

**RURAL WATER DISTRICT NO. 8**

Allen County, Kansas

Independent Auditors' Report  
and Financial Statement with  
Supplementary Information

For the Year Ended  
December 31, 2014

**RURAL WATER DISTRICT NO. 8**  
Allen County, Kansas

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**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Rural Water District No. 8  
Allen County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 8, Allen County, Kansas, as of and for the year ended December 31, 2014, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 2 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 2 of the financial statement, the financial statement is prepared by Rural Water District No. 8, Allen 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 2 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. 8, Allen 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. 8, Allen 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 2.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole.

The individual fund schedule of regulatory basis receipts and expenditures-actual and budget (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 2.

The 2013 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2014 basic financial statement upon which we rendered an unmodified opinion dated February 18, 2014. The 2013 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2013 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The 2013 comparative information

was subjected to the auditing procedures applied in the audit of the 2013 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 2013 basic financial statement or to the 2013 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 2013 comparative information is fairly stated in all material respects in relation to the 2013 basic financial statement as a whole, on the basis of accounting described in Note 2.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

March 20, 2015  
Chanute, Kansas

**Statement 1**

**RURAL WATER DISTRICT NO. 8**

Allen County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash  
Regulatory Basis

For the Year Ended December 31, 2014

Funds	Beginning		Receipts	Expenditures	Ending		Add Encumbrances and Accounts Payable	Ending Cash December 31, 2014
	Unencumbered Cash Balance	Unencumbered Cash Balance			Unencumbered Cash Balance	Unencumbered Cash Balance		
Business Funds:								
Water Utility	\$ 402,740.62	\$ 402,740.62	\$ 175,532.33	\$ 186,987.30	\$ 391,285.65	\$ 4,045.28	\$ 395,330.93	
Total Reporting Entity	\$ 402,740.62	\$ 402,740.62	\$ 175,532.33	\$ 186,987.30	\$ 391,285.65	\$ 4,045.28	\$ 395,330.93	
Composition of Cash:								
Petty Cash.....							\$ 48.28	
Community National Bank and Trust								155,232.37
Checking Account.....								143,452.09
Certificates of Deposit.....								19,879.31
Emprise Bank								76,718.88
Certificates of Deposit.....								
Great Southern Bank								
Certificates of Deposit.....								
Total Cash.....							\$ 395,330.93	

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

## **RURAL WATER DISTRICT NO. 8**

Allen County, Kansas  
Notes to Financial Statements  
December 31, 2014

### **1. NATURE OF ORGANIZATION**

#### Organization and Purpose

Rural Water District No. 8, Allen County, Kansas, (the District) sells water to customers in Allen County. While some of the water is purchased from the City of Iola, Kansas, the majority of the water is purchased from Public Wholesale Water Supply District No. 5 and is then sold to members of the District.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Financial Reporting Entity

Rural Water District No. 8, Allen County, Kansas, is a municipal corporation governed by an elected five-member board.

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

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

#### Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the Rural Water District No. 8, Allen County, Kansas for the year of 2014:

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.)

#### Basis of Accounting

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### Basis of Accounting (Continued)

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.

### Property and Equipment

The accounting and reporting treatment used for property and equipment under the cash basis laws of Kansas require that property and equipment be recorded as an expenditure during the year of purchase.

### Income Taxes

Rural Water District No. 8, Allen County, Kansas, is recognized by the Internal Revenue Service as a quasi-municipal corporation, under K.S.A. 88a-616, and is exempt from Federal and state income taxes. Accordingly, these financial statements do not include a provision for income taxes.

### Use of Estimates

Estimates and assumptions are used by management in preparing the financial statements. Those estimates and assumptions affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

### Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statements presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the District and are often difficult to identify the exact expenditure which they are reimbursing.

## **3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### Compliance with Kansas Statutes

Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas.

## **4. DEPOSITS AND INVESTMENTS**

K.S.A 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main branch or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

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.

**4. DEPOSITS AND INVESTMENTS (Continued)**

*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 District, or the Federal Home Loan Bank of Topeka.

*Deposits -* At December 31, 2014, the carrying amount of the District's deposits, including certificates of deposit was \$395,282.65 and the bank balance was \$410,223.21. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$346,598.19 was covered by Federal depository insurance and \$63,625.02 was collateralized with pledged securities held by the pledging financial institutions' agents in the District's name.

**5. BENEFIT UNIT DEPOSITS**

Individuals joining the water district are required to purchase a benefit unit for the right to be a member. The cost of a benefit unit was \$1,500.00 January through September and was increased to \$2,000.00 as of October 1, 2014. \$1,000.00 of the deposit is used towards initialization and the remaining \$1,000.00 is considered a benefit unit. In 2014 there were nine benefit units added totaling \$14,000.00.

