

RICE COUNTY RURAL WATER DISTRICT #1

Financial Statements With Independent Auditors' Report

For the Years Ended December 31, 2019 and 2018

RICE COUNTY RURAL WATER DISTRICT #1
Financial Statements With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Rice County Rural Water District #1

Little River, Kansas

We have audited the accompanying financial statements of the business-type activities of **Rice County Rural Water District #1**, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express 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 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 respective financial position of the business-type activities of **Rice County Rural Water District #1**, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

July 13, 2020

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2019

The discussion and analysis of **Rice County Rural Water District #1's** financial performance provides an overview of the District's financial activities for the years ended December 31, 2019 and 2018. Please read in conjunction with the District's financial statements which begin after this section.

Reporting of the District

Our analysis of the District begins on page 6. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net position, statements of revenues, expenses and change in net position and statements of cash flows report information about the District's activities that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net position and changes in it. The District's net position, the difference between assets and liabilities, is a way to measure the District's financial health and financial position. Increases and decreases in the District's net position are one indicator of whether financial health is improving or deteriorating.

FINANCIAL STATUS AND HIGHLIGHTS

Current Year Results

Operating revenues remained consistent in 2019 as compared to 2018, which is attributed to a decrease in the number of gallons sold and an increase in addition of new service connections between the two years. Operating expenses decreased due to a reduction in water and electricity expense from less water being purchased.

Discussion of Basic Financial Statements

The District's only business-type fund is the proprietary fund, which is shown in this report. The financial statements provide detailed information which shows how money flows in and out of this fund and the balance left available for spending. This information helps to determine whether or not more or fewer financial resources can be spent in the near future to finance the District's activities.

The statements of net position reflect assets owned and liabilities owed at December 31, 2019 and 2018. The difference between total assets and total liabilities is referred to as net position.

The statements of revenues, expenses and change in net position reflect operating revenues, operating and maintenance expenses, interest income, interest expense and all other changes to net position for the years ended December 31, 2019 and 2018.

The statements of cash flows reflect cash provided by or used in operating activities, capital and related financing activities, and investing activities for the years ended December 31, 2019 and 2018. The statements also disclose cash paid for interest at December 31, 2019 and 2018.

Other Financial Matters

The District's purpose is to provide water to the users in the water district. Expenses include debt service and operating expenses. The financial position at the end of the year, based upon the District's established purpose, was primarily as planned.

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2019

Debt Administration

At year end the Series C, 2012 revenue bonds had an outstanding amount of \$620,000 and \$680,000, respectively for 2019 and 2018. The debt is more fully described in Note 9 of the audited financial statements.

Capital Assets

At the end of 2019 and 2018, the District had \$1,716,225 and \$1,745,629, respectively, invested in capital assets net of depreciation.

Figure 1 – Capital Assets

	<u>2019</u>	<u>2018</u>
Distribution System	\$ 2,739,740	2,726,009
Water Tower	378,600	378,600
Building	69,369	69,369
Fence	8,565	8,565
Transportation and Field Equipment	78,468	73,365
Office Equipment and Furniture	35,464	35,464
Accumulated Depreciation	<u>(1,593,981)</u>	<u>(1,545,743)</u>
Net Capital Assets	<u>\$ 1,716,225</u>	<u>1,745,629</u>

Comparative Financial Reports

The following figures present abbreviated comparative information in the District's statements of net position at December 31, 2019 and 2018 and summaries of activities for the years then ended.

Figure 2 – Net Position

	<u>2019</u>	<u>2018</u>
Cash	\$ 550,471	496,414
Accounts Receivable	20,521	34,476
Employee Receivable	223	219
Inventory	2,495	2,493
Capital Assets, Net	<u>1,716,225</u>	<u>1,745,629</u>
Total Assets	<u>\$ 2,299,935</u>	<u>2,279,231</u>
Accounts Payable	\$ 14,055	9,716
Accrued Expenses	9,566	9,763
Current Portion of Liabilities	60,000	60,000
Noncurrent Portion of Liabilities	<u>560,000</u>	<u>620,000</u>
Total Liabilities	643,621	699,479
Net Position	<u>1,656,314</u>	<u>1,579,752</u>
Total Liabilities and Net Position	<u>\$ 2,299,935</u>	<u>2,279,231</u>

