

**CONSOLIDATED  
RURAL WATER DISTRICT #1, INC.  
ANDERSON COUNTY, KANSAS**

Regulatory Basis Financial Statement,  
Independent Auditors' Report, and  
Regulatory-Required Supplementary Information  
For the Year Ended  
December 31, 2017

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.,  
ANDERSON COUNTY, KANSAS**

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# Diehl Banwart Bolton

*Certified Public Accountants PA*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and management  
Consolidated Rural Water District #1, Inc.  
Anderson County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Consolidated Rural Water District #1, Inc., Anderson County, Kansas, as of and for the year ended December 31, 2017 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 1; 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.

### **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 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 1 of the financial statement, the financial statement is prepared by Consolidated Rural Water District #1, Inc., Anderson County, 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 Consolidated Rural Water District #1, Inc., Anderson County, Kansas as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

#### **Unqualified 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 the Consolidated Rural Water District #1, Inc., Anderson County, Kansas as of December 31, 2017, 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.

#### **Other Matters**

##### **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 schedule of regulatory basis receipts and expenditures-actual (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 1.

The 2016 Actual column presented in the schedule of regulatory basis receipt and expenditures-actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2016 basic financial statement upon which we rendered an unmodified opinion dated January 30, 2017. The 2016 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://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2016 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 2016 basic financial statement. The 2016 comparative information was subjected to the auditing procedures applied in the audit of the 2016 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 2016 basic financial statement or to the 2016 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 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note 1.



DIEHL, BANWART, BOLTON, CPAs PA

February 10, 2018  
Fort Scott, Kansas

## For the Year Ended December 31, 2017

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

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.  
ANDERSON COUNTY, KANSAS**

Notes to Financial Statement  
For the Year Ended December 31, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of Consolidated Rural Water District #1, Inc., Anderson County, Kansas (the District) has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMAAG) as approved by the Director of the Kansas Division of Accounts and Reports establish the guidelines for the regulatory basis of accounting in the State of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: The District is located in Anderson County, Kansas. The Anderson County Rural Water District #6, Inc., was organized in the late 1970's to provide water to residents of rural Anderson County. The Municipality began purchasing and selling water in March 1988. In 2004, Anderson RWD #6 consolidated with Anderson RWD #2 to form the Consolidated Rural Water District. The Municipality purchases treated water from the City of Garnett, Kansas (the City) and Public Wholesale Water Supply District #13 (PWWSO #13), and sells the water to approximately 733 customers as of December 31. To continue serving its patrons, the District is dependent upon the City and PWWSO #13 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 economic conditions of the area.

Financial Reporting Entity

The District is a municipal corporation governed by an elected nine member council. The financial statement presents Consolidated Rural Water District #1, Inc., Anderson County, Kansas (primary government). There are no separate related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation and Basis of Accounting

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, restriction, or limitations.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the District:

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 receipts 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.

The District 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 District to use the regulatory basis of accounting.

Budgetary Information

Kansas statutes do not require budgets for rural water districts.

Deposits and Investments

Deposits and investments include money market checking accounts, a savings account, and certificates of deposit. Kansas statutes permit investments in checking accounts, savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences

The District does not provide sick or vacation benefits beyond the year earned.

Income Taxes: The District is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits

The District does not offer termination or post employment benefits.

2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Compliance with Finance-Related Legal and Contractual Provisions

This financial statement has been prepared in order to show compliance with the cash basis laws and Statutes of the State of Kansas. The District was in apparent compliance with the cash basis laws and Statutes of the State of Kansas.

### 3. CASH, INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS

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 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, but has limited the investments to time deposits at the local bank.

*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 City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated. All deposits were legally secured at December 31, 2017.

At December 31, 2017 the District's carrying amount of deposits was \$1,337,241.13 and the bank balance was \$1,334,560.75. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance, and \$1,084,560.76 was collateralized with securities totaling \$1,325,604.00 held by the pledging financial institutions' agents in the District's name.

### 4. BENEFIT UNIT DEPOSITS

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. In 2017, there were three new benefit units and deposits added totaling \$40,000.

### 5. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The District manages these risks of loss by carrying various commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.



