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**RURAL WATER DISTRICT NO. 1  
MORRIS COUNTY, KANSAS**

**Financial Statements for the  
Years Ended December 31, 2019 and 2018  
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 1  
MORRIS COUNTY, KANSAS**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Members  
Rural Water District No. 1  
Morris County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 1 of Morris County, Kansas (the "District") as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position 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.

### Auditors' 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 auditors' 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 auditors consider internal control relevant to the District'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 District'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 the District as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 2 through 4 is 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 inquires 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.

January 24, 2020

# **Rural Water District No. 1**

**Morris County, Kansas**

## **Management Discussion and Analysis**

**FOR YEAR ENDING DECEMBER 31, 2019**

This section of the Rural Water District No. 1, Morris County, Kansas annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2019. This information is prepared and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

### **Rural Water District No. 1 Financial Overview for 2019**

- The District's total assets of \$6,271,409 included capital assets of \$5,122,128. The District did not make any additions to capital assets in 2019.
- The District's total liabilities of \$3,214,563 included \$3,162,729 of long-term debt.
- The District's operating revenues for 2019 totaled \$802,329 and was approximately a 3% decrease from the prior year.
- The District's costs and operating expenses decreased by \$15,313 from \$714,708 in 2018 to \$699,395 in 2019. The decrease was related to a decrease in water purchases, contract labor and repairs.
- During 2019 the District received \$32,000 from the sale of new benefit units.
- In 2019, the District's net position increased by \$24,910.

### **Overview of the Financial Statements**

This report will include the Management Discussion and Analysis, Financial Statements for the years ended December 31, 2019 and 2018, and the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the Management's Discussion and Analysis.

### **Required Financial Statements**

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position exhibit the District's revenues and expenses for the fiscal years ended December 31, 2019 and 2018. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

## Net Position

A summary of the District's Statements of Net Position is presented below.

**Table 1**  
**Condensed Statements of Net Position**

	<b>2019</b>	<b>2018</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Current and other assets	818,534	901,295	(82,761)	-9.2%
Noncurrent assets	330,747	330,747	-	0.0%
Capital assets, net	5,122,128	5,396,173	(274,045)	-5.1%
<b>Total Assets</b>	<b>6,271,409</b>	<b>6,628,215</b>	<b>(356,806)</b>	<b>-5.4%</b>
Long-term debt	3,162,729	3,546,093	(383,364)	-10.8%
Other liabilities	51,834	50,186	1,648	3.3%
<b>Total Liabilities</b>	<b>3,214,563</b>	<b>3,596,279</b>	<b>(381,716)</b>	<b>-10.6%</b>
Net position invested in capital assets, net of related debt	1,959,399	1,850,080	109,319	5.9%
Restricted net position	330,747	330,747	-	0.0%
Unrestricted net position	766,700	851,109	(84,409)	-9.9%
<b>Total Net Position</b>	<b>3,056,846</b>	<b>3,031,936</b>	<b>24,910</b>	<b>0.8%</b>

### Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	Dollar Change	Percent Change
Operating revenues	802,329	825,493	(23,164)	-2.8%
Non-operating revenues	11,194	9,376	1,818	19.4%
<b>Total Revenues</b>	<b>813,523</b>	<b>834,869</b>	(21,346)	-2.6%
Depreciation expense	274,044	278,673	(4,629)	-1.7%
Other operating expense	425,351	436,035	(10,684)	-2.5%
Non-operating expense	121,218	134,835	(13,617)	-10.1%
<b>Total Expenses</b>	<b>820,613</b>	<b>849,543</b>	(28,930)	-3.4%
Income (loss) before capital contributions	(7,090)	(14,674)	7,584	-51.7%
Capital contributions	32,000	56,000	(24,000)	-42.9%
Changes in net position	24,910	41,326	(16,416)	-39.7%
Beginning net position	3,031,936	2,990,610	41,326	1.4%
<b>Total Net Position</b>	<b>3,056,846</b>	<b>3,031,936</b>	24,910	0.8%

### Economic Factors and Next Year's Budget and Rates

The Board of Directors prepares a yearly budget. In preparing the budget, the staff and the Board of Directors continue to review water rates, debt schedules and benefit unit fees annually to insure the District is operating in a positive sound financial position. The Board does anticipate a rate adjustment for the upcoming year.

### Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 1, Morris County, Kansas.