RICE COUNTY RURAL WATER DISTRICT #1
Management's Discussion and Analysis
December 31, 2019


Figure 3 – Revenues, Expenses and Change in Net Position

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 230,209	230,382
Operating Expenses	(346,036)	(367,125)
Net Operating Loss	(115,827)	(136,743)
Nonoperating Revenues (Expense)		
Debt Reduction Fees	197,451	196,877
Interest Income	1,755	1,482
Gain on Disposal of Asset	12,121	-
Interest Expense	(18,938)	(20,058)
Net Nonoperating Revenues (Expense)	192,389	178,301
Change in Net Position	76,562	41,558
Net Position – Beginning of Year	1,579,752	1,538,194
Net Position – End of Year	\$ 1,656,314	1,579,752

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. The report is also designed to show the District's accountability for the money it receives.

Further questions concerning this report or the financial status of **Rice County Rural Water District #1** should be directed to the District's chairman at PO Box 266, Little River, Kansas 67457.



Rice County Rural Water District #1

RICE COUNTY RURAL WATER DISTRICT #1

Statements of Net Position
Proprietary Fund
December 31, 2019 and 2018

	<u>ASSETS</u>	
	2019	2018
Current Assets		
Cash	\$ 315,607	285,240
Accounts Receivable	30,521	34,476
Employee Receivable	223	219
Inventory	2,495	2,493
Total Current Assets	348,846	322,428
Noncurrent Assets		
Restricted Cash	234,864	211,174
Capital Assets		
Distribution System	2,739,740	2,726,009
Water Tower	378,600	378,600
Building	69,369	69,369
Fence	8,565	8,565
Transportation Equipment	32,693	27,590
Field Equipment	45,775	45,775
Office Equipment	25,272	25,272
Office Furniture	10,192	10,192
Accumulated Depreciation	(1,593,981)	(1,545,743)
Net Capital Assets	1,716,225	1,745,629
Total Noncurrent Assets	1,951,089	1,956,803
Total Assets	\$ 2,299,935	2,279,231

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

RICE COUNTY RURAL WATER DISTRICT #1
 Statements of Net Position
 Proprietary Fund
 December 31, 2019 and 2018

<u>LIABILITIES AND NET POSITION</u>		
	<u>2019</u>	<u>2018</u>
Current Liabilities Payable From Current Assets		
Current Portion of Long-Term Debt	\$ 60,000	60,000
Credit Cards Payable	-	119
Accounts Payable	14,055	9,716
Payroll Taxes Payable	1,694	1,622
Sales Tax Payable	271	250
Water Protection and Clean Drinking		
Water Fees Payable	555	526
Feasibility Deposits	1,000	800
Accrued Interest Payable	6,046	6,446
Total Current Liabilities Payable From Current Assets	83,621	79,479
Noncurrent Liabilities		
Bonds Payable, Net of Current Portion	560,000	620,000
Total Liabilities	643,621	699,479
Net Position		
Invested in Capital Assets, Net of Related Debt	1,096,225	1,065,629
Restricted		
Bond Covenant	82,800	82,800
Unrestricted	477,289	431,323
Total Net Position	1,656,314	1,579,752
Total Liabilities and Net Position	\$ 2,299,935	2,279,231

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

RICE COUNTY RURAL WATER DISTRICT #1
Statements of Revenues, Expenses and Change in Net Position
Proprietary Fund
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water Sales	\$ 188,868	199,327
Customer Water Line Setup Fees	32,779	23,123
Miscellaneous Income	4,014	3,390
Late Payment Fees	4,548	4,542
Total Operating Revenues	<u>230,209</u>	<u>230,382</u>
Operating Expenses		
Water and Electricity	121,708	134,141
Personnel	82,934	80,200
Depreciation	74,449	82,135
Other Operating Expenses	66,945	70,649
Total Operating Expenses	<u>346,036</u>	<u>367,125</u>
Net Operating Loss	<u>(115,827)</u>	<u>(136,743)</u>
Nonoperating Revenues (Expense)		
Debt Reduction Fees	197,451	196,877
Interest Income	1,755	1,482
Gain on Disposal of Assets	12,121	-
Interest Expense	(18,938)	(20,058)
Net Nonoperating Revenues (Expense)	<u>192,389</u>	<u>178,301</u>
Change in Net Position	<u>76,562</u>	<u>41,558</u>
Net Position - Beginning of Year	<u>1,579,752</u>	<u>1,538,194</u>
Net Position - End of Year	<u>\$ 1,656,314</u>	<u>1,579,752</u>

