

**CONSOLIDATED  
RURAL WATER DISTRICT #1, INC.  
CRAWFORD 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.  
CRAWFORD 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.  
Crawford 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., Crawford 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., Crawford 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., Crawford 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., Crawford 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 27, 2015  
Fort Scott, Kansas

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.**  
**CRAWFORD 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		Add Encumbrances and Accounts Payable	Ending Cash Balance
				Unencumbered Cash Balance			
Business Funds:							
Water Utility	\$ 122,077.69	\$ 549,409.26	\$ 530,197.42	\$ 141,289.53	\$ 12,357.66		\$ 153,647.19
						Certificates of Deposit.....	\$ 60,189.49
						Cash in Bank - operating account.....	1,198.88
						Cash in Bank - money market account.....	92,258.82
						Totals.....	<u>\$ 153,647.19</u>

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

**CONSOLIDATED RURAL WATER DISTRICT #1, INC.  
CRAWFORD 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., Crawford County, Kansas, 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: Consolidated Rural Water District #1, Inc., Crawford County, Kansas is located in Crawford County, Kansas. The District pumps treated water from wells and purchases water to blend with the treated water. The water is then sold to over 800 rural customers. Accordingly, the District's operations are dependent upon the economic conditions of the area.

In 1986, the members of Crawford County Rural Water District #7, Inc., and Crawford County Rural Water District #8, Inc., voted to consolidate their two water districts into one District, effective January 1, 1987. All of the assets, liabilities, and equity of the two districts were combined to form Consolidated Rural Water District #1, Inc., of Crawford County, Kansas.

Reporting Entity

Consolidated Rural Water District #1, Inc., Crawford County, Kansas, is a municipal corporation governed by an elected seven member council. There are no 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 Consolidated Rural Water District #1, Inc., Crawford County, Kansas:

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 a non-interest bearing checking account, money market checking account and certificates of deposit. Kansas statutes permit investment 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: Consolidated Rural Water District #1, Inc., of Crawford County, Kansas, is recognized by the Internal Revenue Service as a 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 Kansas. The District was in apparent compliance with the cash basis laws and statutes 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.

At December 31, 2014 the District's carrying amount of deposits was \$153,647.19 and the bank balance was \$162,878.70. The bank balances were all at one bank resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance. As of year-end, the District did not have any securities 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, new benefit units and deposits totaling \$42,704.20 were received by the District.

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. 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:

Office Equipment	5 Years
Machinery	7 Years
Plant and Equipment	30, 40, & 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 Asset	Beginning Balance	Additions	Deletions	Ending Balance
Plant & Equipment	\$ 5,015,521.33	\$ 29,635.45	\$ -	\$ 5,045,156.78
Office Equipment	3,246.60	-	-	3,246.60
Trucks	20,764.81	-	-	20,764.81
Land	7,268.63	-	-	7,268.63
	<u>\$ 5,046,801.37</u>	<u>\$ 29,635.45</u>	<u>\$ -</u>	<u>\$ 5,076,436.82</u>
Accumulated Depreciation	<u>\$ 2,452,420.64</u>	<u>\$ 122,611.28</u>	<u>\$ -</u>	<u>\$ 2,575,031.92</u>

7. **PENSION PLAN**

Plan Description

In 1999, the District began participating in the Kansas Public Employees Retirement System (KPERs). KPERs is part of a cost-sharing multiple-employer defined pension plan as provided by Kansas law. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERs (611 South Kansas, Suite 100, Topeka, Kansas 66603), or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERs member-employee contribution rates. Effective July 1, 2009 KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERs member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

7. **PENSION PLAN** (Continued)

The State of Kansas is required to contribute the statutory required employers share. The employer rate established by statute for the period from January 1, 2014 to December 31, 2014 was 9.84%. The District's employer contributions to KPERS, for the year ended December 31, 2014 was \$11,454.00 which is equal to the regulatory required contributions for the year.

Net Pension Liability

The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014 the net pension liability for KPERS was \$8,291,794,940. The District's proportionate share of the net pension liability has not been declared as of June 30, 2014, but is not expected to be material. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kpers.org](http://www.kpers.org) or can be obtained as described in the first paragraph above.

