

CONSOLIDATED RURAL WATER DISTRICT NO. 1  
MONTGOMERY COUNTY, KANSAS

FINANCIAL STATEMENT  
*with*  
INDEPENDENT AUDITORS' REPORT  
*and*  
SUPPLEMENTARY INFORMATION

December 31, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board  
Consolidated Rural Water District No. 1  
Havana, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Consolidated Rural Water District No. 1, Montgomery County, Kansas, as of and for the year ended December 31, 2018, 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 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 the Water District 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.

## **Independent Auditors' Report (Continued)**

### *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 the Water District as of December 31, 2018, or changes in financial position and cash flows thereof for the year then ended.

### *Unmodified 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 Water District as of December 31, 2018, 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 summary of regulatory basis receipts and expenditures - water operating fund (as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however, it 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 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.

*Thomas G. Lovell, CPA, LLC*

Independence, Kansas  
December 19, 2019

**CONSOLIDATED RURAL WATER DISTRICT NO. 1**  
**MONTGOMERY COUNTY, KANSAS**  
**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH**

Regulatory Basis

For The Year Ended December 31, 2018

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
<b>BUSINESS FUND:</b>							
Water Operations Fund	\$ 218,928	\$ -	\$ 682,522	\$ 683,038	\$ 218,412	\$ 80,812	\$ 299,224
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 218,928</u>	<u>\$ -</u>	<u>\$ 682,522</u>	<u>\$ 683,038</u>	<u>\$ 218,412</u>	<u>\$ 80,812</u>	<u>\$ 299,224</u>

**COMPOSITION OF CASH**

Arvest Bank:	
Account No. 51888	\$ 45,149
Account No. 104043	25,747
Great Plains Federal Credit Union:	
Account No 201518 - Share Account	2,172
Account No 201518 - ID - 51	100,089
Account No 201518 - ID - 52	100,089
Equity bank:	
Account No 56023024	<u>25,978</u>
<b>Total Reporting Entity</b>	<u>\$ 299,224</u>

The notes to the financial statement are an integral part of this financial statement.  
See accompanying independent auditors' report.

**CONSOLIDATED RURAL WATER DISTRICT NO. 1**  
**MONTGOMERY COUNTY, KANSAS**  
**NOTES TO THE FINANCIAL STATEMENT**  
**December 31, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Municipal Financial Reporting Entity**

The Consolidated Rural Water District No. 1, of Montgomery County, Kansas, is a municipality governed by a five-member Board of Directors. The members of the Water District elect the Board of Directors. There are no component units. The Water District's purpose is to purchase and sell water to rural patrons.

**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 type of fund comprises the financial activities of the Water District: *Business Fund* – funds financed in whole or in part by fees charged to users of the goods or services.

**Basis of Accounting**

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The Kansas Municipal Accounting and Auditing 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.

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.

*Departure from Accounting Principles Generally Accepted in the United States of America*

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures. Balance sheets that would have shown non-cash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles.

**CONSOLIDATED RURAL WATER DISTRICT NO. 1**  
**MONTGOMERY COUNTY, KANSAS**  
**NOTES TO THE FINANCIAL STATEMENT**  
**December 31, 2018**

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

*Departure from Accounting Principles Generally Accepted in the United States of America (continued)*

Capital assets that account for the land, buildings, and equipment owned by the Water District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

**Budgetary Information**

A legal operating budget is not required for the Water District. Spending in the Water District's fund is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

**Subsequent Events**

Subsequent events have been evaluated through December 19, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statement would be required.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL MATTERS**

Management is not aware of any statutory, finance related or contractual violations.

**NOTE 3. DEPOSITS AND INVESTMENTS**

As of December 31, 2018, the Water District had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Water District. The statute requires banks eligible to hold the Water 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 Water District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water 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 Water District has no investment policy that would further limit its investment choices.

**CONSOLIDATED RURAL WATER DISTRICT NO. 1**  
**MONTGOMERY COUNTY, KANSAS**  
**NOTES TO THE FINANCIAL STATEMENT**  
**December 31, 2018**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Water District's deposits may not be returned to it. State statutes require the Water 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 Water District did not designate any "peak periods" for 2018. All deposits were legally secured as of December 31, 2018.

At December 31, 2018 the carrying amount of the Water District's deposits was \$299,224 and the bank balance was \$299,455. The difference between the bank balance and the carrying amount were due to outstanding checks. The bank deposits were held by 3 banks resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance at December 31, 2018.

**NOTE 4. COMPENSATED ABSENCES**

Sick leave is granted by the Board only on an informal basis. There is no written policy.

The Manager of operations is granted 5 weeks of paid vacation each year. The plant operator is given vacation on request when approved by the Manager. They are the only full-time employees of the Water District.

No liability for accrued vacation and sick pay is reflected on the financial statements. Neither the actual or estimated amount of the liability was available at December 31, 2018. The cost of vacation and sick pay are recognized as expenditures when paid.

**NOTE 5. RISK MANAGEMENT**

The Water District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the Water District carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

**NOTE 6. ECONOMIC DEPENDENCY**

The Water District is dependent upon two cities, Coffeyville, Kansas and Independence, Kansas and the Public Wholesale Water Supply District No. 20 (PWWSO) to supply the Water District with all the water it sells.

**NOTE 7. COMMITMENTS**

The Water District has a contract with the PWWSO to pay for a guaranteed minimum monthly commitment of water. If during the calendar year the Water District pays for more water than it consumed, it receives a credit against future water bills.



## SUPPLEMENTARY INFORMATION

**CONSOLIDATED RURAL WATER DISTRICT NO. 1**  
**MONTGOMERY COUNTY, KANSAS**  
**SCHEDULE OF RECEIPTS AND EXPENDITURES**  
**Regulatory Basis**  
**WATER OPERATIONS FUND**

**For The Year Ended December 31, 2018**

	<u>Actual</u>
<b>RECEIPTS</b>	
Water Sales and Late Charges	\$ 553,893
Assessments	72,523
Penalties	22,645
New Installations	22,000
Interest Earned	2,731
Insurance dividends	5,382
Miscellaneous receipts	<u>3,348</u>
<b>TOTAL RECEIPTS</b>	<u>682,522</u>
<b>EXPENDITURES</b>	
Water Purchased	259,429
Contract Labor	18,114
Dues and Fees	0
Insurance, Bonds	24,149
Office Expense	8,869
Miscellaneous	2,314
Professional Fees	7,500
Repairs and Maintenance	64,527
Salaries	220,366
Payroll and Water Taxes	5,646
Travel	226
Truck Expense	43,813
Utilities and Phone	<u>28,085</u>
<b>TOTAL EXPENDITURES</b>	<u>683,038</u>
Receipts (Under) Expenditures	(516)
<b>Unencumbered Cash, Beginning</b>	<u>218,928</u>
<b>Unencumbered Cash, Ending</b>	<u><u>\$ 218,412</u></u>

See accompanying independent auditors' report.