

RURAL WATER DISTRICT NO. 3

ACCOUNTANT'S AUDIT REPORT

**For the Twelve Months Ended
November 30, 2019**

Prepared By

**Kent R. Bassford
Certified Public Accountant
Winfield, Kansas**

RURAL WATER DISTRICT NO. 3
Annual Financial Report
Year Ended November 30, 2019

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**RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended November 30, 2019 & 2018**

Operations for the year ended November 30, 2019 were affected by an overall increase in revenues. Total sales were \$374,695 compared to \$371,210 in the previous year. Interest income was up \$87 due to favorable interest rates.

Total fixed assets decreased by \$89,035. The total decrease was accomplished by two factors. Property, plant, equipment acquisitions/deletions totaled \$11,018. Depreciation expenses reduced total property by \$100,053. The major additions were the well improvements and distribution system improvements.

Other current assets increased by \$127,497. The accounts that effected these changes were accounts receivable, prepaid insurance, and inventory. Changes in cash and certificate balances accounted for the other changes in current assets.

There was a net increase in cash and cash equivalents of \$79,627. The statement of cash flows should be reviewed to determine the details of this increase.

In summary, the District showed a net operating income of \$26,205. Total operating expenses were down \$56,178 over 2018. As for non-operating revenues, there was little variation from 2018.

RWD #3 showed an overall income of \$26,205 compared to the \$32,548 overall loss for 2018. The overall income is higher, primarily due to lower expenses.

RWD #3 executed a loan with KDHE which had a balance due at November 30, 2019 of \$1,107,952.

Deferred Inflows/Outflows have been presented in accordance with KPERS pension liabilities. Net effect on Net Position for the year ended November 30, 2019 is negligible. The liabilities are based on the June 30, 2018 KPERS report. The June 30, 2019 report had not been released as of the time of this report.



Rural Water District #3
Cowley County, KS

Kent R. Bassford CPA, Inc.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
RWD #3
Cowley County, Kansas

I have audited the accompanying financial statements of Rural Water District No. 3 Cowley County, Kansas as of and for the years ended November 30, 2019 and 2018 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion 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 standards applicable to financial audits contained in *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 expressing of 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.

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

Opinions

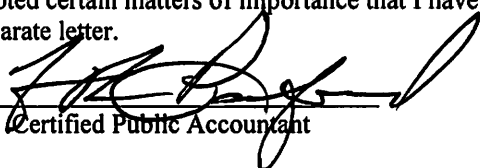
In my opinion, the financial statements referred to above present fairly, in all material respects the net position of Rural Water District No. 3 as of November 30, 2018 and November 30, 2017, and the respective net changes in net position and, where applicable, cash flows thereof, for the years then ended in conformity 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 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.

Other Information

I noted certain matters of importance that I have reported to the management of Rural Water District No. 3 in a separate letter.



Certified Public Accountant

Winfield, KS
February 17, 2020

RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
November 2019 and 2018

Assets	2019 November 30	2018 November 30
Current Assets		
Cash in Bank - General	\$ 42,471	\$ 36,919
Cash in Bank - Certificate of Deposit/Savings	386,791	312,716
Accounts Receivable - Customers (Note 1)	33,297	35,922
Prepaid Expenses	9,592	10,485
Inventory	<u>72,993</u>	<u>21,425</u>
Total Current Assets	<u>\$ 545,144</u>	<u>\$ 417,467</u>
PROPERTY, PLANT AND EQUIPMENT (NOTE 2)	<u>\$ 1,856,536</u>	<u>\$ 1,945,571</u>
OTHER ASSETS		
Loan Reserve	<u>\$ 129,419</u>	<u>\$ 130,330</u>
DEFERRED OUTFLOWS	<u>\$ 16,837</u>	<u>\$ 26,477</u>
Total Assets and Deferred Inflows	<u><u>\$ 2,547,936</u></u>	<u><u>\$ 2,519,845</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	\$ 8,587	\$ 4,624
Accrued Interest Payable	8,854	8,854
Accrued Payroll and Payroll Taxes	1,349	2,955
Current Maturities - LTD	54,553	51,806
Other Current Liabilities	<u>1,050</u>	<u>1,555</u>
Total Current Liabilities	<u>\$ 74,393</u>	<u>\$ 69,794</u>
LONG TERM LIABILITIES		
Note Payable-KDHE	\$ 1,053,399	\$ 1,109,308
Net Pension Liability	<u>67,348</u>	<u>73,770</u>
Total Long Term Liabilities	<u>\$ 1,120,747</u>	<u>\$ 1,183,078</u>
DEFERRED INFLOWS	<u>\$ 5,140</u>	<u>\$ 3,090</u>
NET POSITION		
Investment in Capital Assets	1,856,536	1,945,571
Unrestricted Net Assets	<u>(508,880)</u>	<u>(681,688)</u>
Total Net Position	<u><u>\$ 1,347,656</u></u>	<u><u>\$ 1,263,883</u></u>