**RURAL WATER DISTRICT NO. 1**  
**MORRIS COUNTY, KANSAS**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 541,714	\$ 621,773
Certificates of deposit	153,587	151,719
Accounts receivable	72,450	83,610
Prepays and other current assets	6,402	6,402
Inventory	44,381	37,791
Total current assets	<u>818,534</u>	<u>901,295</u>
<b>NONCURRENT ASSETS</b>		
Reserve account	330,747	330,747
Total noncurrent assets	<u>330,747</u>	<u>330,747</u>
<b>CAPITAL ASSETS</b>		
Depreciable capital assets	10,303,901	10,303,901
Less accumulated depreciation	(5,181,773)	(4,907,728)
Depreciable capital assets, net	<u>5,122,128</u>	<u>5,396,173</u>
Total capital assets, net	<u>5,122,128</u>	<u>5,396,173</u>
Total assets	<u>6,271,409</u>	<u>6,628,215</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	126,913	125,483
Accounts payable	15,907	14,829
Accrued liabilities	35,927	35,357
Total current liabilities	<u>178,747</u>	<u>175,669</u>
<b>LONG-TERM DEBT, less current maturities</b>	<u>3,035,816</u>	<u>3,420,610</u>
Total liabilities	<u>3,214,563</u>	<u>3,596,279</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,959,399	1,850,080
Restricted	330,747	330,747
Unrestricted	<u>766,700</u>	<u>851,109</u>
Total net position	<u>\$ 3,056,846</u>	<u>\$ 3,031,936</u>

**RURAL WATER DISTRICT NO. 1**  
**MORRIS COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
WATER SALES	\$ 802,329	\$ 825,493
COST AND OPERATING EXPENSES:		
Personnel costs	146,936	136,333
Depreciation	274,044	278,673
Insurance	36,121	18,266
Utilities	80,098	78,807
Telephone	4,116	3,776
Professional fees	10,258	15,673
Office supplies	5,825	8,486
Postage	1,191	2,820
Repairs and contract labor	19,854	36,225
Rent	6,045	6,000
Mileage and truck	21,887	18,953
License and fees	2,253	2,218
Chemicals and supplies	29,575	32,954
Water purchases	48,061	62,093
Kansas water fees	7,706	8,875
Telemetry expense	3,500	3,590
Miscellaneous	1,925	966
	<u>699,395</u>	<u>714,708</u>
INCOME FROM OPERATIONS	<u>102,934</u>	<u>110,785</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	9,994	8,176
Interest expense	(121,218)	(134,835)
Other	1,200	1,200
	<u>(110,024)</u>	<u>(125,459)</u>
LOSS BEFORE CONTRIBUTIONS	<u>(7,090)</u>	<u>(14,674)</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>32,000</u>	<u>56,000</u>
INCREASE (DECREASE) IN NET POSITION	<u>24,910</u>	<u>41,326</u>
NET POSITION, BEGINNING OF YEAR	<u>3,031,936</u>	<u>2,990,610</u>
NET POSITION, END OF YEAR	<u>\$ 3,056,846</u>	<u>\$ 3,031,936</u>

**RURAL WATER DISTRICT NO. 1  
MORRIS COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 806,899	\$ 805,681
Cash payments to suppliers for goods and services	(423,703)	(443,495)
Net cash provided by operating activities	<u>383,196</u>	<u>362,186</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributions - benefit units and aid-in construction	32,000	56,000
Payments on long term debt	(383,364)	(245,035)
Interest paid	(121,218)	(134,835)
Net cash used in capital and related financing activities	<u>(472,582)</u>	<u>(323,870)</u>
NON-CAPITAL FINANCING ACTIVITIES:		
Other	<u>1,200</u>	<u>1,200</u>
INVESTING ACTIVITIES:		
Interest received	9,994	8,176
Change in certificates of deposit	(1,867)	(2,530)
Net cash provided by investing activities	<u>8,127</u>	<u>5,646</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(80,059)	45,162
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>621,773</u>	<u>576,611</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 541,714</u>	<u>\$ 621,773</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 102,934	\$ 110,785
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation and amortization	274,044	278,673
Changes in:		
Accounts receivable	11,160	(11,752)
Inventory	(6,590)	(6,700)
Other current assets	-	(1,360)
Accounts payable	1,078	(7,270)
Accrued liabilities	570	(190)
Net cash provided by operating activities	<u>\$ 383,196</u>	<u>\$ 362,186</u>

## **RURAL WATER DISTRICT NO. 1 MORRIS COUNTY, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018**

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#### **1. DESCRIPTION OF ENTITY**

- a. Organization – The Rural Water District (the “District”) was established as a tax exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the district. Total meters at December 31, 2019 and 2018 were 768 and 759.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of Presentation and Accounting – The District’s financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statement of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- c. Capital Assets – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.