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

RICE COUNTY RURAL WATER DISTRICT #1
 Statements of Cash Flows
 Proprietary Fund
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Cash Received From Customers	\$ 234,362	229,214
Cash Paid to Suppliers	(184,311)	(207,275)
Cash Paid to Employees	(82,938)	(80,224)
Net Cash Used by Operating Activities	<u>(32,887)</u>	<u>(58,285)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase and Construction of Capital Assets	(46,424)	(10,788)
Sale of Capital Assets	13,500	-
Interest Paid	(19,338)	(20,418)
Principal Paid on Note Obligation	(60,000)	(60,000)
Debt Reduction Fees Collected	197,451	196,877
Net Cash Provided by Capital and Related Financing Activities	<u>85,189</u>	<u>105,671</u>
Cash Flows From Investing Activities		
Interest Received	<u>1,755</u>	<u>1,482</u>
Net Increase in Cash	54,057	48,868
Cash - Beginning of Year	<u>496,414</u>	447,546
Cash - End of Year	\$ <u>550,471</u>	<u>496,414</u>
Composition of Cash		
Cash	\$ 315,607	285,240
Restricted Cash	<u>234,864</u>	<u>211,174</u>
Cash - End of Year	\$ <u>550,471</u>	<u>496,414</u>
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities		
Net Operating Loss	\$ (115,827)	(136,743)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities		
Depreciation	74,449	82,135
(Increase) Decrease in		
Accounts Receivable	3,955	(1,966)
Employee Receivable	(4)	(24)
Inventory	(2)	(2)
Increase (Decrease) in		
Credit Cards Payable	(119)	(292)
Accounts Payable	4,339	(2,167)
Accrued Liabilities	322	774
Net Cash Used by Operating Activities	\$ <u>(32,887)</u>	<u>(58,285)</u>

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

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Rice County Rural Water District #1** is presented to assist in understanding the District's financial statements. The financial statements and notes to the financial statements are representations of the District's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Financial Reporting Entity

Rice County Rural Water District #1 (District), Little River, Kansas, is organized as a quasi-municipal corporation under Kansas statutes K.S.A. 82a-612, for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District, and is not subject to federal or Kansas income tax. There are no component units or oversight units.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Accounting, Financial Statement Presentation, and Measurement Focus

For financial reporting purposes, the District is engaged only in business-type activities. Accordingly, the District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the District are included in the statement of net position. The statement of revenues, expenses and change in net position presents increases and decreases in total net position. Under the accrual basis of accounting revenues are recorded when earned, and expenses are recorded when a liability is incurred. Revenues are recognized as soon as they are both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected by the end of the year. Expenditures are recorded when the related liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accounting records of the District are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District applies all statements issued by the Government Accounting Standards Board (GASB). The District uses a single proprietary fund to account for and report its financial activities, which is limited to *business-type* activities – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which for the District is water distribution. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District had only one proprietary fund through December 31, 2019 and 2018.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2019 and 2018

Budget

The District is not subject to the legal annual operating budget requirements, but is controlled by the use of an internal budget established by the governing body. As the District is not subject to these requirements, comparison to budget has been waived in the financial statements.

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 bank or branch 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 investments 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.

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 K.S.A. 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 use "peak periods". All deposits were legally secured at December 31, 2019 and 2018.

At December 31, 2019 and 2018 the District's carrying amounts of deposits were \$550,471 and \$496,414, respectively, and the bank balances were \$551,749 and \$498,248, respectively, the difference being outstanding checks and deposits. The bank balances at December 31, 2019 and 2018 were held by one bank. Of the 2019 bank balance, \$250,000 was covered by federal depository insurance and \$301,749 was collateralized with securities held by the pledging financial institutions' agents in the District's name. Of the 2018 bank balance, \$250,000 was covered by federal depository insurance and \$248,248 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments at December 31, 2019 and 2018.

Inventory

Inventory is stated at cost on a first-in, first-out basis. Inventory consists of water to be sold to customers.