See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES AND EXPENSES
November 2019 and 2018

	2019	2018
	November 30	November 30
WATER SALES	\$ 374,695	\$ 371,210
 COSTS AND OPERATING EXPENSES		
Salaries - Field	\$ 52,537	\$ 44,741
Salaries - Office	46,962	45,200
Payroll Taxes	7,929	7,271
Retirement Contribution	8,040	8,705
Interest	28,754	30,550
Electricity	18,696	24,318
Contract Labor	14,046	35,329
Natural Gas	492	1,168
Telephone	3,842	3,533
Repairs-Machinery	213	970
Repairs-Water System	5,815	25,599
Insurance	20,623	13,206
Accounting and auditing	4,825	4,380
Legal	2,870	-
Chemicals	2,704	4,154
Field Expenses	7,897	6,497
Mileage	2,071	1,840
Vehicle Expense	5,004	5,693
Water Protection Fees	3,472	3,437
Water Testing	661	1,770
Office Expense	8,586	15,042
Other Service	3,945	3,491
Depreciation Expense	100,053	123,553
Memberships and Dues	1,307	927
Other Expenses	8,819	4,967
Total Operating Expense	\$ 360,163	\$ 416,341
 Net Income (Loss) from Operations	\$ 14,532	\$ (45,131)
 NON-OPERATING REVENUES:		
Penalties	\$ 7,538	\$ 5,683
Interest Income	4,135	4,048
Other Income	-	2,852
 Total Non-operating Revenue	\$ 11,673	\$ 12,583
 Net Income (Loss)	\$ 26,205	\$ (32,548)

See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
STATEMENT OF CHANGES IN NET POSITION

For the Year Ended November 30, 2019 and 2018

	<u>Invested In Capital Assets, Net of Debt</u>	<u>Unrestricted Net Assets</u>	<u>Net Assets</u>
BALANCE, November 30, 2017	\$ 2,029,826	\$ (728,946)	\$ 1,300,880
Prior Period Adjustment		\$ (9,249)	\$ (9,249)
Net Income (Loss)	\$ (84,255)	\$ 51,707	\$ (32,548)
Benefit Units	<u> </u>	<u>\$ 4,800</u>	<u>\$ 4,800</u>
 BALANCE, November 30, 2018	 \$ 1,945,571	 \$ (681,688)	 \$ 1,263,883
Prior Period Adjustment		\$ 51,568	\$ 51,568
Net Income (Loss)	\$ (89,035)	\$ 115,240	\$ 26,205
Benefit Units	<u> </u>	<u>\$ 6,000</u>	<u>\$ 6,000</u>
 BALANCE November 30, 2019	 <u>\$ 1,856,536</u>	 <u>\$ (508,880)</u>	 <u>\$ 1,347,656</u>

See Accompanying notes and Accountant's report

RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For the Years Ended November 30, 2019 and 2018

	2019 November 30	2018 November 30
Cash Flows from Operating Activities		
Operating (Loss) Income	\$ 26,205	\$ (32,548)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation Expense	100,053	123,553
Changes in:		
Accounts Receivable	2,625	1,016
Prepaid Expenses	893	(1,202)
Inventory	(51,568)	-
Accounts Payable and Accrued Liabilities	4,599	2,068
Deferred Inflows	2,050	-
Deferred Outflows	9,640	-
Decrease in Pension Liabilities	(6,422)	-
Current Maturities	-	-
Net Cash Provided by Operations	<u>\$ 88,075</u>	<u>\$ 92,887</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Loan Payments	\$ (55,909)	\$ (51,806)
Prior Period Adjustment	\$ 51,568	\$ (9,249)
Benefit Units	<u>\$ 6,000</u>	<u>\$ 4,800</u>
Net cash provided (used) by capital and related financing activities	<u>\$ 1,659</u>	<u>\$ (56,255)</u>
INVESTING ACTIVITIES:		
Property & Equipment Purchases	\$ (11,018)	\$ (39,298)
Loan Reserve	<u>\$ 911</u>	<u>\$ (911)</u>
Net cash provided (used) by investing activities	<u>\$ (10,107)</u>	<u>\$ (40,209)</u>
NET CHANGE IN CASH AND EQUIVALENTS	<u>\$ 79,627</u>	<u>\$ (3,577)</u>
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>349,635</u>	<u>353,212</u>
CASH AND EQUIVALENTS, END OF THE YEAR	<u><u>\$ 429,262</u></u>	<u><u>\$ 349,635</u></u>
Interest paid in cash	<u>\$ 28,754</u>	<u>\$ 30,550</u>
Taxes paid in cash	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and accountant's report.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2019 AND 2018

1. Summary of Significant Accounting Policies

Organization

The Rural Water District (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.

