

**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, 2014

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

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Independent Auditors' Report	1-2
Basic Financial Statement:	
Summary Statement of Regulatory Basis Receipts, Expenditures and Unencumbered Cash	3
Notes to the Financial Statement	4 - 10
Regulatory-Required Supplementary Information:	
Schedule 1	
Schedule of Regulatory Basis Receipts and Expenditures – Actual Water Utility Fund	11

Diehl Banwart Bolton

Certified Public Accountants P.A.

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, 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 this 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; this includes determining that the regulatory basis of accounting is an acceptable basis for 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 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 Consolidated Rural Water District #1, Inc., Anderson County, Kansas as of December 31, 2014 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 for Consolidated Rural Water District #1, Inc., Anderson 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 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.

Diehl, Banwart, Bolton, CPAs PA
DIEHL, BANWART, BOLTON, CPAs PA

February 6, 2015
Fort Scott, Kansas

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

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

For the Year Ended December 31, 2014

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:						
Water Utility	<u>\$1,345,957.48</u>	<u>\$945,327.62</u>	<u>\$880,575.47</u>	<u>\$1,410,709.63</u>	<u>\$40,468.56</u>	<u>\$1,451,178.19</u>
Cash in bank - Operating checking account:						
Unrestricted Operating						\$551,130.94
Restricted Principal and Interest						\$59,815.00
Cash in bank - savings						477,112.97
Unrestricted Operating						4,001.26
Debt Service Reserve.....						188,119.28
Cash in bank - Capital Improvements.....						170,998.74
Certificates of Deposit:						
Debt Service Reserve.....						170,998.74
Totals.....						<u>\$1,451,178.19</u>

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, 2014

1. 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 718 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.

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 - Fund 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.

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. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Regulatory Basis of Accounting and Departures 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 Kansas Statutes

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 Government 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 Government's deposits may not be returned to it. State statutes require the Government'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.

At December 31, 2014 the District's carrying amount of deposits was \$1,451,178.19 and the bank balance was \$1,434,175.13. 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 \$1,184,175.13 was collateralized with securities totaling \$1,337,715.81 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 2014, there were seven new benefit units and deposits added totaling \$35,000.

5. **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 various 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:

<u>Fixed Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Materials & Construction	\$ 3,738,581.86	\$ 160,149.40	\$ 6,613.68	\$ 3,905,344.94
Engineering Fees	214,030.04	-	-	214,030.04
Legal & Title	54,791.47	-	-	54,791.47
Easements	11,752.50	10,000.00	-	21,752.50
Capitalized Interest	33,974.07	-	-	33,974.07
Office Equipment	28,842.68	-	-	28,842.68
Anderson RWD2	-	-	-	-
Plant and Improvement	1,260,673.31	-	-	1,260,673.31
Equipment	151,026.89	-	(6,613.68)	144,413.21
	<u>\$ 5,493,672.82</u>	<u>\$ 170,149.40</u>	<u>\$ -</u>	<u>\$ 5,663,822.22</u>
Accumulated Depreciation				
Anderson Consolidated RWD 1	\$ 1,915,316.96	\$ 100,541.51	\$ -	\$ 2,015,858.47
Anderson RWD2	583,205.14	31,516.83	-	614,721.97
Totals	<u>\$ 2,498,522.10</u>	<u>\$ 132,058.34</u>	<u>\$ -</u>	<u>\$ 2,630,580.44</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 February 25, 2010 the District issued the Water System Revenue Refunding Bonds, Series 2010, to advance refund of the Series 2002 Water System Refunding Bond outstanding. The District issued the refunding bonds in order to take advantage of lower market interest rates. The 2010 Bonds bear interest at rates ranging from 1.50% to 4.00%, whereas the 2002 Bonds bear interest at rates ranging from 2.50 to 5.75%. The proceeds of the Series 2010 Bonds were used to redeem the principal on the 2002 bond, pay the outstanding interest on the 2002 bond, and cover the bond issue expense. The District began paying the debt service on the Series 2010 bonds on September 1, 2010. The refunding bonds resulted in a net reduction in debt service payments of \$56,218.75 over the life of the bonds, and a net present value cash flow savings of \$55,153.47 using the bond yield interest rate.