## 6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Machinery	7 Years
Office Equipment	5 Years
Plant and Equipment	10 to 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets changed for the year as follows:

Fixed Assets	Beginning Balance	Additions	Adjustments	Ending Balance
Materials & Construction	\$ 4,052,548.81	\$ 65,551.93	\$ -	\$ 4,118,100.74
Engineering Fees	214,030.04	-	-	214,030.04
Legal & Title	54,791.47	-	-	54,791.47
Easements	21,752.50	-	-	21,752.50
Capitalized Interest	33,974.07	-	-	33,974.07
Office Equipment	30,092.68	-	-	30,092.68
Anderson RWD2	-	-	-	-
Plant and Improvement	1,260,673.31	-	-	1,260,673.31
Equipment	144,413.21	-	-	144,413.21
	<u>\$ 5,812,276.09</u>	<u>\$ 65,551.93</u>	<u>\$ -</u>	<u>\$ 5,877,828.02</u>
Accumulated Depreciation				
Anderson Consolidated RWD 1	\$ 2,238,641.85	\$ 115,135.94	\$ -	\$ 2,353,777.79
Anderson RWD2	677,755.63	31,516.83	-	709,272.46
Totals	<u>\$ 2,916,397.48</u>	<u>\$ 146,652.77</u>	<u>\$ -</u>	<u>\$ 3,063,050.25</u>

## 7. LONG-TERM DEBT

The District issued Water Refunding and Improvement Revenue Bonds Payable, Series 2007, totaling \$1,500,000.00 dated November 15, 2007, payable in annual principal payments of \$50,000.00 to \$110,000.00 plus semi-annual payments of interest at 3.60% to 4.90%, with final payment due on June 1, 2027. The bonds are secured by the revenue generated by the District's water system. The bonds were issued to pay off the District's 2001 Water Revenue bonds totaling \$1,055,000 plus interest. Additional funds of \$443,287.50 were provided to fund capital improvements of the District.

7. **LONG-TERM DEBT** (Continued)

On May 30, 2017 the District issued the Water System Revenue Refunding Bonds, Series 2017, to advance refund of the Series 2007 Water System Refunding Bonds outstanding. The District issued the refunding bonds in order to take advantage of lower market interest rates. The 2017 Bonds bear interest at rates ranging from 1.50% to 4.00%, whereas the 2002 Bonds bear interest at rates ranging from 4.40 to 4.90%. The proceeds of the Series 2017 Bonds were used to redeem the principal on the 2007 bond, pay the outstanding interest on the 2007 bonds, and cover the bond issue expense. The refunding bonds resulted in a net reduction in debt service payments of \$159,904.75 over the life of the bonds, and a net present value cash flow savings of \$102,459.04 using the bond yield interest rate.

Changes in long-term liabilities for the District for the year ended December 31, 2017 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity
Revenue Bonds				
Water Utility Series 2017	3.6-4.9%	5/3/2017	\$ 650,000	6/1/2022
Water Utility Series 2010	1.5-4.0%	2/25/2010	625,000	12/1/2022

  

Issue	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Revenue Bonds					
Water Utility Series 2007	\$ 975,000.00	\$ -	\$ 975,000.00	\$ -	\$ 19,839.01
Water Utility Series 2010	340,000.00	-	55,000.00	285,000.00	12,695.00
Water Utility Series 2017	-	650,000.00	110,000.00	540,000.00	5,599.00
Total Long Term Debt	<u>\$ 1,315,000.00</u>	<u>\$ 650,000.00</u>	<u>\$ 1,140,000.00</u>	<u>\$ 825,000.00</u>	<u>\$ 38,133.01</u>

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

December 31,	PRINCIPAL	INTEREST	TOTAL
2018	\$ 155,000.00	\$ 19,711.25	\$ 174,711.25
2019	160,000.00	16,567.50	176,567.50
2020	165,000.00	12,727.50	177,727.50
2021	175,000.00	8,575.00	183,575.00
2022	<u>170,000.00</u>	<u>3,637.50</u>	<u>173,637.50</u>
TOTAL	<u>\$ 825,000.00</u>	<u>\$ 61,218.75</u>	<u>\$ 886,218.75</u>