**6. ECONOMIC DEPENDENCY**

Currently, the District purchases water from Public Wholesale Water Supply District #5 and the city of Iola, Kansas. To continue serving its patrons, the District is dependent upon Public Wholesale Water Supply District #5 and the City of Iola, Kansas to provide adequate, reasonably priced water. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the ability to purchase water from the Public Wholesale Water Supply District #5 and the City of Iola, Kansas.

**7. CONCENTRATION OF RISK**

The District's customers are located in Allen County. Risk of accounting loss exists from the possibility that several customers would no longer purchase water from the District. Impact of potential risk cannot be determined. Accounts receivable consist of unsecured receivables from the sales of water to customers of the District. The District is subject to the credit risk inherent in the rural water district business.

**8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through purchase of various insurance policies.

**9. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2014, the District paid \$9,016.43 for contract labor to the District bookkeeper's spouse.

**10. SUBSEQUENT EVENTS**

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

## **SUPPLEMENTARY INFORMATION**

**RURAL WATER DISTRICT NO. 8**

Allen County, Kansas

Water Utility Fund

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2014

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

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
<b>Receipts</b>				
Charges for Services				
Water Sales	\$ 159,326.28	\$ 160,470.67	\$ 160,000.00	\$ 470.67
Use of Money and Property				
Interest Income	1,163.85	1,061.66	1,000.00	61.66
Other Receipts				
Benefit Units Sold	4,500.00	14,000.00	4,500.00	9,500.00
<b>Total Receipts</b>	<b>164,990.13</b>	<b>175,532.33</b>	<b>\$ 165,500.00</b>	<b>\$ 10,032.33</b>
<b>Expenditures</b>				
Personnel				
Salaries	26,753.75	30,050.00	\$ 30,000.00	\$ 50.00
Payroll Taxes	2,309.51	2,332.62	1,000.00	1,332.62
Commodities				
Water Purchases	105,043.28	113,161.57	110,000.00	3,161.57
Software	2,185.75	1,042.06	1,200.00	(157.94)
Meals	1,230.00	856.09	1,500.00	(643.91)
Office	127.24	1,318.81	500.00	818.81
Postage	1,340.24	1,654.60	1,000.00	654.60
Supplies	4,016.89	1,661.22	6,000.00	(4,338.78)
Contractual				
Advertising	53.40	-	50.00	(50.00)
Annual Meeting	-	20.34	-	20.34
Annual Report	-	-	500.00	(500.00)
Audit Expense	1,975.00	2,445.00	2,500.00	(55.00)
Bad Debt	-	-	100.00	(100.00)
Bank Charges	146.24	620.65	50.00	570.65
Benefit Unit Refund	-	-	-	-
Contract Labor	17,554.99	16,826.99	25,000.00	(8,173.01)
Dues and Subscriptions	317.00	317.00	500.00	(183.00)
Education	-	-	500.00	(500.00)
Insurance	2,693.00	335.00	2,500.00	(2,165.00)
Lab Tests	617.00	920.00	1,000.00	(80.00)
Legal and Professional	500.00	544.50	1,500.00	(955.50)
Miscellaneous	100.00	300.00	500.00	(200.00)

**RURAL WATER DISTRICT NO. 8**

Allen County, Kansas

Water Utility Fund

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2014

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

	Prior Year Actual	Current Year		Variance - Over (Under)
		Actual	Budget	
Expenditures (Continued)				
Contractual (Continued)				
Printing and Reproduction	\$ 213.72	\$ -	\$ 500.00	\$ (500.00)
Rent	15.00	-	-	-
Repairs	1,850.00	-	26,000.00	(26,000.00)
Travel	471.94	-	1,000.00	(1,000.00)
Training	295.00	-	500.00	(500.00)
Utilities	2,174.19	1,534.41	2,500.00	(965.59)
Water Line	1,126.40	9,256.76	3,000.00	6,256.76
Water Protection Fees	997.58	1,789.68	2,000.00	(210.32)
Capital Outlay				
Equipment Purchases	1,888.89	-	1,000.00	(1,000.00)
Total Expenditures	175,996.01	186,987.30	\$ 222,400.00	\$ (35,412.70)
Receipts Over (Under) Expenditures	(11,005.88)	(11,454.97)		
Unencumbered Cash, Beginning	413,746.50	402,740.62		
Unencumbered Cash, Ending	\$ 402,740.62	\$ 391,285.65		



Board of Directors  
Rural Water District No. 8  
Allen County, Kansas

In planning and performing our audit of the financial statement of Rural Water District No. 8, Allen County, Kansas, as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Rural Water District No. 8's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Rural Water District No. 8's internal control to be material weaknesses:

#### Preparation of Financial Statements

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

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**Jarred, Gilmore & Phillips, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

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

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



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

March 20, 2015  
Chanute, Kansas