

**Rural Water District No. 5
Douglas County, Kansas**

FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

And

INDEPENDENT AUDITOR'S REPORT

**Rural Water District No. 5
Douglas County, Kansas**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 5, Douglas County, Kansas
Lawrence, Kansas 66047

I have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 5, Douglas County, Kansas as of and for the year ended December 31, 2019 and the related notes to the 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 Rural Water District No. 5, Douglas County, Kansas as of December 31, 2019 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it was derived. An unqualified opinion was issued on those financial statements in a report dated March 15, 2019.

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, and the District's budgetary comparison information on page 9 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.

Huddlin CPA, LLC

Lawrence, KS
February 26, 2020

Rural Water District No. 5
Douglas County, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion of the financial performance of Rural Water District No. 5, Douglas County, Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2019 and comparative data for the years ended December 31, 2019 and December 31, 2018. 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 \$177,645 from December 31, 2018 to December 31, 2019. This was principally due to a decrease in cash attributable to the paying the bond payment for PWWSD #25 in December of 2019.

The District's net position decreased by \$182,765 from December 31, 2018 to December 31, 2019. This was principally due to the bond payment made to PWWSD #25 in December of 2019.

The District had a loss from operations of \$245,970 after recognizing depreciation and amortization expense of \$205,369 in 2019 compared to income from operations of \$43,481, after recognizing depreciation and amortization expense of \$203,880 in 2018.

The District's expense from non-operating revenues (expenses) was \$(70,240), after recognizing bond payments of \$(309,685), management fees of \$198,186 and a gain on sale of asset of \$15,200 and interest income of \$26,059 in 2019 compared to revenues from non-operating revenues (expenses) of \$(36,303) after recognizing bond payments of \$(172,081), management fees of \$121,973, and interest income of \$13,805 in 2018.

Total cash on hand at December 31, 2019 was \$1,574,409 which was a decrease of \$133,795 over the cash on hand amount of \$1,708,204 on December 31, 2018.

Rural Water District No. 5
Douglas 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 10-26 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 decreased by \$56,867 in 2019 when compared to 2018. 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 used to be a loan reserve account required for the Water Utility system Revenue Bonds. The District's loan was paid off in 2018.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors. The unrestricted net assets decreased by \$125,898 in 2019 over the balance in 2018.

Current Assets

The District's current assets decreased by \$120,778 in 2019.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2019 and 2018 was \$2,985,387 and \$3,042,254 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 12 on pages 22-23 of this report.

Rural Water District No. 5
Douglas County, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Current Liabilities

The District's current liabilities increased by \$4,490 in 2019. This is due to a slight increase in the accounts payable balances compared to 2018.

Long Term Debt

The District does not currently have any debt, see Note 14 – Long Term Debt.

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 946 E 650 Rd, Lawrence, KS 66047.

Rural Water District No. 5
Douglas County, Kansas

STATEMENTS OF NET POSITION
As of December 31, 2019 and 2018

ASSETS

| | 2019 | 2018 |
|-----------------------------------|--------------|--------------|
| Current Assets | | |
| Cash | \$ 378,277 | \$ 372,829 |
| Short-term investments | 1,196,132 | 1,335,375 |
| Accounts receivable | 87,894 | 76,700 |
| Prepaid | 48,193 | 49,280 |
| Inventory | 49,172 | 46,262 |
| Total current assets | 1,759,668 | 1,880,446 |
| Capital Assets | | |
| Property, plant and equipment | 7,228,964 | 7,094,471 |
| Accumulated depreciation | (4,243,577) | (4,052,217) |
| Total property and equipment, net | 2,985,387 | 3,042,254 |
| Total noncurrent assets | 2,985,387 | 3,042,254 |
| Total Assets | \$ 4,745,055 | \$ 4,922,700 |

LIABILITIES AND NET POSITION

| | | |
|---|--------------|--------------|
| Current Liabilities | | |
| Accounts payable | \$ 4,579 | \$ 1,040 |
| Accrued payroll | 45,979 | 45,028 |
| Current maturities of long term debt | - | - |
| Total current liabilities | 50,558 | 46,068 |
| Long term liabilities | | |
| Long term debt, less current portion | - | - |
| KPERs net pension liability | 307,017 | 216,832 |
| Total long term liabilities | 307,017 | 216,832 |
| Total liabilities | 357,575 | 262,900 |
| Deferred inflows (outflows) of resources - Pensions | (50,317) | 39,238 |
| Total liabilities and deferred inflows of resources | 307,258 | 302,138 |
| Net Position | | |
| Invested in capital assets, net of related debt | 2,985,387 | 3,042,254 |
| Restricted | - | - |
| Unrestricted | 1,452,410 | 1,578,308 |
| Total net position | 4,437,797 | 4,620,562 |
| Total Liabilities and Net Position | \$ 4,745,055 | \$ 4,922,700 |