8. **ECONOMIC DEPENDENCY**

The District purchases water for resale from Bone Creek and Crawford County Rural Water District #3. Water purchased for 2014 was as follows:

RWD #3	\$ 1,415.70
Bone Creek	<u>68,357.00</u>
Total	<u>\$ 69,772.70</u>

9. **NOTES PAYABLE**

The District has a note payable with Community National Bank & Trust to finance the construction of a new water treatment plant. The note is dated November 1, 2011, with a scheduled maturity of November 15, 2031. The note requires monthly payments of \$8,831.30 including interest at 4.59%, and is secured by two real estate mortgages, all tanks, lines, meters, present and future accounts, proceeds arising there from, contract rights, books and records, and general intangibles now owned, purchased with loan proceeds, or hereafter acquired, and all additions and accessions thereto. As of December 31, 2014, the balance outstanding was \$1,238,136.50.

Changes in long-term liabilities for the District for the year ended December 31, 2014, were as follows:

Issue	Balances			Balances End of Year	Interest Paid
	Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid		
Long-Term Debt Payable					
Loan Payable to Bank	<u>\$ 1,285,452.99</u>	<u>\$ -</u>	<u>\$ 47,316.49</u>	<u>\$ 1,238,136.50</u>	<u>\$ 58,659.11</u>

9. **NOTES PAYABLE** (Continued)

Current maturities of the loan payable and interest for the next five years and in five year increments through maturity are as follows:

<u>December 31,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	\$ 50,192.36	\$ 55,783.24	\$ 105,975.60
2016	52,545.30	53,430.30	105,975.60
2017	55,008.51	50,967.09	105,975.60
2018	57,587.18	48,388.42	105,975.60
2019	60,286.76	45,688.84	105,975.60
2020 - 2024	346,570.32	183,307.68	529,878.00
2025 - 2029	435,784.56	94,093.44	529,878.00
2030 - 2031	<u>180,161.51</u>	<u>7,779.49</u>	<u>187,941.00</u>
TOTAL	<u>\$ 1,238,136.50</u>	<u>\$ 539,438.50</u>	<u>\$ 1,777,575.00</u>

10. **LONG-TERM OBLIGATIONS**

Water Purchase Contracts

On July 1, 1988, the District entered into a 40 year water purchase contract with Rural Water District #3, Crawford County, Kansas. The District is contractually obligated to purchase no more than one million gallons of water per month from RWD #3.

On December 14, 2004, the District entered into a 40 year water purchase contract with Public Wholesale Water Supply District #11. The District is contractually obligated to purchase no more than two million gallons of water each month from PWWSD #11, which was reduced to one million gallons of water each month after the District built their water plant. The District agrees to pay PWWSD #11 \$2.90 per thousand gallons of water.

Water Sales Contracts

On May 13, 1981, the District entered into a water sales contract with Rural Water District #2, Crawford County, Kansas. RWD #2 is contractually obligated to purchase water each month from the District.

11. **SUBSEQUENT EVENTS**

Management has evaluated events and transactions occurring subsequent to December 31, 2014 through February 27, 2015, the date the financial statement was available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

**REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION**

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

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2014

	<u>2014</u> <u>Actual</u>
Cash Receipts	
Operating Receipts	
Metered water sales	\$ 256,886.72
Debt service fees	238,931.03
Penalties	5,928.61
Nonoperating Receipts	
Interest income	755.99
Miscellaneous	4,202.71
Benefit Unit deposits	42,704.20
Total Cash Receipts	<u>549,409.26</u>
 Expenditures	
Operating Expenditures	
Water purchased	69,772.70
Repairs and maintenance	51,892.90
Office salaries	27,701.36
Operating salaries	90,502.96
Operating supplies	12,068.90
Utilities and telephone	72,068.61
Office supplies	7,044.04
Insurance	16,170.75
Vehicle expense	10,214.69
Payroll taxes	20,614.84
Legal and accounting	4,088.35
Mileage and travel	1,595.06
Sales taxes and fees	4,097.37
Miscellaneous expense	6,753.84
Nonoperating Expenditures	
Debt Service	
Principal paid	47,316.49
Interest paid	58,659.11
Capital Outlays	<u>29,635.45</u>
Total Expenditures	<u>530,197.42</u>
 Receipts Over (Under) Expenditures	 19,211.84
 Unencumbered Cash, Beginning	 <u>122,077.69</u>
 Unencumbered Cash, Ending	 <u>\$ 141,289.53</u>