A summary of the District's long-term debts and changes in the obligations are as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity
Revenue Bonds				
Water Utility Series 2007	3.6-4.9%	11/1/2007	\$ 1,500,000	6/1/2027
Water Utility Series 2010	1.5-4.0%	2/25/2010	625,000	9/1/2022

Issue	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Revenue Bonds					
Water Utility Series 2007	\$ 1,175,000.00	\$ -	\$ 65,000.00	\$ 1,110,000.00	\$ 53,717.50
Water Utility Series 2010	485,000.00	-	45,000.00	440,000.00	16,707.50
Total Long Term Debt	\$ 1,660,000.00	\$ -	\$ 110,000.00	\$ 1,550,000.00	\$ 70,425.00

The estimated annual debt requirements for the next five years and thereafter are as follows:

December 31,	PRINCIPAL	INTEREST	TOTAL
2015	\$ 115,000.00	\$ 66,715.00	\$ 181,715.00
2016	120,000.00	62,362.50	182,362.50
2017	125,000.00	57,870.00	182,870.00
2018	125,000.00	52,845.00	177,845.00
2019	130,000.00	47,807.50	177,807.50
2020 - 2024	620,000.00	147,252.50	767,252.50
2025 - 2027	315,000.00	23,642.50	338,642.50
TOTAL	\$ 1,550,000.00	\$ 458,495.00	\$ 2,008,495.00

8. COMPLIANCE WITH BOND COVENANTS

The District's Series 2007 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 \$175,000.00.
- c) As of December 31, 2014, the required and actual balances were as follows:

	<u>REQUIRED</u>	<u>ACTUAL</u>
Principal & Interest	\$ 59,815.00	\$ 59,815.00
Reserve account	<u>175,000.00</u>	<u>175,000.00</u>
	<u>\$ 234,815.00</u>	<u>\$ 234,815.00</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, 2014, net revenues compared to debt service was as follows:

Receipts Over (Under) Expenditures, Schedule 1	\$ 64,752.15
Add Back - Non-Operating expenses:	
- Principal paid	110,000.00
- Interest paid	70,425.00
- Capital Outlays	<u>170,149.40</u>
Net Revenues	<u>\$415,326.55</u>
Current Year Debt Service	\$180,425.00
Percent Covered	230.19%

- e) The District served 725 units on December 31, 2014.

9. CONCENTRATION OF CREDIT

The District purchases water for resale from the City of Garnett, Kansas and Public Wholesale Water Supply District #13. Water purchased for 2014 were as follows:

City of Garnett	\$ 100,115.20
PWWSD #13	<u>217,230.05</u>
Total	<u>\$ 317,345.25</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 on September 25, 1995 to purchase at least 1,600,000 gallons of water per month for 40 years.

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 2014 totaled \$6,330.72.

12. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2014 through February 6, 2015, the date the financial statement was available to be issued. 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
 Regulatory Basis
 For the Year Ended December 31, 2014

	Actual
Receipts	
Operating Receipts	
Metered water sales	\$880,375.14
Nonoperating Receipts	
Interest income	28,894.19
Miscellaneous income	1,058.29
Benefit Unit deposits	35,000.00
Total Receipts	945,327.62
Expenditures	
Operating Expenditures	
Water Purchased	317,345.25
Repairs and maintenance	27,103.67
Operating supplies	754.87
Utilities and telephone	11,974.71
Office supplies	6,903.10
Insurance	7,037.00
Salaries	75,621.84
Payroll taxes	5,858.19
Retirement plan payments	6,330.72
Health insurance premiums	21,345.06
Legal and accounting	2,320.00
Travel	27,393.47
Sales taxes and fees paid	12,717.06
Miscellaneous expense	7,296.13
Nonoperating Expenditures	
Debt Service	
Principal paid	110,000.00
Interest paid	70,425.00
Capital Outlays	170,149.40
Total Expenditures	880,575.47
Receipts Over (Under) Expenditures	64,752.15
Unencumbered Cash, Beginning	1,345,957.48
Unencumbered Cash, Ending	\$1,410,709.63