

Consolidated Rural Water District No. 4
Shawnee County, Kansas

FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

And

INDEPENDENT AUDITOR'S REPORT

Consolidated Rural Water District No. 4

Shawnee County, Kansas

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Consolidated Rural Water District No. 4, Shawnee County, Kansas
Topeka, Kansas 66617

I have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 4 as of and for the year ended December 31, 2018 and 2017 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I express no such opinion. An audit also includes evaluation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Consolidated Rural Water District No. 4, Shawnee County, Kansas as of December 31, 2018 and 2017 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-5, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance. Management has omitted the budgetary comparison information, my opinion on the basic financial statements is not affected by the missing budgetary comparison information.

Huddlin CPA, LLC

Lawrence, KS
March 8, 2019

Consolidated Rural Water District No. 4
Shawnee County, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion of the financial performance of Consolidated Rural Water District No. 4, Shawnee County, Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2018 and comparative data for the years ended December 31, 2018 and December 31, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

The financial statements presented in this report consist of the *statements of net position*, *statements of activities and changes in net position*, and the *statement of cash flows*. The statement of net position provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statement of activities and changes in net position. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing and investing.

Financial Highlights

The District's total assets decreased by \$58,505 from December 31, 2017 to December 31, 2018. This was principally due to an increase in cash attributable to the Kiro wells project completed in 2017 offset by depreciation to fixed assets.

The District's net position increased by \$761,544 from December 31, 2017 to December 31, 2018. This was principally due to the revenues of water sales exceeding the related costs of providing water service.

The District had income from operations of \$794,102 after recognizing depreciation and amortization expense of \$615,195 in 2018 compared to income from operations of \$631,610, after recognizing depreciation and amortization expense of \$611,406 in 2017.

The District's expense from non-operating revenues (expenses) was \$(123,058), after recognizing interest expense of \$(156,550) and interest income of \$33,640 in 2018 compared to expense from non-operating revenues (expenses) of \$(149,237) after recognizing interest expense of \$(172,325) and interest income of \$23,088 in 2016.

Total cash on hand at December 31, 2018 was \$1,865,056 which was a decrease of \$717,577 over the cash on hand amount of \$2,582,633 on December 31, 2017, this was offset by an increase in short term investments of \$1,202,588 at December 31, 2018 vs 2017.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the figures provided in the financial statements. The notes to basic financial statements can be found on pages 9-20 of this report.

Net Position

The District's net position invested in capital assets (e.g., land, buildings and equipment), less any related debt outstanding used to acquire those assets increased by \$223,690 in 2018 when compared to 2017. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The District's restricted net position is a loan reserve account required for the Water Utility system Revenue Bonds. The reserve account remained the same in 2018 as it was in 2017.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors. The unrestricted net assets increased by \$537,854 in 2018 over the balance in 2017.

Current Assets

The District's current assets increased by \$512,805 in 2018, largely due to the completion of the Kiro wells project. The District's current assets decreased by \$205,263 in 2017.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2018 and 2017 was \$16,538,006 and \$17,109,316 respectively, (net of accumulated depreciation). This includes land, buildings, facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 15-17 of this report.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Current Liabilities

The District's current liabilities decreased by \$10,049 in 2018. This is due to a reduction in the Accounts payable balance compared to 2017.

The District's current liabilities decreased by \$136,254 in 2017, this is attributable to the accounts payable balance for work performed at the Kiro wells in late December 2016.

Long Term Debt

The District reduced its outstanding debt liability by \$795,000 for the year ended December 31, 2018 as compared to December 31, 2017. The District reduced its outstanding debt liability by \$780,000 for the year ended December 31, 2017 as compared to December 31, 2016.

Economic Factors and Next Year's Budget and Rates

The annual budget outlines Management's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the customers the District serves.

As a product of an ongoing examination of how the District conducts its business, the budget seeks to assure that the District has the necessary funds to accomplish its objectives, while insuring that the rates and charges remain as competitive as possible.

Continued slow growth within the District is anticipated. The potential consolidation with a surrounding district and cities is a factor that could have an impact on operations, the Board of Directors continues to monitor and participate in that process.

Requests for Information

This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the District's finances, and to demonstrate the District's financial accountability. If you have any questions about this report or desire any additional information, contact the general manager at 1741 NE 46th Street, Topeka, KS 66617 or phone (785) 286-1729.