Restricted Assets

The construction/line extension account consists of amounts contributed by incoming patrons to cover the cost for water line extensions necessary to provide them service. The expense of construction is then paid from this account as necessary. The balance fluctuates according to the size and number of projects in

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2019 and 2018

existence at any given time. The construction account balances were \$97,882 and \$76,037 at December 31, 2019 and 2018, respectively. The District has other cash restricted for the purpose of bond payments, which was \$136,214 and \$134,369 at December 31, 2019 and 2018, respectively. The District has other cash restricted for the purposes of Kansas unemployment payments, which was \$768 at December 31, 2019 and 2018. Total cash restricted by the District was \$234,864 and \$211,174 at December 31, 2019 and 2018, respectively.

Cash

For the purpose of the statements of cash flows, the District considers all unrestricted, highly liquid deposits with original maturities of twelve months or less, as well as restricted cash balances, as cash, which consists of the District's checking accounts, money market account and certificates of deposit.

Accounts Receivable

Accounts receivable are amounts due from customers. All water meters are master-read by the District's operator prior to the end of the fiscal year. The adjustments are reflected in the year end balances. There is no allowance for doubtful accounts used because the District deems all accounts receivable collectible.

Net Position

Net position is the difference between assets and liabilities. The District's net position is classified as follows:

- a. *Invested in capital assets, net of related debt:* This represents the District's total investment in capital assets, net of related debt obligations related to those capital assets.
- b. *Restricted net position – expendable:* Restricted expendable net position includes resources that have legal limitations that are imposed on their use by legislation or external restrictions by creditors or grantors to indicate that their use is limited as stipulated by contract. The District's bond reserve trust accounts are classified as restricted net position.
- c. *Unrestricted net position:* Unrestricted net position represents resources that does not meet the definition of "restricted" or "invested in capital assets, net of related debt". These resources are used for transactions relating to the operations of the District and may be used at the discretion of the governing body to meet current expenses for any lawful purpose.

Operating Revenues

The District's rates are established by the Board of Directors. The District sells water to members at established rates.

NOTE 2 - CAPITAL ASSETS

The cost of additions to the distribution system, tower, and equipment is capitalized. Capital assets are recorded at cost.

Capital assets are defined by the District as assets or group of assets that have an estimated useful life in excess of three years and cost \$500 or more. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives is not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation expense is computed using the straight-line method based on estimated service lives. Depreciation expense for the years ended December 31, 2019 and 2018 was \$74,449 and \$82,135, respectively. Estimated useful lives for equipment and lines are 5 to 50 years.

A summary of changes in fixed assets is a follows:

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements
December 31, 2019 and 2018

	Balance 12/31/2018	Increases	Decreases	Balance 12/31/2019
Tower	\$ 378,600	-	-	378,600
Fence	8,565	-	-	8,565
Building	69,369	-	-	69,369
Transportation Equipment	27,590	32,693	27,590	32,693
Field Equipment	45,775	-	-	45,775
Office Equipment	25,272	-	-	25,272
Office Furniture	10,192	-	-	10,192
Distribution System	2,726,009	13,731	-	2,739,740
Total Capital Assets	3,291,372	46,424	27,590	3,310,206
Accumulated Depreciation	(1,545,743)	(74,449)	(26,211)	(1,593,981)
Capital Assets, Net of Accumulated Depreciation	\$ 1,745,629	(28,025)	(1,379)	1,716,225
	Balance 12/31/2017	Increases	Decreases	Balance 12/31/2018
Tower	\$ 378,600	-	-	378,600
Fence	8,565	-	-	8,565
Building	69,369	-	-	69,369
Transportation Equipment	27,590	-	-	27,590
Field Equipment	45,775	-	-	45,775
Office Equipment	25,272	-	-	25,272
Office Furniture	10,192	-	-	10,192
Distribution System	2,715,221	10,788	-	2,726,009
Total Capital Assets	3,280,584	10,788	-	3,291,372
Accumulated Depreciation	(1,463,608)	(82,135)	-	(1,545,743)
Capital Assets, Net of Accumulated Depreciation	\$ 1,816,976	(71,347)	-	1,745,629

NOTE 3 - COMPENSATED ABSENCES

The District operator is allocated paid time off for vacation and/or holidays. Payment in lieu of vacation and carry over of vacation is not permitted. Vacation is not payable upon termination and unused vacation does not carry over to the next year. Employees receive no sick leave. As a result, no accrued compensated absences existed at December 31, 2019 or 2018.