## 8. COMPLIANCE WITH BOND COVENANTS

The District's Series 2017 and 2010 water system revenue bonds contain the following covenants:

- a) There shall be transferred to the principal and interest account a pro-rata portion of the amount necessary to pay the next scheduled debt service payment.
- b) There shall be maintained in the reserve account \$140,000.00.
- c) As of December 31, 2017, the required and actual balances were as follows:

	<u>REQUIRED</u>	<u>ACTUAL</u>
Principal & Interest	\$ 82,320.21	\$ 85,000.00
Reserve account	140,000.00	175,000.00
	<u>\$ 222,320.21</u>	<u>\$ 260,000.00</u>

- d) The Municipality shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. Net revenues must be at least 110% of the current year's debt service requirement. For the year ended December 31, 2017, net revenues compared to debt service was as follows:

Net Revenues	<u>\$347,368.59</u>
Current Year Debt Service	<u>\$183,294.00</u>
Percent Covered	<u>189.51%</u>

- e) The District served 733 units on December 31, 2017.

## 9. ECONOMIC DEPENDENCY

The District purchases water for resale from the City of Garnett, Kansas and Public Wholesale Water Supply District #13. Water purchased for 2017 were as follows:

City of Garnett	\$ 88,422.50
PWWSD #13	<u>171,643.25</u>
Total	<u>\$ 260,065.75</u>

## 10. OTHER LONG-TERM OBLIGATIONS

The District entered into water purchase contract with the City of Garnett, Kansas on August 10, 1983 to purchase at least 120,000 gallons of water a month from the City for 40 years.

The District also entered into a water purchase contract with PWWSD #13 to purchase at least 1,600,000 gallons of water per month for 40 years, beginning in November 1997.

**11. RETIREMENT PLANS**

The District established in 2003 a SEP retirement plan that covers both employees of the District. The District contributes a percentage of the employees' compensation. Contributions for 2017 totaled \$6,906.24.

**12. SUBSEQUENT EVENTS**

Management has evaluated events and transactions occurring subsequent to December 31, 2017 through February 10, 2018, the date of the financial statement. During this period, there were no subsequent events requiring recognition in the financial statements or disclosure in the notes to the financial statement.

**REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION**

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.**  
**ANDERSON COUNTY, KANSAS**  
**WATER UTILITY FUND**

Schedule of Receipts and Expenditures - Actual - Regulator Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2016 Actual	2017 Actual
Receipts		
Operating Receipts		
Metered water sales	\$ 751,111.52	\$ 754,853.79
Nonoperating Receipts		
Interest income	31,335.77	28,162.19
Proceeds from long term debt	-	650,000.00
Miscellaneous income	2,020.18	5,277.17
Benefit Unit deposits	15,000.00	40,000.00
Total Receipts	<u>799,467.47</u>	<u>1,478,293.15</u>
Expenditures		
Operating Expenditures		
Water Purchased	260,492.70	260,065.75
Repairs and maintenance	18,645.94	26,461.89
Operating supplies	7,857.91	8,955.03
Utilities and telephone	10,822.35	11,209.28
Office supplies	8,226.37	7,756.89
Insurance	7,510.00	8,678.00
Salaries	104,769.47	101,765.28
Payroll taxes	8,092.06	7,871.11
Retirement plan payments	6,906.24	6,906.24
Legal and accounting	4,050.00	2,800.00
Travel	21,281.45	22,579.73
Sales taxes and fees paid	9,688.16	9,434.54
Miscellaneous expense	7,896.88	6,440.82
Nonoperating Expenditures		
Debt Service		
Principal paid	120,000.00	1,140,000.00
Interest paid	62,362.50	38,133.01
Bond issue costs	-	40,678.00
Capital Outlays	39,818.06	65,551.93
Total Expenditures	<u>698,420.09</u>	<u>1,765,287.50</u>
Receipts Over (Under) Expenditures	101,047.38	(286,994.35)
Unencumbered Cash, Beginning	<u>1,497,309.83</u>	<u>1,598,357.21</u>
Unencumbered Cash, Ending	<u>\$ 1,598,357.21</u>	<u>\$ 1,311,362.86</u>