

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
COMPARATIVE FINANCIAL STATEMENTS
December 31, 2018 and 2017
With Independent Auditor's Report

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KIRKPATRICK, SPRECKER & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sumner County Rural Water District No. 5

We have audited the accompanying financial statements of Sumner County Rural Water District No. 5, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and changes in 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 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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Sumner County Rural Water District No. 5 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The list of Board of Directors, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Kirkpatrick, Sprecker & Company, LLP
KIRKPATRICK, SPRECKER & COMPANY, LLP
Wichita, Kansas

February 8, 2019

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
COMPARATIVE BALANCE SHEETS
December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 48,429	\$ 72,876
Accounts receivable	35,644	35,644
Inventory	4,647	4,647
CoBank stock	5,245	5,245
Property and equipment, net of accumulated depreciation of \$1,174,098 (\$1,078,486 for 2017)	3,213,307	3,308,919
Loan reserve account	<u>60,498</u>	<u>44,365</u>
 Total assets	 <u><u>3,367,770</u></u>	 <u><u>3,471,696</u></u>

LIABILITIES AND EQUITY

Liabilities		
Accounts payable	\$ 10,404	\$ 8,764
Customer overpayments	8,813	8,155
Accrued wages	4,030	4,030
Payroll taxes payable	2,812	3,858
Loan on water treatment plant	<u>3,366,413</u>	<u>3,413,279</u>
Total liabilities	<u><u>3,392,472</u></u>	<u><u>3,438,086</u></u>
 Equity		
Reserved for loan requirements	60,498	44,365
Unreserved	<u>(85,200)</u>	<u>(10,755)</u>
Total equity (deficit)	<u><u>(24,702)</u></u>	<u><u>33,610</u></u>
 Total liabilities and equity	 <u><u>3,367,770</u></u>	 <u><u>3,471,696</u></u>

The accompanying notes are an integral part of the financial statements.

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
STATEMENTS OF OPERATIONS AND CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue		
Water sales	\$ 314,242	\$ 303,763
New units	17,800	7,528
Late charge penalties	7,306	6,509
Installation fees and reimbursement	180	90
Total operating revenue	<u>339,528</u>	<u>317,890</u>
Operating expenses		
Depreciation	95,611	95,938
Wages	49,737	47,790
Repairs and maintenance	42,169	56,843
Utilities	36,185	31,617
Water purchases	3,621	2,899
Insurance and bond	5,576	9,312
Accounting	8,744	8,204
Supplies	7,757	1,201
Mileage	11,494	11,139
Bad debts	3,240	15,095
Payroll tax expense	3,833	4,786
Office training and software	1,146	1,017
Office supplies and postage	6,986	4,842
Water protection fee	2,888	2,141
Rent	3,900	3,000
Dues and subscriptions	1,783	6,665
Meals and entertainment	990	921
Collections	1,003	1,136
Miscellaneous	50	29
Total operating expenses	<u>286,713</u>	<u>304,575</u>
Income from operations	<u>52,815</u>	<u>13,315</u>
Other income (expense)		
Interest expense	(114,464)	(116,358)
Interest income	378	240
Dividend income	2,959	-
Total other income (expense)	<u>(111,127)</u>	<u>(116,118)</u>
Net loss	(58,312)	(102,803)
Equity at beginning of year	<u>33,610</u>	<u>136,413</u>
Equity (deficit) at end of year	<u>(24,702)</u>	<u>33,610</u>

The accompanying notes are an integral part of the financial statements.

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Net loss	\$ (58,312)	\$ (102,803)
Adjustments to reconcile net loss to net cash provided by (applied to) operating activities:		
Depreciation expense	95,611	95,938
Decrease in accounts receivable	-	1,429
Increase (decrease) in payroll liabilities	(1,046)	1,065
Increase in accrued expenses	659	3,387
Increase in accounts payable	1,640	3,033
Decrease in accrued interest payable	-	(87,252)
Net cash provided by (applied to) operating activities	<u>38,552</u>	<u>(85,203)</u>
Cash flows from financing activities		
Repayment of loan	(46,866)	(33,721)
Restricted cash	<u>(16,133)</u>	<u>(16,133)</u>
Net cash applied to financing activities	<u>(62,999)</u>	<u>(49,854)</u>
Net decrease in cash and cash equivalents	(24,447)	(135,057)
Cash and cash equivalents at beginning of year	<u>72,876</u>	<u>207,933</u>
Cash and cash equivalents at end of year	<u><u>48,429</u></u>	<u><u>72,876</u></u>
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the year for interest	\$ 114,464	\$ 116,358

The accompanying notes are an integral part of the financial statements.

