

CHASE COUNTY RURAL WATER DISTRICT NO. 1
CHASE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
REGULATORY BASIS FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2014

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

Chase County Rural Water District No. 1
Chase County, Kansas

REGULATORY BASIS FINANCIAL STATEMENT
Year Ended December 31, 2014

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Independent Auditors' Report

To the Board of Directors
Chase County Rural Water District #1
Strong City, Kansas 66869

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Chase County Rural Water District #1, Chase 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. 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes 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 the U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the Chase County Rural Water District #1, Chase County, Kansas prepared this financial statement 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 the U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the 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 Chase County Rural Water District #1, Chase County, Kansas as of December 31, 2014, or the changes in its financial position or cash flows 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 Chase County Rural Water District #1, Chase 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 summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statement. The individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedule 1 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, but are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. All supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statement. The 2014 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 2014 supplementary information and Schedule of Expenditures of Federal Awards 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2015, on our consideration of the Chase County Rural Water District #1, Chase County, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Chase County Rural Water District #1, Chase County, Kansas' internal control over financial reporting and compliance.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
August 25, 2015

Chase County Rural Water District #1
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2014

	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Capital Project Funds:						
Water distribution project	\$ 27,159	\$ 1,617,733	\$ 1,724,696	\$ (79,804)	\$ 135,242	\$ 55,438
Business Funds						
Water utility fund	<u>60,181</u>	<u>107,918</u>	<u>72,815</u>	<u>95,284</u>	<u>148</u>	<u>95,432</u>
Total Reporting Entity	<u>\$ 87,340</u>	<u>\$ 1,725,651</u>	<u>\$ 1,797,511</u>	<u>\$ 15,480</u>	<u>\$ 135,390</u>	<u>\$ 150,870</u>

Composition of Cash:

Checking Account	\$ 86,607
Temporary Financing Checking Account	55,437
Savings-CVB	4,246
Savings-ENB	<u>4,580</u>
	<u>\$ 150,870</u>

The accompanying notes are an integral part of this statement.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chase County Rural Water District #1, Chase County, Kansas (the District) District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the district's accounting policies are described below.

Financial Reporting Entity

The Chase County Rural Water District #1 is a municipal corporation governed by an elected seven-member board. The District's major operation is a water distribution system. The District's financial statement does not include any related municipal entities.

Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds, which are used to record the District's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and District Ordinances. The following types of funds comprise the financial activities of the District.

Governmental Funds:

Capital Project Fund – Capital Project Funds are used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Funds:

Business Funds – Business Funds are financed in whole or in part by fees charged to users of the goods or services. Funds are operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of receipts, expenses, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting 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 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 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

Rural water districts are not subject to Kansas statutes requiring a legally adopted budget.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
For the Year Ended December 31, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Obligations

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

K.S.A. 10-1113 requires that no indebtedness be created for a fund in excess of available monies in that fund. The water distribution project fund carries a negative balance. However, it is allowable due to the fact that it is a reimbursement basis project and reimbursements were received in 2015.

Management is not aware of any regulatory violations for the period covered by this audit.

NOTE 3 - CASH AND DEPOSITS

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.

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 entirely 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 District, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014.

The District maintains a cash pool that is available for use by all funds. At year-end, the carrying amount of the District's deposits, excluding petty cash, was \$150,870. The bank balance was \$153,931. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by two banks resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The District held no investments on December 31, 2014.

NOTE 4 – 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; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
For the Year Ended December 31, 2014

NOTE 5 - CONTRACTS

The District contracted with the City of Strong City, Kansas to purchase its water. The District pays for all usage per thousand gallons. During 2014, the District paid Strong City \$41,353 for 10,342,000 gallons of water.

NOTE 6 – PUBLIC WHOLESALE WATER SUPPLY DISTRICT

The District joined together with the City of Strong City and the City of Cottonwood Falls to form Public Wholesale Water Supply District No. 26. The purpose of the District is to produce, treat, transport, distribute, and sell an adequate source of water wholesale to its members, including the District, in the future. The District is in the process of a capital project at an estimated cost of \$6,388,000, to construct the necessary facilities and equipment to fulfill this purpose. The current estimated water cost to the District will be \$5.29 per thousand gallons with a minimum commitment of 783,333 per month. The contract extends forty years from the date of initial delivery of water.

