

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS

FINANCIAL STATEMENTS  
And  
INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2017

Cummins, Coffman & Schmidtlein, CPA's, P.A.  
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CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Consolidated Rural Water District No. 1  
Shawnee County, Kansas

We have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 1 as of and for the year ended December 31, 2017, 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 business-type activities of the Consolidated Rural Water District No. 1 as of December 31, 2017, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

### *Required Supplementary Information*

Management has omitted Management's 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 missing information, although not a part of the basic financial statements, is considered to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Consolidated Rural Water District No. 1 financial statements as a whole. The Schedule of Insurance Coverage is the responsibility of management and was derived from and relate 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.



Cummins, Coffman & Schmidlein, CPA's, P.A.  
Topeka, Kansas  
March 2, 2018

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
STATEMENT OF NET POSITION  
For the Year Ended December 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 543,265
Certificates of Deposit	361,186
Accounts receivable	107,839
Inventory	110,262
Prepaid expense	19,495
Total current assets	<u>1,142,047</u>

NONCURRENT ASSETS

Capital assets, net	3,037,740
Restricted bond reserve	200,000
Total noncurrent assets	<u>3,237,740</u>
Total Assets	<u>\$ 4,379,787</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 42,205
Accrued interest	8,070
Accrued wages	16,417
Other liabilities	1,729
Current maturities of long-term debt	250,000
Total current liabilities	<u>318,421</u>

NONCURRENT LIABILITIES

Long-term debt, net of current maturities	565,000
Less: Unamortized debt issuance cost	9,922
Total long-term debt, net of current maturities	
less unamortized debt issuance costs	<u>555,078</u>
Accrued paid time off	18,218
Total noncurrent liabilities	<u>573,296</u>
Total Liabilities	<u>891,717</u>

NET POSITION

Invested in capital assets, net of related debt	2,222,740
Restricted	200,000
Unrestricted	1,065,330
Total net position	<u>3,488,070</u>

Total Liabilities and Net Position	<u>\$ 4,379,787</u>
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The accompanying notes are an integral part of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION  
For the Year Ended December 31, 2017

REVENUES

Water sales	\$ 711,521
Water sales – minimum	543,789
Penalty charges	24,532
Other revenue	1,500
Total revenues	<u>1,281,342</u>

EXPENSES

Wages	154,553
Payroll taxes	12,787
Retirement	13,541
Employee benefits	37,427
Director's expense	2,000
Depreciation	351,702
Water purchased	469,349
Professional fees	10,488
Insurance	20,972
Repairs and maintenance	68,851
Mileage	15,692
Office expense	9,098
Postage	7,258
Utilities	25,584
Telephone	5,868
Engineering	3,873
Lab testing	7,283
Dues and subscriptions	920
Interest	18,770
Interest on debt issuance cost	2,752
Miscellaneous	1,876
Total expenses	<u>1,240,644</u>
Operating income	<u>40,698</u>

NON-OPERATING REVENUES (EXPENSE)

Interest income	4,301
Dividend income	6,385
Refunds and rebates	958
Total other income (expenses)	<u>11,644</u>

NET INCOME (LOSS) BEFORE CONTRIBUTIONS

52,342

CAPITAL CONTRIBUTIONS

Benefit units sold	<u>47,225</u>
Total capital contributions	<u>47,225</u>

Change in net position	99,567
Net position, beginning of year	<u>3,388,503</u>
Net position, end of year	<u>\$ 3,488,070</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2017

Cash Flows From (Used In) Operating Activities:	
Receipts from customers	\$ 1,259,824
Receipts from other revenues	21,518
Payments to suppliers for goods and services	(742,384)
Payments to employees for services	(145,829)
Payments for interest expense	(18,770)
Net cash from (used in) operating activities	<u>374,359</u>
Cash Flows From (Used In) Investing Activities:	
Interest income	4,301
Dividend income	7,344
Net change in certificates of deposit	(200,467)
Net change in restricted cash	210,457
Purchase of capital assets	(247,016)
Net cash from (used in) investing activities	<u>(225,381)</u>
Cash Flows From (Used In) Financing Activities:	
Principal paid on capital debt	(245,000)
Benefit units sold	47,225
Net cash from (used in) financing activities	<u>(197,775)</u>
Net increase (decrease) in cash and cash equivalents	(48,797)
Cash and cash equivalents, beginning of year	592,062
Cash and cash equivalents, end of year	<u>\$ 543,265</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 40,698
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	351,702
Amortization from debt issuance cost	2,752
(Increase) decrease in operating assets:	
Accounts receivable	(3,219)
Inventory	2,473
Prepaid insurance	(2,121)
Increase (decrease) in operating liabilities:	
Accounts payable	(36,098)
Accrued wages	(1,821)
Other liabilities	19,993
Net cash provided by operating activities	<u>\$ 374,359</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Consolidated Rural Water District No. 1, Shawnee County, Kansas (the "District") was organized under Kansas law and is account for as a proprietary fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, other purposes. The District provides services to patrons in a portion of Shawnee County.