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; injuries to employees and natural disasters. The District carries commercial insurance for risks of loss, including property, general liability, inland marine, automobile, crime, workers compensation and employee dishonesty. Settled claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from prior years.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2019 and 2018

NOTE 5 - MAJOR SUPPLIER

All of the District's water is purchased from the City of Lyons, Kansas. The contract expires June 15, 2032, and is renewable at that time.

NOTE 6 - LITIGATION

The District is party to various legal proceedings which normally occur in governmental operations. These proceedings are not likely to have a material financial impact on the affected fund of the District.

NOTE 7 - ENVIRONMENTAL ISSUES

The District's operation of the water distribution services poses a potential risk for environmental remediation liabilities. The operator of the facility has indicated that the District has not violated environmental laws.

NOTE 8 – DEBT RESTRICTIONS AND COVENANTS

Net Operating Revenue Requirements

Rice County Rural Water District #1 entered into an agreement with the Kansas Rural Water Finance Authority to issue bonds in the amount of \$1,060,000 for the purpose of refinancing certain debt obligations. The agreement requires that the District provide for the repayment of this bond by producing revenues sufficient to pay the cost of the operation and maintenance of the system; pay the principal of and interest on the bonds and all parity obligations as and when the same become due; enable the District to have in each fiscal year net revenues in an amount that will enable the District to have a debt service ratio of not less than 1.25 on all bonds and parity obligations at the time outstanding; and provide reasonable and adequate reserves for the payment of the bonds and interest thereon and for the protection and benefit of the system of the District. The debt service ratios were as follows:

	2019	2018
Revenues	\$ 427,660	\$ 427,259
Expenses	(259,468)	(284,990)
Net Revenues	168,192	142,269
Maximum Amount of Principal and Interest	78,138	79,338
Net Revenues Required	78,138	79,338
Excess	\$ 90,054	\$ 62,931
Debt Service Ratio (Net Revenues/Net Revenues Required)	2.15	1.79

NOTE 9 - LONG-TERM LIABILITIES

On June 1, 2012, the District issued \$1,060,000 in Water Finance Authority Revenue Bonds - Series C, 2012 for the purpose of providing funds for refunding the \$1,017,754 Farmers Home Administration note.

RICE COUNTY RURAL WATER DISTRICT #1

Notes to Financial Statements

December 31, 2019 and 2018

Long-term debt activity for the year ended December 31, 2019 was as follows:

		<u>Outstanding December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding December 31, 2019</u>	<u>Current Portion</u>	<u>Interest Paid</u>
Business-Type Activities:							
Revenue Bond							
Series C, 2012	\$	680,000	-	60,000	620,000	60,000	19,338

Long-term debt activity for the year ended December 31, 2018 was as follows:

		<u>Outstanding December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding December 31, 2018</u>	<u>Current Portion</u>	<u>Interest Paid</u>
Business-Type Activities:							
Revenue Bond							
Series C, 2012	\$	740,000	-	60,000	680,000	60,000	20,418

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

<u>Years Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	60,000	18,138	78,138
2021	65,000	16,788	81,788
2022	65,000	15,325	80,325
2023	65,000	13,700	78,700
2024	70,000	12,075	82,075
2025-2028	295,000	26,075	321,075
Total	\$ 620,000	102,101	722,101

NOTE 10 – MEMBERSHIP SETUP FEES

The District receives applications for new service from individuals and businesses in Rice County. During the monthly board meetings these applications are reviewed and voted on. If an application is approved, the individual or business pays a \$4,500 membership fee and pays for construction costs related to the installation of the new service. These fees are non-reimbursable. Total customer water line setup fees were \$32,779 and \$23,123 at December 31, 2019 and 2018, respectively.

NOTE 11 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District offers health insurance coverage to retired employees for a period of only 18 months after the date of separation which is a violation of K.S.A.12-5040.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent to year end, the United States experienced a nationwide pandemic from the novel coronavirus known as COVID-19. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the entire United States economy. As of the date of this financial statement, management is unable to reasonably determine the effects of this virus on the operations of the District. Management has evaluated subsequent events through July 13, 2020, which is the date the financial statement was available to be issued.