

**RURAL WATER DISTRICT #1, INC.  
LINN COUNTY, KANSAS**

Regulatory Basis Financial Statement and  
Independent Auditors' Report, with  
Regulatory-Required Supplementary Information  
For the Year Ended  
December 31, 2014

**RURAL WATER DISTRICT #1, INC.  
LINN 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 – 8
Regulatory-Required Supplementary Information:	
Schedule 1	
Schedule of Regulatory Basis Receipts and Expenditures – Actual Water Utility Fund .....	9

# Diehl Banwart Bolton

*Certified Public Accountants PA*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District #1, Inc., Linn 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 Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 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 Rural Water District #1, Linn 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 Rural Water District #1, Linn 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 Rural Water District #1, Linn 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 3, 2015  
Fort Scott, Kansas

**RURAL WATER DISTRICT #1, INC.**  
**LINN 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 Fund: Water Utility	\$78,956.00	\$579,872.20	\$480,951.19	\$177,877.01	\$28,502.81	\$206,379.82
					Checking account.....	\$106,379.82
					Certificates of deposit.....	100,000.00
					Totals.....	<u>\$206,379.82</u>

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

**RURAL WATER DISTRICT #1, INC.  
LINN COUNTY, KANSAS**

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of Rural Water District #1, Inc., Linn 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 (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes 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

Rural Water District #1, Inc., Linn County, Kansas is a municipal corporation governed by an elected seven-member council. The District provides water to approximately 525 members of the District in rural Linn County, Kansas. Currently, the District purchases its water from the Public Wholesale Water Supply District #13 and the City of LaCygne, Kansas. To continue serving its patrons, the District is dependent upon PWWSD#13 and the City 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

This financial statement presents Rural Water District #1, Inc., Linn County, Kansas (primary government). 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 Rural Water District #1, Inc., Linn 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 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 provides two weeks of vacation leave per year to full-time employees and allows them to accrue unused leave indefinitely. As of December 31, 2014, employees' unused leave totaled \$18,688.

Income Taxes: Rural Water District #1, Inc., of Linn County, Kansas, 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. DEPOSITS AND INVESTMENTS**

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 government 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 Government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits government'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 \$206,379.82 and the bank balance was \$209,631.08. The bank balance was held by 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. There were three new benefit units added during the year and deposits totaled \$12,000.

### **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; injuries to employees; employees' health and life; and natural disasters. The water 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. **ECONOMIC DEPENDENCY**

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

City of LaCygne	\$ 10,473.00
PWWSD #13	<u>211,301.10</u>
Total	<u>\$ 221,774.10</u>

7. **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:

Office Equipment & Vehicles	5 Years
Machinery	7 Years
Plant and Equipment	40 & 50 Years

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

Fixed assets and accumulated depreciation changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletion	Ending Balance
Materials & Construction	\$ 3,557,992.75	\$ -	\$ -	\$ 3,557,992.75
Building	20,412.38	-	-	20,412.38
Engineering Fees	403,366.79	6,275.00	-	409,641.79
Legal & Title Work	92,463.49	-	-	92,463.49
Inspection Fees	83,904.89	-	-	83,904.89
Easement & Leases	22,018.00	-	-	22,018.00
Radio Read System	143,726.98	6,720.00	-	150,446.98
Truck	16,000.00	-	-	16,000.00
Machinery	48,347.36	-	-	48,347.36
Office Equipment	23,170.89	-	-	23,170.89
	<u>\$ 4,411,403.53</u>	<u>\$ 12,995.00</u>	<u>\$ -</u>	<u>\$ 4,424,398.53</u>
Accumulated Depreciation	<u>\$ 1,241,768.36</u>	<u>\$ 115,921.37</u>	<u>\$ -</u>	<u>\$ 1,357,689.73</u>

**8. LONG-TERM OBLIGATIONS**

In April of 2001, the District entered into a 40 year water purchase contract with Public Wholesale Water Supply District #13. The District is contractually obligated to purchase three million gallons of water each month from PWWSO #13.

In August 2012, the District agreed to a mediation agreement with the City of La Cygne, Kansas concerning water purchases. The District has paid the City \$87,406.25 since 2012. The District is required to purchase wholesale water from the City after meeting their required minimum annual purchases from Public Wholesale Water Supply District #13. The wholesale price of the water shall be \$3.00 per thousand gallons for the first six years; \$3.60 per thousand gallons for the next six years; and \$4.20 per thousand gallons through May 2029, at which time the agreement between the City and the District will end.

The District is also required to make the following payments to the City by April 15<sup>th</sup> of each year, which the City shall use to pay bonded indebtedness on the City's water utility:

2015	\$ 21,173.75
2016	20,513.75
2017	19,838.75
2018	19,148.75
2019	20,943.75
2020	20,112.50
2021	19,281.25
2022	<u>20,950.00</u>
	<u>\$ 161,962.50</u>

**9. SUBSEQUENT EVENTS**

Management has evaluated events and transactions occurring subsequent to December 31, 2014 through February 3, 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**

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

Schedule of Regulatory Basis Receipts and Expenditures - Actual  
For the Year Ended December 31, 2014

	<u>Actual</u>
Cash Receipts	
Operating Receipts	
Metered water sales	\$ 397,160.20
Debt service fees	141,420.00
Penalties	10,490.00
Sales taxes	8,613.29
Nonoperating Receipts	
Interest income	1,771.05
Miscellaneous income	8,417.66
Benefit Unit deposits	<u>12,000.00</u>
Total Cash Receipts	<u>579,872.20</u>
Expenditures	
Operating Expenditures	
Water purchased	221,774.10
Repairs and maintenance	90,005.78
Bookkeeping	44,702.76
Operating supplies	14,845.86
Utilities and telephone	15,398.59
Office supplies	1,054.23
Insurance	17,772.00
Truck expense	7,668.07
Mileage and travel	587.37
Legal and accounting	2,235.00
Water testing	886.00
Postage	3,166.17
Taxes and fees	20,915.73
City of La Cygne settlement	22,421.25
Miscellaneous expense	4,523.28
Nonoperating Expenditures	
Capital Outlays	<u>12,995.00</u>
Total Expenditures	<u>480,951.19</u>
Receipts Over (Under) Expenditures	98,921.01
Unencumbered Cash, Beginning	<u>78,956.00</u>
Unencumbered Cash, Ending	<u>\$ 177,877.01</u>