

**Russell Rural Water District No.3
Susank, Kansas**

Financial Statements

Years Ended December 31, 2018 and 2017

**VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Manhattan, Kansas 66502**

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Russell Rural Water District No.3
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Russell Rural Water District No. 3 Susank,
Kansas

We have audited the accompanying financial statements of Russell Rural Water District No. 3, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Russell Rural Water District No. 3 as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

VonFeldt, Bauer & VonFeldt, Chtd.

VONFELDT, BAUER & VONFELDT, CHARTERED
Certified Public Accountants
Manhattan, Kansas

March 1, 2019

Russell Rural Water District No. 3
Susank, Kansas
Balance Sheets
December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 139,360.24 | \$ 133,527.43 |
| Accounts receivable - trade and other | 3,814.79 | 4,370.64 |
| Investments - other | 56,060.24 | 56,060.24 |
| Total Current Assets | <u>199,235.27</u> | <u>193,958.31</u> |
| Property, Plant and Equipment | | |
| Water system | 1,416,878.43 | 1,416,877.88 |
| Building | 47,870.00 | 47,870.10 |
| Office equipment | 15,730.78 | 15,729.56 |
| Vehicle | 39,209.00 | 39,209.06 |
| Land | 5,038.00 | 5,038.83 |
| Less accumulated depreciation | <u>(1,259,804.54)</u> | <u>(1,220,364.13)</u> |
| Net Property, Plant and Equipment | <u>264,921.67</u> | <u>304,361.30</u> |
| Total Assets | <u><u>\$ 464,156.94</u></u> | <u><u>\$ 498,319.61</u></u> |

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

Russell Rural Water District No. 3
Susank, Kansas
Balance Sheets
December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Liabilities and Members' Equity | | |
| Current Liabilities | | |
| Accounts payable - trade | \$ 13,824.25 | \$ 23,505.81 |
| Prepaid customer accounts | 5,383.72 | 3,980.21 |
| Accrued salaries | 6,509.84 | 7,337.17 |
| Accrued paid time off | 13,348.60 | 13,900.00 |
| Sales and payroll tax payable | 4,128.33 | 4,743.99 |
| Current portion of long term liability | 9,929.09 | 9,487.07 |
| Total Current Liabilities | <u>53,123.83</u> | <u>62,954.25</u> |
| Long term Liabilities | | |
| Lease-purchase agreement | 26,890.43 | 36,819.52 |
| | <u>26,890.43</u> | <u>36,819.52</u> |
| Total Liabilities | 80,014.26 | 99,773.77 |
| Members' Equity | | |
| Unreserved | 383,142.68 | 397,545.84 |
| Reserved | 1,000.00 | 1,000.00 |
| Total Members' Equity | <u>384,142.68</u> | <u>398,545.84</u> |
| Total Liabilities and Members' Equity | <u><u>\$ 464,156.94</u></u> | <u><u>\$ 498,319.61</u></u> |

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

Russell Rural Water District No. 3
Susank, Kansas
Statements of Operations
December 31, 2018 and 2017

| | 2018 | 2017 |
|--------------------------------------|-----------------------|-----------------------|
| Operating Revenue | | |
| Sale of water | \$ 461,826.94 | \$ 425,445.14 |
| Refunds and insurance proceeds | 3,567.38 | 10,095.32 |
| Reimbursements | 512.00 | 22,898.40 |
| Sale of units | 2,000.00 | - |
| Miscellaneous income | 1,089.38 | 1,797.45 |
| Total Operating Revenues | 468,995.70 | 460,236.31 |
| Operating Expenses | | |
| Salaries | 112,885.19 | 110,191.86 |
| Contract labor | 1,640.00 | 2,924.00 |
| Depreciation | 39,440.41 | 38,905.80 |
| Dues | 1,832.40 | 1,828.09 |
| Building maintenance | 1,533.56 | 4,245.38 |
| Insurance | 37,987.38 | 41,815.68 |
| Lab fees | 463.00 | 539.00 |
| Legal and accounting | 6,675.00 | 6,615.00 |
| Mileage | 5,051.17 | 7,344.90 |
| Miscellaneous | 1,945.40 | 1,551.82 |
| Office supplies | 5,406.83 | 3,593.60 |
| Printing and postage | 1,577.85 | 3,643.86 |
| Payroll tax | 8,842.12 | 7,890.16 |
| Purchase of water | 149,309.50 | 130,478.35 |
| Reimburse customers cost | 743.34 | 370.95 |
| Repairs and maintenance | 47,126.54 | 76,665.86 |
| Sales tax | 552.89 | 487.49 |
| Supplies | 36,128.48 | 35,585.14 |
| Training and conferences | 670.98 | 320.00 |
| Utilities | 12,540.10 | 11,976.18 |
| Vehicle expense | 7,410.92 | 4,585.24 |
| Water protection | 1,947.30 | 1,787.34 |
| Total Operating Expenses | 481,710.36 | 493,345.70 |
| Income (Loss) from Operations | (12,714.66) | (33,109.39) |
| Other Income (Expenses) | | |
| Interest income | 227.19 | 275.58 |
| Interest expense | (1,915.69) | (1,120.65) |
| Total Other Income (Expenses) | (1,688.50) | (845.07) |
| Net Income (Loss) | \$ (14,403.16) | \$ (33,954.46) |