Consolidated Rural Water District No. 4
Shawnee County, Kansas

STATEMENTS OF NET POSITION
As of December 31, 2018 and 2017

ASSETS

	2018	2017
Current Assets		
Cash	\$ 1,865,056	\$ 2,582,633
Short-term investments	2,677,147	1,474,559
Accounts receivable	197,354	191,545
Inventory	164,852	142,867
Total current assets	<u>4,904,409</u>	<u>4,391,604</u>
Capital Assets		
Land	1,060,065	1,060,065
Property, plant and equipment	27,157,962	27,130,992
Accumulated depreciation	<u>(11,680,021)</u>	<u>(11,081,741)</u>
Total property and equipment, net	<u>16,538,006</u>	<u>17,109,316</u>
Loan reserve	<u>959,279</u>	<u>959,279</u>
Total noncurrent assets	<u>17,497,285</u>	<u>18,068,595</u>
Total Assets	<u><u>\$ 22,401,694</u></u>	<u><u>\$ 22,460,199</u></u>

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts payable	\$ 16,471	\$ 37,905
Accrued interest	63,010	69,635
Line extension and meter deposits	20,205	17,195
Current maturities of long term debt	<u>810,000</u>	<u>795,000</u>
Total current liabilities	<u>909,686</u>	<u>919,735</u>
Long term liabilities		
Notes payable, less current portion	<u>5,890,000</u>	<u>6,700,000</u>
Total liabilities	<u>6,799,686</u>	<u>7,619,735</u>
Net Position		
Invested in capital assets, net of related debt	9,838,006	9,614,316
Restricted	959,279	959,279
Unrestricted	<u>4,804,723</u>	<u>4,266,869</u>
Total net position	<u>15,602,008</u>	<u>14,840,464</u>
Total Liabilities and Net Position	<u><u>\$ 22,401,694</u></u>	<u><u>\$ 22,460,199</u></u>

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

Consolidated Rural Water District No. 4
Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION
For the years ended December 31, 2018 and 2017

	2018	2017
Revenues		
Water sales	\$ 2,696,415	\$ 2,481,137
Late charges	34,790	27,823
Other fees	88,863	75,915
	<u>2,820,068</u>	<u>2,584,875</u>
Total operating revenues		
Operating expenses		
Water purchases	78,211	68,644
Analytical services	14,992	5,924
Chemicals	236,544	185,385
Engineering services	16,076	10,852
Fuel	24,458	20,459
Insurance	46,772	48,953
Miscellaneous	27,812	23,905
Office supplies	28,141	22,507
Postage and delivery	21,185	22,159
Professional fees	7,839	10,554
Repairs and maintenance	150,606	186,111
Rent	8,140	8,140
Sales tax	3,483	3,044
Property taxes	4,011	3,862
Telephone	12,951	11,829
Tools and supplies	39,261	39,152
Uniforms	5,073	4,239
Utilities	178,717	169,414
Water protection fees	23,925	25,923
Personnel costs	390,027	379,544
Payroll taxes	29,837	29,057
Employee benefits	62,710	62,202
Depreciation and amortization expense	615,195	611,406
	<u>2,025,966</u>	<u>1,953,265</u>
Total operating expenses		
Income (loss) from operations	<u>794,102</u>	<u>631,610</u>
Non-Operating revenues (expenses)		
Interest income	33,640	23,088
Interest expense	(156,550)	(172,325)
Gain (loss) on sale of assets	(148)	-
	<u>(123,058)</u>	<u>(149,237)</u>
Total non-operating income (expense)		
Net income (loss) before contributions	<u>671,044</u>	<u>482,373</u>
Capital contributions		
Benefit units and aid in construction	<u>90,500</u>	<u>124,000</u>
Change in net position	761,544	606,373
Net position - beginning of year	<u>14,840,464</u>	<u>14,234,091</u>
Net position - end of year	<u><u>15,602,008</u></u>	<u><u>14,840,464</u></u>