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

Rural Water District No. 5
Douglas County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|------------------|------------------|
| Revenues | | |
| Water sales | \$ 1,090,323 | \$ 1,201,272 |
| Reimbursements | 1,350 | 3,750 |
| Late charges | 12,482 | 15,760 |
| Other fees | 6,972 | 5,884 |
| | <u>1,111,127</u> | <u>1,226,666</u> |
| Total operating revenues | | |
| | <u>1,111,127</u> | <u>1,226,666</u> |
| Operating expenses | | |
| Water purchases | 305,949 | 323,362 |
| Wages | 501,744 | 355,663 |
| Payroll taxes | 40,323 | 30,761 |
| Water protection fees | 3,625 | 4,371 |
| Contract services | 8,555 | 11,820 |
| Health Insurance | 55,185 | 38,450 |
| KPERs | 43,943 | 30,410 |
| Insurance | 26,025 | 17,908 |
| Utilities | 23,119 | 25,175 |
| Telephone, internet and radio | 3,425 | 5,635 |
| Office supplies and postage | 26,313 | 22,042 |
| Vehicle expenses | 21,784 | 16,607 |
| Professional fees | 4,437 | 7,726 |
| Inventory purchases | 20,944 | 19,388 |
| Depreciation | 205,369 | 203,880 |
| Repairs and maintenance | 48,070 | 52,343 |
| Engineering | 5,902 | 667 |
| Training and conferences | 3,556 | 2,971 |
| Bank fees | 3,200 | 4,426 |
| Dues | - | 1,060 |
| Miscellaneous | 5,629 | 8,520 |
| | <u>1,357,097</u> | <u>1,183,185</u> |
| Total operating expenses | | |
| | <u>1,357,097</u> | <u>1,183,185</u> |
| Income (loss) from operations | <u>(245,970)</u> | <u>43,481</u> |
| Non-Operating revenues (expenses) | | |
| Interest income | 26,059 | 13,805 |
| Management fee | 198,186 | 121,973 |
| Bond payments | (309,685) | (172,081) |
| Gain (loss) on sale of assets | 15,200 | - |
| | <u>(70,240)</u> | <u>(36,303)</u> |
| Total non-operating income (expense) | | |
| | <u>(70,240)</u> | <u>(36,303)</u> |
| Net income (loss) before contributions | <u>(316,210)</u> | <u>7,178</u> |
| Capital contributions | | |
| Benefit units and aid in construction | 133,445 | 70,247 |
| | <u>133,445</u> | <u>70,247</u> |
| Change in net position | <u>(182,765)</u> | <u>77,425</u> |
| Net position - beginning of year | <u>4,620,562</u> | <u>4,543,137</u> |
| Net position - end of year | <u>4,437,797</u> | <u>4,620,562</u> |

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

Rural Water District No. 5
Douglas County, Kansas

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers and reimbursements for services | \$ 1,099,934 | \$ 1,228,434 |
| Cash payments for goods and services | (648,268) | (633,305) |
| Cash payments to employees for services | (500,164) | (387,432) |
| Net cash provided by operating activities | (48,498) | 207,697 |
| Cash flows from investing activities | | |
| Interest income | 26,059 | 13,805 |
| Net cash provided by investing activities | 26,059 | 13,805 |
| Cash flows from capital and related financing activities | | |
| Payments on notes payable | \$ - | \$ (305,000) |
| Bond payments | (309,685) | (174,864) |
| Prior period adjustment | - | - |
| Proceeds from the sale of benefit units/contribution in aid | 133,445 | 70,247 |
| Cash receipts from management fee | 198,186 | 121,973 |
| Proceeds from the sale of fixed assets | 15,200 | - |
| Purchase of capital assets | (148,502) | (11,500) |
| Net cash used in capital and related financing activities | (111,356) | (299,144) |
| Net increase in cash and cash equivalents | (133,795) | (77,642) |
| Cash and cash equivalents - beginning of the year | 1,708,204 | 1,785,846 |
| Cash and cash equivalents - end of the year | <u>\$ 1,574,409</u> | <u>\$ 1,708,204</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | |
| Operating income (loss) | \$ (245,970) | \$ 43,481 |
| Adjustments to reconcile operating activities to net cash provided by operating activities | | |
| Depreciation and amortization | 205,369 | 203,880 |
| Changes in assets and liabilities | | |
| (Increase)decrease accounts receivable | (11,194) | 1,767 |
| (Increase)decrease inventory | (2,910) | (2,673) |
| (Increase)decrease prepaid expenses | 1,087 | (7,093) |
| Increase(decrease) accounts payable | 3,539 | 103 |
| Increase(decrease) accrued liabilities | 1,581 | (31,768) |
| Net cash provided by operating activities | <u>\$ (48,498)</u> | <u>\$ 207,697</u> |