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

Russell Rural Water District No. 3
Susank, Kansas
Statements of Changes in Members' Equity
December 31, 2018 and 2017

| | <u>Unreserved</u> | <u>Reserved</u> | <u>Total</u> |
|--|-----------------------------|---------------------------|-----------------------------|
| Members' equity balance at December 31, 2016 | \$ 431,500.30 | \$ 1,000.00 | \$ 432,500.30 |
| Net income (loss) | <u>(33,954.46)</u> | <u>-</u> | <u>(33,954.46)</u> |
| Members' equity balance at December 31, 2017 | 397,545.84 | 1,000.00 | 398,545.84 |
| Net income (loss) | <u>(14,403.16)</u> | <u>-</u> | <u>(14,403.16)</u> |
| Members' equity balance at December 31, 2018 | <u><u>\$ 383,142.68</u></u> | <u><u>\$ 1,000.00</u></u> | <u><u>\$ 384,142.68</u></u> |

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

Russell Rural Water District No. 3
Susank, Kansas
Statements of Cash Flows
December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Cash Flow From Operating Activities | | |
| Net income (loss) | \$ (14,403.16) | \$ (33,954.46) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation & amortization | 39,440.41 | 38,905.80 |
| (Increase) decrease in assets: | | |
| Pre-paid insurance | - | 883.64 |
| Trade receivables | 555.85 | 747.38 |
| Investments - other | - | (231.69) |
| Increase (decrease) in liabilities: | | |
| Accounts payable - trade | (9,681.56) | (3,686.09) |
| Pre-paid customer accounts | 1,403.51 | 1,387.51 |
| Accrued salaries and paid time off | (1,378.73) | 7,818.29 |
| Sales and payroll taxes payable | (615.66) | 842.48 |
| Net Cash Provided By (Used In) Operating Activities | <u>15,320.66</u> | <u>12,712.86</u> |
| Cash Flow From Investing Activities | | |
| (Purchases) disposal of fixed assets | (0.78) | (16,928.11) |
| Net Cash Provided By (Used In) Investing Activities | <u>(0.78)</u> | <u>(16,928.11)</u> |
| Cash Flow From Financing Activities | | |
| Principal (payments) proceeds on lease purchase | (9,487.07) | (4,580.73) |
| Net Cash Provided By (Used In) Financing Activities | <u>(9,487.07)</u> | <u>(4,580.73)</u> |
| Net Increase (Decrease) In Cash | 5,832.81 | (8,795.98) |
| Cash At Beginning Of Year | <u>133,527.43</u> | <u>142,323.41</u> |
| Cash At End Of Year | <u><u>\$ 139,360.24</u></u> | <u><u>\$ 133,527.43</u></u> |
| Supplemental Cash Flow Information: | | |
| Cash payments made for interest | <u><u>\$ 1,915.69</u></u> | <u><u>\$ 1,120.65</u></u> |

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

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Russell Water District No 3 (the District) is located in Susank, Kansas and is organized and established under the provisions of K.S.A 82a-612 of the Kansas Statutes. The District is a quasi-governmental governed by an elected seven-member board. The District provides for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District. The District has no legally separate organizations for which elected officials of the District are financially accountable or for which exclusion from these financial statements would cause them to be misleading or incomplete.

Basis of Accounting

The financial statements of the District are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all significant receivables, payables and other liabilities, accordingly.

Estimates

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers cash equivalents to include cash and all highly liquid debt instruments having original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable represents deposits made by customers during the following January plus estimated amounts due on delinquent accounts. Customers read their own water meters on the first day of each month, compute the amount due, and remit payment for the prior month's water usage to the District no later than the fifth day of the month. Late charges, debt service fees and other fees are included in the sale of water. Meter amounts are verified by the District staff annually. If customer accounts become 60 days or more overdue, customer water supply is shut off. Accounts receivable over 90 days totaled \$0 for December 31, 2018 and 2017.