Basis of Accounting

The financial statements of the District are prepared using the accrual method of accounting. Accordingly, revenues are recorded when earned and expenses are recognized when incurred, regardless of the timing of payments.

Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purposes of the statement of cash flows, the District considers petty cash, money market, and operating cash in bank accounts as cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of current and past due water usage charges and other charges for late fees. The District considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is considered necessary. In the event accounts become uncollectible, they are charged to operations at the time that determination is made. The accounts receivable balance at December 31, 2017, is \$107,839.

Inventories

Inventories consist of pipe and parts and are recorded at historical cost.



CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair, which do not extend the life of the applicable assets, are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss are reflected in the statements of activities.

Depreciation of Capital Assets

Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	20-50
Distribution system	7-50
Tanks and towers	10-50
Wells and pump house	25-50
Easements	50
Office equipment	5
Equipment	5-10
Chlorination system	10
Vehicles	5

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for a range of \$2,200, \$7,500, and \$12,000, depending on size.

Debt Issue Costs

Costs related to the issuance of debt have been capitalized and are being amortized on a straight-line basis over the term of the debt.

Revenue Recognition

Operating revenues consist of those revenues that result from the ongoing principal operations of the District and are recognized when earned. Revenues from the line extensions and the sale of meters are deferred until the District has completed the line of extensions and set the meters.

Income Taxes

The District is a tax-exempt governmental entity and is not subject to income taxes at either the federal or state level. While the District is not required to file tax returns, the payroll activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS (continued)  
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses

Operating revenues and result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Certificates of Deposits

The District holds Certificate of Deposit accounts at financial institutions that they do not consider to be part of cash and cash equivalents. Amounts deposited into these accounts earn interest at rates that range from .25% to .44% for the year ended December 31, 2017. The values of these accounts are recorded at cost which closely approximates fair value. The District holds three Certificates of Deposit in which they have unrestricted access to the funds. The balance of these Certificates of Deposit for the year ended December 31, 2017 was \$361,186. The District holds two Certificates of Deposit which are restricted until the repayment of the Bond funds, upon which, these funds will be released from restriction. Total amounts held in restricted Certificate of Deposit accounts for the year ended December 31, 2017 was \$200,000.

Net Position

Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This represents the District’s total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

Unrestricted – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS (continued)  
December 31, 2017

NOTE 2 CAPITAL ASSETS

Capital assets, together with activity for the year ended December 31, 2017, consisted of the following:

Depreciable capital assets	
Buildings	\$ 52,552
Distribution system	6,782,207
Tanks and towers	1,449,119
Wells and pump house	354,245
Easements	7,865
Office equipment	57,182
Equipment	39,533
Chlorination system	20,065
Vehicles	28,437
	<hr/> 8,791,205
Less: accumulated depreciation	<hr/> 5,790,159
	<hr/> 3,001,046
Depreciable capital assets, net	
Non-depreciable capital assets	
Land	<hr/> 36,694
Non- depreciable capital assets, net	<hr/> 36,694
Total capital assets	<hr/> <hr/> \$ 3,037,740

Depreciation expense was \$351,702 for the year ended December 31, 2017.

NOTE 3 LONG-TERM DEBT

Long-term debt consists of Water System Revenue Bonds issued to the United States Department of Agriculture Office and Land Development in the amount of \$1,990,000 with a range of maturity dates of 2016 to 2021, with interest rates of 1.55% to 2.25%, payable semi-annually from utility revenues and secured by these revenues. The proceeds from this issue was used to retire the loan from KDHE.