- d. Accounts receivable – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.
- e. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.
- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.
- h. Net position – In the proprietary fund financial statements, equity is classified as net position and displayed in three components:
  - Invested in Capital Assets, Net of Related Debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
  - Restricted* – Consists of net assets with constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
  - Unrestricted* – This component of net position consists of all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
- i. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

### 3. CASH AND DEPOSITS

At December 31, 2019 and 2018, the carrying amounts of the District's deposits, including certificates of deposit, were covered by depository insurance or by collateral held by the District's agent in the District's name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2017	Additions	Dispos als	2018
Depreciable capital assets:				
Water system	9,887,380			9,887,380
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	155,372			155,372
Vehicles	87,376			87,376
	10,303,901	-	-	10,303,901
Less accumulated depreciation	(4,629,055)	(278,673)		(4,907,728)
Total capital assets, net	5,674,846	(278,673)	-	5,396,173

	2018	Additions	Dispos als	2019
Depreciable capital assets:				
Water system	9,887,380			9,887,380
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	155,372			155,372
Vehicles	87,376			87,376
	10,303,901	-	-	10,303,901
Less accumulated depreciation	(4,907,728)	(274,045)		(5,181,773)
Total capital assets, net	5,396,173	(274,045)	-	5,122,128

5. LONG-TERM DEBT

Changes in long-term debt were as follows:

	2017	Additions	Retirements	2018	Due in One Year
Long-term debt	\$ 3,791,128	-	245,035	\$ 3,546,093	\$ 125,483

	2018	Additions	Retirements	2019	Due in One Year
Long-term debt	\$ 3,546,093	-	383,364	\$ 3,162,729	\$ 126,913

Details of revenue bonds and other long-term debt outstanding at December 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
KRWFA, Revenue Bonds, Series 2014, due in annual installments of \$85,000 to \$140,000, including interest at 3.37% through maturity in 2033.	\$ 1,540,000	\$ 1,630,000
Note payable, USDA, Rural Development, due in monthly installments of \$2,034, including interest of 4.125%, through maturity in 2045 (A).	126,216	392,471
Note payable, Rural USDA, Rural Development, due in monthly installments of \$4,282, including interest of 4.125%, through maturity in 2049.	869,465	884,644
Note payable, Rural USDA, Rural Development, due in monthly installments of \$2,908, including interest of 3.625%, through maturity in 2049.	627,048	638,978
	<u>3,162,729</u>	<u>3,546,093</u>
Less current portion	126,913	125,483
	<u>\$ 3,035,816</u>	<u>\$ 3,420,610</u>

(A) The District is required to establish and fund a reserve account with a balance of at least one average annual loan installment. The balance in the reserve account totaled \$330,747 as of December 31, 2019 and 2018. The loans are also secured by the District's revenues and substantially all of its assets.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 110%.

Interest expense on long-term debt totaled \$121,218 and \$134,835 for the years ended December 31, 2019 and 2018, respectively.

Maturities of long-term debt for years subsequent to December 31, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	142,754	114,832	257,586
2021	144,697	109,687	254,384
2022	151,720	104,464	256,184
2023	158,825	98,989	257,814
2024	161,016	93,258	254,274
2025-2029	795,249	382,963	1,178,212
2030-2034	675,448	239,652	915,100
2035-2039	274,100	157,300	431,400
2040-2044	333,301	98,099	431,400
2045-2049	325,619	27,335	352,954
	<u>\$ 3,162,729</u>	<u>\$ 1,426,579</u>	<u>\$ 4,589,308</u>

Debt Service Coverage Calculation:

Income from operations	\$ 102,934
Add:	
Depreciation and amortization	274,044
Interest income	9,994
Income available for debt service	<u>\$ 386,972</u>
Debt service	
Interest expense	\$ 121,218
Principal payments	126,913
	<u>\$ 248,131</u>
Debt service coverage ratio	<u>1.56</u>

6. COMPLIANCE WITH KANSAS STATUTES

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 water district. There were no apparent statutory violations during the years ended December 31, 2019 and 2018.

7. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Morris and surrounding counties. The District grants credit to those customers and requires no collateral.

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