An allowance for receivables is computed based upon the likelihood of future uncollectible accounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. For the years ended December 31, 2018 and 2017, management considered all accounts fully collectible.

Advertising

The District expenses advertising costs when they are incurred. Advertising expense totaled \$0 for the years ended December 31, 2018 and 2017.

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies, continued

Compensated Absences

For year ended December 31, 2017, management converted all accumulated vacation, sick pay and compensated time to PTO. Employees of the District were entitled to PTO depending on length of service and other factors. All accumulated PTO can be carried over to the subsequent year. Employees will not be reimbursed for unused PTO upon termination of employment. As of December 31, 2018 and 2017, unused PTO totaled \$13,348.60 and \$13,900, respectively.

Property and Equipment

Property and equipment is recorded at cost. The District's threshold for capitalization is \$5,000. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets ranging from five to thirty-nine years.

Ordinary maintenance and repairs of property and equipment are charged to operations when incurred. Upon retirement, sale or other disposition of property and equipment, the cost and related accumulated depreciation are eliminated from the account and any resulting gain or loss is included in operations.

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$39,440.41 and \$38,905.80, respectively.

Impairment of Long-Lived Assets

The District reviews long lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. No impairment loss was recognized for the years ended December 31, 2018 or 2017.

Prepaid Customer Accounts

Prepaid customer accounts are comprised of overpayments by water customers as of December 31, 2018. Such overpayments represent unearned revenue and are classified as a current liability. Prepaid customer accounts at December 31, 2018 and 2017 totaled \$5,383.72 and \$3,980.21, respectively.

Date of Management's Review

Management has evaluated subsequent events through March 1, 2019, the date on which the financial statements were available to be issued.

Note 2 – Uninsured Cash

The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. There may be times during the year that the District's balances are in excess of FDIC limit. However, at December 31, 2018 and 2017, the District did not have balances in excess of the FDIC insured limits.

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2018 and 2017

Note 3 – Investments – Other

Certificates of deposit held for investment that are not debt securities are included in “investments-other”. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short term investments. The District held certificates of deposit totaling \$56,060.24 as of December 31, 2018 and 2017, bear interest at rates ranging from .20% to .25% and have remaining maturities ranging from one to six months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 4 – Reserved Members’ Equity

A portion of members’ equity at December 31, 2018 and 2017 was reserved as a bond with the Kansas Department of Human Resources against future liabilities of the District. Reserved members’ equity totaled \$1,000 at both December 31, 2018 and 2017. Interest earned on this bond is deposited into the District’s operating account.

Note 5 – Concentration

Approximately 30% of the District’s expenses were paid to the City of Otis for water purchases for the years ended December 31, 2018 and 2017, representing a significant portion of total expenses paid by the District.

Note 6 – 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; workers’ compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years.

Note 7 – Related Parties

All District board members and management are also water benefit unit owners and customers. Total revenue received from the board members and management for the year ended December 31, 2018 totaled \$12,842.82.

Note 8 – Non-cash transactions

The District purchased a telemetry system with a total cost of \$67,815.43 in 2017. Of the total, \$16,928.11 was cash paid by the District and \$50,887.32 was non-cash loan proceeds paid directly from the lender to the vendor.

Note 9 – Sales Tax

Sales tax is imposed on the District by both Barton and Russell counties in the State of Kansas. The District collects that sales tax from water customers and remits the entire amount to the State. Sales tax rates charged by Barton and Russell counties for 2018 and 2017 were 7.5% and 8.5%, respectively. The District’s policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2018 and 2017

Note 11 – Lease-purchase agreement

The District had one lease purchase agreement with a balance of \$36,819.52 and of which \$9,929.09 was considered current for the year ended December 31, 2018. The lease purchase agreement was for the purchase of a new telemetry system through an outside third party. The lease-purchase bears interest at a rate of 4.5% and has a maturity date of June 2022. The note is secured by the District's telemetry system. Scheduled principal payments of notes payable for the following years ending December 31, are as follows:

| | |
|------|----------------------------|
| 2019 | \$ 9,929.09 |
| 2020 | 10,388.45 |
| 2021 | 10,875.71 |
| 2022 | <u>5,626.27</u> |
| | <u><u>\$ 36,819.52</u></u> |