257,632 and the bank balance was \$2,265,956. The bank balance was held by numerous banks. Of the bank balance, \$1,839,758 was covered by federal depository insurance and the balance was collateralized with securities held by the pledging financial institutions' agents in the Municipality's name. Adequate securities were not pledged at December 31, 2014.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Municipality will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The Municipality had no investments during 2014.

NOTE 3 - Compliance with Kansas Statutes

A statutory violation was noted during the period under audit related to depository securities.

NOTE 4 - Risk Management

The Municipality is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Municipality carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - Other Long-Term Obligations from Operations

Other Post Employment Benefits - As provided by K.S.A. 12-5040, the municipality allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of applicable premium, conceptually, the municipality is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of the subsidy has not been quantified in the financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the municipality makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 6 - Long-Term Debt

The Municipality had no indebtedness during 2014.

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS
 Summary of Expenditures - Actual and Budget
 For the Year Ended December 31, 2014

Schedule 1

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Proprietary Type Funds:					
Water Utility	\$ 338,004	\$ 0	\$ 338,004	\$ 294,919	\$ (43,085)

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS
 WATER UTILITY FUND
 Schedule of Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2014

Schedule 2

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
CASH RECEIPTS			
Charges for services	\$ 390,790	\$ 327,996	\$ 62,794
Interest income	11,188	12,996	(1,808)
Total Cash Receipts	<u>401,978</u>	<u>340,992</u>	<u>60,986</u>
EXPENDITURES			
Personnel	144,507	150,000	(5,493)
Commodities	45,511	33,000	12,511
Capital outlay	9,963	32,004	(22,041)
Contractual services	94,938	123,000	(28,062)
Total Expenditures	<u>294,919</u>	<u>338,004</u>	<u>(43,085)</u>
Receipts Over (Under) Expenditures	107,059		
Unencumbered Cash, Beginning	2,150,573		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 2,257,632</u>		

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Accounting

Certified Public Accountants
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To the Board of Directors
Rural Water District No. 7, Jefferson County, Kansas
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Independent Auditors' Report on Supplemental Information

Our report on our audit of the basic financial statement of Rural Water District No. 7, Jefferson County, Kansas for 2014 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information presented on pages 11-13 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information, except for accounts receivable, has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The supplemental schedules on pages 11 and 12 differ from the information presented in the basic financial statements, which are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas.

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March 17, 2015

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

SCHEDULE OF ASSETS, LIABILITIES AND
DISTRICT EQUITY - ACCRUAL BASIS
As of December 31, 2014

Assets	
Current assets	
Cash	\$ 2,257,632
Accounts receivable	<u>21,052</u>
Total current assets	<u>2,278,684</u>
Property and equipment, net	<u>362,770</u>
Total assets	<u>\$ 2,641,454</u>
Liabilities and District Equity	
Current liabilities	
Accounts payable	\$ <u>0</u>
Total current liabilities	<u>0</u>
District Equity	
Equity	<u>2,641,454</u>
Total liabilities and district equity	<u>\$ 2,641,454</u>

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

SCHEDULE OF REVENUES AND EXPENSES -
ACCRUAL BASIS

For the year ended December 31, 2014

Operating revenues	
Water sales and new meters	<u>\$ 397,051</u>
Total revenues	<u>397,051</u>
Operating expenses	
Payroll expenses	144,507
Repair and maintenance	13,266
Utilities and telephone	52,079
Insurance and bonds	11,260
Taxes	3,035
Office supplies	9,155
Professional and other services	6,144
Operating supplies	45,511
Depreciation	<u>103,259</u>
Total operating expenses	<u>388,216</u>
Income from operations	8,835
Other income (expense)	
Interest income	<u>11,188</u>
Net income	20,023
Fund balance as of December 31, 2013	<u>2,621,431</u>
Fund balance as of December 31, 2014	<u>\$ 2,641,454</u>

RURAL WATER DISTRICT NO. 7, JEFFERSON COUNTY, KANSAS

SCHEDULE OF FIXED ASSET
 ADDITIONS AND RETIREMENTS
 As of December 31, 2014

	<u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014</u>
Rural water system	\$ 2,457,616	\$ 9,962	\$	\$ 2,485,578
Land	42,600			42,600
Less accumulated depreciation	<u>(2,062,149)</u>	<u>(103,259)</u>	—	<u>(2,165,408)</u>
Property and equipment, net	<u>\$ 456,067</u>	<u>\$ (85,632)</u>	<u>\$ 0</u>	<u>\$ 362,770</u>