NOTE 7 – BENEFIT UNIT DEPOSITS

Current members joining the water district are required to make a deposit of \$1,500.00 for a benefit unit. Rates for benefit units have varied from \$500 to \$1,500 since inception in 1973. In 2014, there were two benefit units added to the District totaling \$3,000.

NOTE 8 – CAPITAL PROJECT

The District made improvements to its water distribution system. The cost for this project is estimated to be \$1,403,000. On September 13, 2012, USDA-Rural Development issued a letter of conditions to the District indicating a loan award of \$782,000 and a grant award of up to \$621,000. In addition, the Kansas Department of Transportation paid the district \$55,364 for additional expenses incurred due to the relocation of water lines in the right of way. As of December 31, 2014, the District had expended \$1,411,330 for this project including outstanding encumbrances of \$76,458.

NOTE 9 - LONG-TERM DEBT

Temporary Financing and USDA loan

The District obtained temporary financing in the amount of \$782,000 from the Citizens State Bank to make improvements to its' water infrastructure. Advances were made on April 30, 2013 and July 24, 2013 in the amounts of \$100,000 and \$50,000, respectively. On May 1, 2014, an additional advance of \$282,000 was made. The loan carried an interest rate of 2.47% and was payable on April 16, 2016. On June 4, 2014, the District receipted its' USDA-Rural Development loan of \$782,000. The temporary notes and interest were paid off in the amount of \$436,629. The USDA-RD loan will carry intermediate rate which was 2.75% at the time of loan approval. If the current rate at loan closing is lower than the loan approval rate, the District may make a written request that the interest be the lower of the rate in effect at the time of loan approval or the time of loan closing. Monthly payments of \$2,691 began in July 2014.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
For the Year Ended December 31, 2014

NOTE 10 - LONG-TERM DEBT (CONT)

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
Temporary Notes	2.47%	4/18/2013	782,000	4/18/2016	\$ 150,000	\$ 282,000	\$ 432,000	\$ 0	\$ 4,629
USDA-RD loan									
USDA loan	2.75%	6/4/2014	782,000	6/4/2054	<u>0</u>	<u>782,000</u>	<u>5,395</u>	<u>776,605</u>	<u>10,751</u>
Total contractual indebtedness					<u>\$ 150,000</u>	<u>\$ 1,064,000</u>	<u>\$ 437,395</u>	<u>\$ 776,605</u>	<u>\$ 15,380</u>

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

USDA-RD loan	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 11,075	\$ 21,217	\$ 32,292
2016	11,324	20,968	32,292
2017	11,699	20,593	32,292
2018	12,024	20,268	32,292
2019	12,359	19,933	32,292
2020-2024	67,042	94,418	161,460
2025-2029	76,977	84,483	161,460
2030-2034	88,314	73,146	161,460
2035-2039	101,321	60,139	161,460
2040-2044	116,221	45,239	161,460
2045-2049	133,372	28,088	161,460
2050-2054	<u>134,877</u>	<u>8,562</u>	<u>143,439</u>
Totals	<u>\$ 776,605</u>	<u>\$ 497,054</u>	<u>\$ 1,273,659</u>

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

Chase County Rural Water District #1
Chase County, Kansas

Schedule 1A

CAPITAL PROJECT FUND
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2014

WATER DISTRIBUTION PROJECT

	Current Year Actual
Receipts	
Temporary Financing	\$ 282,000
KDOT line relocation assistance	55,364
USDA loan proceeds	782,000
USDA grant proceeds	498,300
Interest	69
Other	0
Total Receipts	<u>1,617,733</u>
Expenditures	
Water distribution project	1,288,067
Temporary financing principal and interest	436,629
Total Expenditures	<u>1,724,696</u>
Receipts Over (Under) Expenditures	(106,963)
Unencumbered Cash, January 1	<u>27,159</u>
Unencumbered Cash, December 31	<u>\$ (79,804)</u>