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

Consolidated Rural Water District No. 4
Shawnee County, Kansas

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 2,817,269	\$ 2,597,274
Cash payments for goods and services	(1,034,326)	(1,085,462)
Cash payments to employees for services	(419,864)	(408,601)
Net cash provided by operating activities	<u>1,363,079</u>	<u>1,103,211</u>
Cash flows from investing activities		
Interest income	33,640	23,088
Purchase of investments	(1,202,588)	(3,012)
Net cash provided by investing activities	<u>(1,168,948)</u>	<u>20,076</u>
Cash flows from capital and related financing activities		
Payments on notes payable	(795,000)	(780,000)
Cash interest paid	(163,175)	(178,825)
Proceeds on sale of assets	3,100	-
Proceeds from the sale of benefit units/contribution in aid	90,500	124,000
Purchase of capital assets	(47,133)	(491,788)
Net cash used in capital and related financing activities	<u>(911,708)</u>	<u>(1,326,613)</u>
Net increase in cash and cash equivalents	(717,577)	(203,326)
Cash and cash equivalents - beginning of the year	<u>2,582,633</u>	<u>2,785,959</u>
Cash and cash equivalents - end of the year	<u>\$ 1,865,056</u>	<u>\$ 2,582,633</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 794,102	\$ 631,610
Adjustments to reconcile operating activities to net cash provided by operating activities		
Depreciation and amortization	615,195	611,406
Changes in assets and liabilities		
(Increase)decrease accounts receivable	(5,809)	11,048
(Increase)decrease inventory	(21,985)	(6,099)
(Increase)decrease prepaid expenses	-	-
Increase(decrease) accounts payable	(21,434)	(146,105)
Increase(decrease) meter deposits	3,010	1,351
Net cash provided by operating activities	<u>\$ 1,363,079</u>	<u>\$ 1,103,211</u>

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

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

Organization

Consolidated Rural Water District No. 4, Shawnee County (the District) was organized under Kansas law with the purpose and objective to acquire water and water rights, and to build and acquire pipelines for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons located within the District. Effective April 1, 2005, Rural Water District No. 4 of Shawnee County, Kansas consolidated with Rural Water District No. 3 and No. 5 of Shawnee County, Kansas. The benefit units in service at December 31, 2018 and 2017 were 4,707 and 4,684 respectively.

Basis of Accounting

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund.

Statement of Net Position

This statement is designated to display the financial position of the District. The District reports all capital assets. The net assets of the District will be classified into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Net position represents the difference between assets and liabilities. Net position is reported as being restricted when there are limitations imposed on its use through board action or external restrictions.

Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and related assets and liabilities are recognized in the accounts and reported in the financial statements. The financial statements are reported using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies (continued)

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purpose of the financial statements the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

Investments

The investments represent certificates of deposit. The certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

The meters in the District are read between the 10th and 20th of each month. All readings are processed and then prepared for mailings on the 1st day of the month following the reading. Payments for water are due the 20th day of the following month or will be subject to a 10% late charge. The base rate charge includes a capital improvement fee of \$4.00 and a base rate that varies from \$16.50 to \$63.90 based on the size of the water line and usage is billed at a rate of \$4.00 per 1,000 gallons.

The last water rate adjustment was on June 1, 2013.

Inventory

The District's inventory is valued at cost. Cost is determined by the average cost method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment - Continued

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation expense totaled \$615,195 and \$611,406 for the years ended December 31, 2018 and 2017, respectively.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$3,500 for a 3/4 inch meter, \$4,500 for a 1 inch meter and \$8,100 for a 2 inch meter.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions.

Net Position

The District's net position are classified as follows:

Invested in capital assets, net of related debt - this represents the District's total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position - the District's restricted position is comprised of a loan reserve account that is required by the bond indebtedness.

Unrestricted net position - These resources can be used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet the current requirements and needs of the District.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies (continued)

Income Taxes

The District is considered a municipality and is therefore a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2018, 2017, and 2016 are subject to examination by the taxing authorities, generally returns are subject to review for three years after they were filed.

NOTE 2 Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Cash in Checking	\$ 1,126,679	\$ 1,851,125
Cash in Money Market	738,227	731,358
Petty Cash	<u>150</u>	<u>150</u>
	<u>\$ 1,865,056</u>	<u>\$ 2,582,633</u>

NOTE 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 District is located 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.

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.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 3 Deposits and Investments - Continued

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.

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. All deposits were secured at December 31, 2018 and 2017.

At December 31, 2018 and 2017, the District's carrying amount of deposits, including certificates of deposits was \$5,501,482 and \$5,016,471 respectively, and the bank balance was \$5,519,484 and \$5,049,158 respectively, of which \$250,000 was covered by FDIC insurance. The remaining balances for both years were collateralized by securities held in safekeeping pledged to the District.

NOTE 4 Accounts Receivable

Accounts receivable are carried at original billed amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts.

NOTE 5 Prepaid Expenses

In the prior years prepaid expenses consisted of prepaid insurance. Starting in the 2014 year, the insurance agency no longer required a partial prepayment of the insurance coverage premium.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 6 Risk Management

The District is exposed to various risks of loss related to torts, damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded the commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

NOTE 7 Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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. District management noted no violations of Kansas statutes during the years ended December 31, 2018.