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of significant accounting policies

Description of operations

The Sumner County Rural Water District No. 5 (the District) provides water to farms and rural residents of Sumner County, Kansas, within the District. The District extends credit to customers, substantially all of whom are local residents. There were 381 and 382 benefit unit holders in the District at December 31, 2018 and 2017, respectively.

Basis of reporting

The District has established a system of accounting to reflect compliance with the applicable laws of the State of Kansas. The accounts used are accounted for as an enterprise fund since it is the stated intent that costs of providing water service to benefit units on a continuing basis be financed or recovered primarily through user charges. The accrual basis of accounting is used.

U.S. generally accepted accounting principles for governmental units require that *Management's Discussion and Analysis* introduce the basic financial statements and provide management's analytical overview of the District's financial activities. These financial statements are not accompanied by *Management's Discussion and Analysis*.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, cash includes cash accounts in banks, including certificates of deposit.

Accounts receivable from customers

Accounts receivable from customers arise for the sale of water and are stated at the unpaid balance, including any applicable fees. Late fees are charged monthly on unpaid balances. When amounts are uncollectible, they are charged to operations when that determination is made.

Inventory - materials

Inventory consists of materials and is stated at cost.

Property, equipment, and depreciation

The cost of the water system is depreciated on the straight-line method over an estimated useful life of fifty years. The costs of other property assets are depreciated on the straight-line method over an estimated useful life ranging from ten to twenty years.

Tax returns

The District is a Kansas Municipality and is not required to file Federal or State income tax returns.

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

2. Cash

The following is a summary of cash accounts at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Checking account in a bank	\$ 1,442	\$ 20,239
Certificate of deposit accounts in banks	52,872	52,637
Money market	54,613	44,365
Total cash	<u>108,927</u>	<u>117,241</u>

Cash is presented on the balance sheets as:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 48,429	\$ 72,876
Loan reserve account	60,498	44,365
Total cash	<u>108,927</u>	<u>117,241</u>

The District's cash deposits were adequately secured by the FDIC insurance during the years ended December 31, 2018 and 2017.

3. Property and equipment

Property and equipment consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Water treatment plant	\$ 3,418,810	\$ 3,418,810
Water lines	877,920	877,920
Equipment and improvements	88,450	88,450
Land	2,225	2,225
	4,387,405	4,387,405
Less accumulated depreciation	<u>1,174,098</u>	<u>1,078,486</u>
	<u>3,213,307</u>	<u>3,308,919</u>

4. Loan payable

In 2015, the District entered into a forty year loan agreement with USDA to construct a water treatment plant. As of December 31, 2018 and 2017, the loan payable was \$3,366,413 and \$3,413,279, respectively. Beginning April 27, 2017, monthly payments of \$13,444, including interest at 3.375%, are due, secured by a Security Agreement dated March 27, 2015.

The following is an analysis of scheduled maturities for the note payable for years ending December 31:

2019	\$ 48,470
2020	50,132
2021	51,850
2022	53,627
2023	55,466
Thereafter	<u>3,106,868</u>
	<u>3,366,413</u>

(continued)

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

4. Loan payable (continued)

Under the terms of the loan agreement with USDA, the District is required to establish a reserve account and make monthly deposits of \$1,344 until the account has a balance of \$161,328. The reserve account will be used only for the purpose of making payments for loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. All withdraws require prior written approval and are subject to conditions established by the government. As of December 31, 2018 and 2017, the balance of the reserve account was \$60,498 and \$44,365, respectively.

The loan agreement with USDA includes certain restrictive covenants. The District was in compliance with other restrictive covenants as of December 31, 2018.

5. Compliance with Kansas statutes

There were no statutory violations during the years ended December 31, 2018 and 2017.

6. Related parties

All board members of the District are also benefit unit owners and customers, as required under the District's by-laws.

7. Concentrations and risks

The District is subject to annexation in part or in whole by other municipalities.

8. Subsequent events

The District has evaluated subsequent events through February 8, 2019, the date which the financial statements were available to be issued, and none requiring disclosure were identified.

SUPPLEMENTARY INFORMATION

SUMNER COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF BOARD OF DIRECTORS
As of December 31, 2018

<u>Name</u>	<u>Position</u>
Ralph Ohl	Chairman
Kurtis Lauterbach	Vice Chairman
Ken Meyer	Treasurer
Don O'Neal	Secretary
Alice Headley	Director
James Thayer	Director
Tom Zoglmann	Director

This schedule was prepared from information submitted to Kirkpatrick, Sprecker & Company, LLP, for inspection; no expression of opinion as to the adequacy of the coverage is intended.