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

Rural Water District No. 5
Douglas County, Kansas

Budgetary Comparison
For the year ended December 31, 2019

| | Actual | Budget | Variance Over [Under] |
|------------------------------------|--------------|--------------|-----------------------------|
| Revenues | | | |
| Water sales | \$ 1,090,323 | \$ 1,262,804 | \$ (172,481) |
| Reimbursements | 1,350 | - | 1,350 |
| Late charges | 12,482 | 11,000 | 1,482 |
| Interest income | 26,059 | 16,000 | 10,059 |
| Management fee | 198,186 | 243,200 | (45,014) |
| Other income | 15,200 | - | 15,200 |
| Other fees | 6,972 | - | 6,972 |
| Total revenues | 1,350,572 | 1,533,004 | (182,432) |
| Operating expenses | | | |
| Water purchases | 305,949 | 413,031 | (107,082) |
| Wages | 501,744 | 501,637 | 107 |
| Payroll taxes | 40,323 | 41,217 | (894) |
| Water protection fees | 3,625 | 5,000 | (1,375) |
| Contract services | 8,555 | 5,500 | 3,055 |
| Health Insurance | 55,185 | 47,752 | 7,433 |
| KPERS | 43,943 | 41,210 | 2,733 |
| Insurance | 26,025 | 30,000 | (3,975) |
| Utilities | 23,119 | 5,304 | 17,815 |
| Telephone, internet and radio | 3,425 | 11,330 | (7,905) |
| Office supplies and postage | 26,313 | 18,000 | 8,313 |
| Vehicle expenses | 21,784 | 42,000 | (20,216) |
| Professional fees | 4,437 | 6,775 | (2,338) |
| Inventory purchases | 20,944 | 26,226 | (5,282) |
| Depreciation | 205,369 | 195,000 | 10,369 |
| Repairs and maintenance | 48,070 | 30,000 | 18,070 |
| Engineering | 5,902 | 2,000 | 3,902 |
| Training and conferences | 3,556 | 3,700 | (144) |
| Bank fees | 3,200 | - | 3,200 |
| Dues | - | 5,200 | (5,200) |
| Bond Payment | 309,685 | 218,184 | 91,501 |
| Other | - | - | - |
| Miscellaneous | 5,629 | 2,334 | 3,295 |
| Total expenses | 1,666,782 | 1,651,400 | 15,382 |
| Receipts over (under) expenditures | (316,210) | (118,396) | (197,814) |

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

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies

Organization

Rural Water District No. 5, Douglas County (the District) was organized under Kansas law with the purpose and objective to acquire water rights, and to build and acquire pipelines for the purpose of furnishing water for domestic, agriculture, and/or other purposes to rural customers. The District provides services to patrons located within the District. The benefit units in service at December 31, 2019 and 2018 was 1,261 and 1252.

Basis of Accounting

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund. For December 31, 2019 and 2018, the District has adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions see Note 8 KPERs. The accounts of the District are presented as a business type activity. The activities of the District are accounted for within the accounts that comprise the District's assets, liabilities, net position, revenues and expenses. 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. All assets and all liabilities are included on the statement of net position. 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.

Statement of Net Position

This statement is designated to display the financial position of the District. The District reports all capital assets, including infrastructure. 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.

Rural Water District No. 5
Douglas 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 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 the last week of each month, all readings are processed and then prepared for mailing later that week so that monthly billing can be mailed by the end of the month. Payments for water are due the 16th day of the following month or will be subject to a 10% late charge. The base rate charge for the 2019 and 2018 years was \$35 and usage was billed at a rate of \$9.65 and \$9.25 per 1,000 gallons.

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.

Rural Water District No. 5
Douglas 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 \$205,369 and \$203,880 for the years ended December 31, 2019 and 2018.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$6,800.

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 that is required by the bond indebtedness.

Unrestricted net position - These resources can be used for transactions relating to providing 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.