NOTE 8 Defined Contribution Plan

The Deferred Compensation Plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries to the plan. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or other allowable cause. The District has the option of contributing to the plan. In 2018 and 2017, the District contributed 5% of the employees' gross salaries. Under the terms of IRC Section 457 deferred compensation plans, all deferred compensation and income attributable to the plan are property of the District and subject to the claims of the creditors of the District.

NOTE 9 Line Extensions and Meter Deposits

The District requires developers to pay in advance the cost of constructing lines and renters to pay deposits for water services. The entire balance of \$20,205 and \$17,195 as of December 31, 2018 and 2017 consist of renter deposits.

NOTE 10 Contracts

In 2000, the District entered into a 20 year contract with the City of Topeka, Kansas for the purchase of water. The District purchased 16,629,000 gallons of water from the City in 2018 and 15,434,000 gallons of water from the City in 2017.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 10 Contracts – Continued

In 2009, the District entered into a 20 year contract with Rural Water District No. 1. Jackson County, Kansas for the distribution of water. The District sold 55,680,000 gallons of water to Jackson County in 2018 and 41,109,000 gallons of water to Jackson County in 2017.

In late 2014, the District entered into an agreement with Consolidated Rural Water District No. 2, Shawnee County, Kansas for the distribution of water. Currently the Districts are working on the infrastructure/rights necessary to begin water delivery.

NOTE 11 Property, Plant, and Equipment

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Adjustments</u>	<u>December 31, 2018</u>
Land	\$ 1,060,065	\$ -	\$ -	\$ 1,060,065
Wells	1,157,882	-	-	1,157,882
Distribution lines	8,003,884	-	-	8,003,884
Meters	723,112	-	-	723,112
Structures	3,815,036	-	-	3,815,036
Equipment	458,635	47,133	(20,163)	485,605
Plumbing	41,380	-	-	41,380
Purification	6,806	-	-	6,806
Furniture & fixtures	26,333	-	-	26,333
Miscellaneous	5,170	-	-	5,170
Plant additions	434,409	-	-	434,409
Water treatment plant	12,458,345	-	-	12,458,345
 Total Capital Assets	 28,191,057	 47,133	 (20,163)	 28,218,027
 Less				
Accumulated Depreciation	(11,081,741)	(615,195)	16,915	(11,680,021)
 Total Property and equipment, net	 \$ 17,109,316	 \$ (568,062)	 \$ (3,248)	 \$ 16,538,006

Depreciation expense for the year ended December 31, 2018 was \$615,195.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 11 Property, Plant, and Equipment - Continued

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Adjustments</u>	<u>December 31, 2017</u>
Land	\$ 1,060,065	\$ -	\$ -	\$ 1,060,065
Wells	676,533	481,349	-	1,157,882
Distribution lines	8,003,884	-	-	8,003,884
Meters	723,112	-	-	723,112
Structures	3,815,036	-	-	3,815,036
Equipment	458,635	-	-	458,635
Plumbing	41,380	-	-	41,380
Purification	6,806	-	-	6,806
Furniture & fixtures	15,894	10,439	-	26,333
Miscellaneous	5,170	-	-	5,170
Plant additions	434,409	-	-	434,409
Water treatment plant	<u>12,458,345</u>	<u>-</u>	<u>-</u>	<u>12,458,345</u>
 Total Capital Assets	 27,699,269	 491,788	 -	 28,191,057
 Less				
Accumulated Depreciation	<u>(10,470,335)</u>	<u>(611,406)</u>	<u>-</u>	<u>(11,081,741)</u>
 Total Property and equipment, net	 <u>\$ 17,228,934</u>	 <u>\$ (119,618)</u>	 <u>\$ -</u>	 <u>\$ 17,109,316</u>

Depreciation expense for the year ended December 31, 2017 was \$611,406.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 11 Property, Plant, and Equipment - Continued

Capitalization policies, depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Policy	Depreciation Method	Useful Life
Wells	\$5,000	Straight Line	10 to 20 years
Distribution lines	5,000	Straight Line	10 to 20 years
Meters	5,000	Straight Line	40 years
Structures	5,000	Straight Line	10 years
Equipment	5,000	Straight Line	10 to 30 years
Plumbing	5,000	Straight Line	3 to 10 years
Purification	5,000	Straight Line	10 to 20 years
Furniture & fixtures	5,000	Straight Line	3 to 10 years
Miscellaneous	5,000	Straight Line	3 to 10 years

The District will use the above table to determine capitalization but can capitalize items below the threshold at its discretion.