Chase County Rural Water District #1
Chase County, Kansas

Schedule 1B

BUSINESS FUND
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2014

UTILITY FUND

	Current Year Actual
Receipts	
Charges for services	\$ 104,874
Benefit units	3,000
Interest income	44
Total Receipts	<u>107,918</u>
Expenditures	
Contractual services	
Bank fees	61
Contract labor	4,662
Dues and fees	146
Insurance	904
Lab expense	505
Professional fees	2,400
Returned checks	653
Miscellaneous	1,005
Commodities	
Office supplies	892
Postage	739
Repairs	336
Supplies	2,242
Utilities:electric	771
Water purchases	41,353
USDA payments	16,146
Total Expenditures	<u>72,815</u>
Receipts Over (Under) Expenditures	35,103
Unencumbered Cash, January 1	<u>60,181</u>
Unencumbered Cash, December 31	<u>\$ 95,284</u>

OTHER SUPPLEMENTARY INFORMATION AND REPORTS

Chase County Rural Water District #1
Chase County, Kansas

Schedule of Expenditures of Federal Awards
December 31, 2014

<u>Federal Grantor/Pass-through Grantor</u>	<u>Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture			
	Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$1,156,245</u>
	Total Federal Expenditures		<u><u>\$1,156,245</u></u>

See accompanying notes to schedule of expenditures of federal awards and auditor's report.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Schedule of Expenditures of Federal Awards
December 31, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Chase County Rural Water District #1, Chase County, Kansas under programs of the federal government for the year ended December 31, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the Chase County Rural Water District #1, Chase County, Kansas, it is not intended to and does not present the receipts, cash expenditures and unencumbered cash of the Chase County Rural Water District #1, Chase County, Kansas.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the State of Kansas regulatory basis of accounting modified to exclude encumbrances. Expenditures include disbursements and accounts payable, with disbursements being adjusted for prior year's accounts payable. Encumbrances totaling \$76,458 and reimbursements of \$55,364 were included in the financial statement as expenditures for this project in the Water Distribution Project Fund, but not included in the Schedule of Expenditures of Federal Awards. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenditures represent only the federal grant portion of the programs costs. Entire program costs, including the Chase County Rural Water District #1's portion may be more than shown. District records should be consulted to determine amounts expended or matched from non-federal sources.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board Members
Chase County Rural Water District #1
Chase County, Kansas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the regulatory basis financial statement of the Chase County Rural Water District #1, Chase County, Kansas, as of and for the year ended December 31, 2014, and the notes to the financial statement, which collectively comprise the Chase County Rural Water District #1, Chase County, Kansas' financial statement and have issued our report thereon dated August 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2014-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

District's Response to Findings

The Chase County Rural Water District #1, Chase County, Kansas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
Council Grove, Kansas
August 25, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board Members
Chase County Rural Water District #1
Chase County, Kansas

Report on Compliance for Each Major Federal Program

We have audited the Chase County Rural Water District #1, Chase County, Kansas' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Chase County Rural Water District #1, Chase County, Kansas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-1 to be a material weakness.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Aldrich & Company, LLC

Aldrich & Company LLC
Council Grove, Kansas
August 25, 2015

Chase County Rural Water District #1
Chase County, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statement of the Chase County Rural Water District #1, Chase County, Kansas, on the State of Kansas regulatory basis of accounting.
2. One significant deficiency disclosed during the audit of the financial statement is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. It was reported as a material weakness.
3. No instances of noncompliance material to the financial statement of the District were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. It was reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for the District expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included: Water and Waste Disposal Systems for Rural Communities 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District was determined to not be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2014-1 Inadequate segregation of duties

Condition: There is an inadequate segregation of duties with respect to the financial recordkeeping functions. The bookkeeper is responsible for most recordkeeping and reconciliation activities with no rotation or cross-checking of duties.

Criteria: Internal controls should be in place to segregate duties, where possible, and to monitor the duties of the bookkeeper.

Cause: The District is small with one administrative person.

Effect: The bookkeeper could cease performing some of their duties or make errors with the problem not being timely detected.

Recommendation: Procedures should be implemented with the board reviewing detailed transactions on a regular basis.

District response: The board will continue to monitor duties performed by the bookkeeper and contract for professional assistance as necessary.

Chase County Rural Water District #1
Chase County, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

UNITED STATES DEPARTMENT OF AGRICULTURE:

Water and Waste Disposal Systems for Rural Communities – CFDA No. 10.760
Material Weakness. The material weakness at finding 2014-1 also applies to this grant.