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	Beginning Principal Outstanding	Additions to Principal	Reductions of Principal	Ending Principal Outstanding
Revenue Bonds:				
Series 2012	\$ 1,060,000	\$ -	\$ 245,000	\$ 815,000

Debt issuance costs, net of accumulated amortization of \$9,922 as of December 31, 2017, are being amortized over the life of the bond payable at \$2,752 or .0013% per year.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS (continued)  
December 31, 2017

NOTE 3 LONG-TERM DEBT (continued)

The annual debt service requirements to maturity for bonded debt as of December 31, 2017, are as follows:

Year Ending December 31,	Principal	Interest Rate
2018	\$ 250,000	1.75%
2019	255,000	2.00%
2020	260,000	2.15%
2021	50,000	2.15%
Total	815,000	
Less current portion	250,000	
	\$ 565,000	

The District has a sinking bond fund reserve with mandatory redemption beginning in August of 2017 and yearly thereafter until the final maturity of the term bond.

Interest expense on long-term debt consists of interest payment of \$18,770 and debt issuance cost interest expense of \$2,752 for the year ended December 31, 2017.

NOTE 4 DEFINED BENEFIT PENSION PLANS

Plan Description

The District participates in the Kansas Public Employee Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amend benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on KPERS website at [www.kpers.org](http://www.kpers.org) , by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603), or by calling 1-888-275-5737.

NOTE 4 DEFINED BENEFIT PENSION PLANS(continued)

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2017 ranged from 9.18% to 10.18%. The District employer contributions to KPERS for the year ended December 31, 2017, was \$13,541 equal to the required contributions for that year.

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
NOTES TO FINANCIAL STATEMENTS (continued)  
December 31, 2017

NOTE 5 CONCENTRATION OF CREDIT RISK AND VENDORS

The District is engaged in the sale of water to customers located in the area in Shawnee County, Kansas. The District grants credit to those customers and requires no collateral.

As of December 31, 2017, approximately 75% of the District's accounts payable was due to one vendor.

NOTE 6 CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

At December 31, 2017, cash balances are comprised of demand deposits and certificates of deposit. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposits at all times. The District has no other policies that would further limit this risk.

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits in excess of coverage may be lost. At December 31, 2017, the District's carrying amounts of deposits, including certificates of deposit, was \$1,104,151, and the bank balance was \$1,104,151, of which \$250,000 was covered by FDIC insurance. \$759,367 was collateralized by securities held in safekeeping pledged to the District. The District was exposed to credit risk in the amount of \$94,784 at December 31, 2017 for amounts exceeding coverage.

NOTE 7 COMPENSATED ABSENCES

The District has a paid time off policy program for employees, which includes vacation and sickness. Employees with less than five years or less of service are eligible for two weeks of vacation. Employees with more than five years of service are eligible for three weeks of vacation. An employee may carryover a maximum of 105 hours (3 weeks) of unused vacation into the next calendar year. At the time which employment ends, all accumulated vacation is paid out to the employee at their current hourly rate. All employees, regardless of tenure, receive sick leave credits. Each employee receives one day of sick leave to accrue per month starting on the first day of employment. Accumulated sick leave up to 490 hours can be carried over into the next calendar year. Accumulated hours over that threshold will be reimbursed to the employee at 50% of their current hourly rate in the month following each calendar year. At the time which employment ends, all accumulated sick leave is paid out to the employee at 50% of their current hourly rate. Accrued paid time off for the year ended December 31, 2017 was \$18,218.

NOTE 8 SUBSEQUENT EVENT

Subsequent events were evaluated through the date of the audit report, which is the date the financial statements were available to be issued. No events were found requiring disclosure in these financial statements.

## SUPPLEMENTARY INFORMATION

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
SHAWNEE COUNTY, KANSAS  
SCHEDULE OF INSURANCE COVERAGE  
For the Year Ended December 31, 2017

The District insurance policy is provided by Elliott Insurance, with a premium of \$21,290 and covers the period November 5, 2017 to November 4, 2018. It provides the following coverage:

	<u>Coverage</u>
Building and personal property	\$ 3,819,963
General liability	500,000 / 1,000,000
Contractors equipment	25,000
Linebacker	1,000,000/ 1,000,000
Employee theft	300,000
Equipment	54,547
Auto liability	500,000
Inventory	118,600
Worker's compensation	500,000
Data liability	50,000