NOTE 12 Accrued Liabilities

	<u>2018</u>	<u>2017</u>
Accrued interest	\$63,010	\$69,635

Accrued liabilities consisted of accrued interest as of December 31, 2018 and 2017.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 13 Long Term Debt

In 2000, the District received a loan from the Kansas Public Water Supply Loan Fund (KPWSLF) for up to \$915,770. The first payment was made in August 2000 and the District made all applicable semi-annual principal and interest payments until it was refinanced in 2013.

In 2008, the District received another loan from KPWSLF for up to \$12,500,000 for the construction of a Water Treatment Plant. Advances on this loan began in 2008. The first payment was made in February, 2010 and the District made all applicable payments of semi-annual principal, interest and service fee payments until the debt was refinanced in 2013.

In 2013, the District issued Water System Revenue Bonds to refinance the debt. The total amount of the bonds was \$10,910,000 with Series A being \$9,790,000 and Series B being \$1,120,000. The interest rate ranges from .65% to 2.70%. Payments are made semi-annually on February 1 and August 1 through 2027. The balance of the debt at December 31, 2018 and 2017 was \$6,700,000 and \$7,495,000, respectively. Revenues of the District have been pledged as security.

As part of the loan agreements, the District is required to maintain a debt service coverage ratio of 1.15 and establish a loan reserve account in the amount of \$959,279. In 2018 the debt service coverage ratio was 1.51 in 2017 the debt service ratio was 1.32.

Long-term debt consists of the following at December 31, 2018.

<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding Jan 1, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding Dec 31, 2018</u>
<u>2013</u>	<u>\$ 9,790,000</u>	<u>\$ 7,495,000</u>	<u>\$ -</u>	<u>\$ (795,000)</u>	<u>\$ 6,700,000</u>

Interest expense on outstanding debt for the year ended December 31, 2018 and 2017 was \$156,550 and \$172,325, respectively.

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 13 Long Term Debt - Continued

Future maturities of long-term debt are as follows as of December 31, 2018:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u> <u>Due</u>	<u>Interest</u> <u>Due</u>	<u>Totals</u>
2019	\$ 810,000	\$ 147,175	\$ 957,175
2020	795,000	131,075	926,075
2021	775,000	115,275	890,275
2022	790,000	99,478	889,478
2023	810,000	82,377	892,377
2024-2027	2,720,000	131,095	2,851,095
	<u>\$ 6,700,000</u>	<u>\$ 706,475</u>	<u>\$ 7,406,475</u>

Debt service coverage ratio (required to be 1.15) is calculated as follows:

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 2,853,708	\$ 2,607,963
Total expenses	\$ (2,182,516)	\$ (2,125,590)
Plus depreciation	\$ 615,195	\$ 611,406
Plus interest expense	\$ 156,550	\$ 172,325
Total revenue available for debt service	\$ 1,442,937	\$ 1,266,104
Total annual debt service for the year	\$ 958,175	\$ 958,825
Debt service ratio	<u>1.51</u>	<u>1.32</u>

NOTE 14 Invested in Capital, Net of Related Debt

The following represents the net position of the District, invested in capital, net of debt:

	<u>2018</u>	<u>2017</u>
Property, plant and equipment net of accumulated depreciation	\$ 16,538,006	\$ 17,109,316
Debt outstanding at year end	<u>(6,700,000)</u>	<u>(7,495,000)</u>
Invested in Capital, net of related debt	<u>\$ 9,838,006</u>	<u>\$ 9,614,316</u>

Consolidated Rural Water District No. 4
Shawnee County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 15 Concentrations of Credit Risk

The District is engaged in the sale of water to customers located in Shawnee, Jefferson and Jackson Counties in Kansas.

NOTE 16 Compensated Absences

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees with one year of service are eligible for two weeks of vacation. All employees accrue a 1/2 day of sick leave for every month of service and up to 30 days of sick leave can be retained, no accrued vacation or sick leave is included in these financial statements as management believes the amount is immaterial. The District's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 17 Commitments and Contingencies Litigation

The District's management and legal counsel anticipate that the potential claims against the District not covered by insurance, if any, would not materially affect the financial position of the District.

NOTE 18 Subsequent Events Review

Subsequent events for management's review have been evaluated through March 8, 2019 the date the financial statements were available to be issued.