Cash Equivalents

For purposes of the statement of cash flows the District considers all highly liquid investments having original maturities of six months or less to be cash equivalents.

Accounts Receivable

The District currently reads meters electronically on the first day of each month or the earliest date thereafter. Payments for water service are due the 10th day of the month or will be subject to a late charge of 10%. Failure to pay for water service by the first day of the month following the month in which the water service was provided shall result in discontinuance of service.

Inventories

Inventories consist primarily of meters, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, Plant and Equipment

Property, Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$3,000 and are included in members' equity.

Income Taxes

The District is a quasi-governmental unit, not subject to federal and state income taxes.

Bank Deposit

At November 30, 2019 and 2018, the District's deposits (bank account and certificate of deposit) were covered by federal depository insurance and by collateral held by the District's agent in the District's name.

Uncompensated Absences

Uncompensated absences cannot be reasonably estimated.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

2. Property, Plant and Equipment

	2019	2018
Land	\$ 2,000	\$ 2,000
Machinery and equipment	220,248	220,248
Plant	253,602	253,602
Water utility system	2,030,053	2,020,332
Office building	49,610	49,610
Office equipment	23,683	22,443
Pump house	156,749	156,749
Vehicle	32,690	32,633
Water tower	1,413,447	1,413,447
Easement	45,808	45,808
	<u>\$ 4,227,890</u>	<u>\$ 4,216,872</u>
Less accumulated depreciation	<u>(2,371,354)</u>	<u>(2,271,301)</u>
	<u>\$ 1,856,536</u>	<u>\$ 1,945,571</u>

3. Concentration of Credit Risk

The District is engaged in the sale of water to customers located in Cowley County, Kansas. The District grants credit to those customers and requires no collateral.

4. Defined Benefit Pension Plan

Plan description. The Water District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. Seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603 or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S. A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from Rural Water Dist #3 were \$8,040 for the year ended November 30, 2019.

5. Net Pension Liability

At November 30, 2019 the Water District's proportionate share of the collective net pension liability reported by KPERS was \$67,348. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The Water District's proportionate share of the net pension liability was based on the ratio of the Water District's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

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 year ended November 30, 2019 and 2018.

7. Insurance

RWD #3 has insured itself against potential risks by purchasing insurance policies to cover potential losses. RWD #3 has purchased eight separate coverages which include property liability, employee bonds, machine and equipment, automobile, workers compensation, umbrella liability, and linebacker public officials and employment practices coverage. The total annual premium for the policy is \$19,182. The policy includes coverage from June 12, 2018 through June 11, 2019.

8. Subsequent Events

Subsequent events have been evaluated through February 17, 2020.

9. Affordable care act

The District has changed its health insurance and medical reimbursement programs to comply with the Affordable Care Act. The District no longer offers health insurance or a medical reimbursement plan for its employees. It does offer a taxable insurance supplement which is not required to be used for health insurance.

10. Debt Service Coverage Ratio

Net Revenue (Loss)	\$ 26,205
Plus: Depreciation	\$ 100,053
Plus: Interest Expense	<u>\$ 28,754</u>
Net Revenue Available for Debt Service	<u>\$ 155,012</u>
2019 Loan Payment	<u>\$ 83,008</u>
Debt Service Coverage Ratio	<u>187%</u>

RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
November 30, 2019 and 2018

12. Notes Payable - KDHE

RWD #3 has entered into a loan agreement with KDHE which bears interest at 2.6%. The original amount of the note was \$1,294,189. The balance due on the loan as of November 30, 2019 was \$1,107,952. The note is for 20 years and matures February 1, 2036.

Estimated Principal and Interest Requirements:		Principal	Interest
2020	\$ 83,007.66	\$ 54,553.21	\$ 28,454.45
2021	\$ 83,007.66	\$ 55,980.81	\$ 27,026.85
2022	\$ 83,007.66	\$ 57,445.77	\$ 25,561.89
2023	\$ 83,007.66	\$ 58,949.08	\$ 24,058.58
2024-2028	\$ 415,038.30	\$ 318,708.30	\$ 96,330.00
2029-2033	\$ 415,038.30	\$ 362,650.12	\$ 52,388.18
2034-2036	\$ 207,519.15	\$ 199,665.06	\$ 7,854.09
	<u>\$ 1,369,626.39</u>	<u>\$ 1,107,952.35</u>	<u>\$ 261,674.04</u>