Rural Water District No. 5
Douglas 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 2019, 2018, and 2017 are subject to examination by the IRS, 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>2019</u> | <u>2018</u> |
|---------------------------------|--------------------|--------------------|
| Cash in Checking | \$ 378,277 | \$ 372,829 |
| Cash in Certificate of Deposits | 1,196,132 | 1,335,375 |
| Loan Reserve | - | - |
| | <u>\$1,574,409</u> | <u>\$1,708,204</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.

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.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 3 Deposits and Investments- (continued)

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, 2019 and 2018.

At December 31, 2019 and 2018, the District's carrying amount of deposits, including certificates of deposits was \$1,574,409 and \$1,708,204 and the bank balance was \$1,607,146 and \$1,738,537, of which up to \$250,000 was covered by FDIC insurance for each bank. The remaining balances were collateralized by securities held in safekeeping pledged to the District, CDARS accounts and insured cash sweep accounts.

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

Prepaid expenses consisted of prepaid insurance and prepaid water contracts with the Kanas Water Office.

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.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

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. Management is not aware of any violations of Kansas statutes during the year ended December 31, 2019.

NOTE 8 Defined Benefit Pension Plan

Description of Pension Plan. The District participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS or the System), a body corporate and an instrumentality of the State of Kansas. KPERS provides pension benefits to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

Public employees, which includes:
State/School employees
Local employees
Police and Firemen
Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the District are included in the Local employees' group.

KPERS issues a stand-alone Comprehensive Annual Financial Report, which is available on the KPERS website at www.kpers.org.

Benefits - Benefits are established by statute and may only be changed by the State Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 8 Defined Benefit Pension Plan

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

The 2012 Legislature made changes affecting new hires, current member and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or age 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund established by K.S.A. 74-4922.

Contributions - Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contribution and assets of all groups are deposited into the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increased over the prior year contribution rate is 1.2% of total payroll.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 8 Defined Benefit Pension Plan

The actuarially determined employer contribution rate and the statutory contribution rates for Local government employees are 8.39% and 8.39%, respectively. Member contribution rates as a percentage of eligible compensation for the fiscal year 2019 are 6.00% for Local government employees.

Employer and Nonemployer Allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

State/School
Local
Police and Firemen
Judges

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for each group as of June 30, 2019, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the fiscal years ended June 30, 2019.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 8 Defined Benefit Pension Plan

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. The employer allocation percentages have been rounded for presentation purposes. Therefore, use of these percentages to recalculate individual employer amounts presented in the schedule of pension amounts by employer and nonemployer may result in immaterial differences due to rounding.

Net Pension Liability - At June 30, 2019 and 2018 the District reported a liability of \$307,017 and \$216,832 for its proportionate share of the net pension liability.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2018 which was rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Actuarial Cost Method | Entry age normal |
| Inflation | 2.75 percent |
| Salary increases | 3.50 to 12.00 percent including price inflation |
| Investment Rate of Return | 7.75 percent compounded annually, net of Investment expenses, including price Inflation. |

Mortality rates were based on the RP 2014 Combined Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using scale MP-2016.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013, through December 31, 2015. The experience study is dated November 18, 2016.

The actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study:

Price inflation assumption was lowered from 3.00 percent to 2.75 percent

Investment return assumption was lowered from 8.00 percent to 7.75 percent

General wage growth assumption was lowered from 4.00 percent to 3.50 percent

Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 8 Defined Benefit Pension Plan

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by addition expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|------------------------------------|---|
| Global Equity | 47.00% | 6.85% |
| Fixed Income | 13.00% | 1.25% |
| Yield driven | 8.00% | 6.55% |
| Real return | 11.00% | 1.71% |
| Real estate | 11.00% | 5.05% |
| Alternatives | 8.00% | 9.85% |
| Short-term investments | <u>2.00%</u> | (.25%) |
| Total | <u>100.00%</u> | |

Discount Rate -The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate was based on member and employer contributions as outline below: In KPERS, the State/School and Local groups do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993 and subsequent legislation, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap for Fiscal year 2019 was 1.2 percent.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 8 Defined Benefit Pension Plan

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

| 1% Decrease (6.75%) | Discount rate (7.75%) | 1% Increase (8.75%) |
|---------------------|-----------------------|---------------------|
| \$458,536 | \$307,017 | \$180,274 |

Pension Expense For the year ended December 31, 2019 and 2018, the District recognized pension expense of \$43,943 and \$30,410.

Deferred Outflows or Resources and Deferred Inflows of Resources will not be presented in these financial statements as they will not have a material effect on the financial statements.

The complete actuarial valuation report is publicly available on the KPERS website at www.kpers.org.

KPERS Pension Plan:

Schedule of District's Proportionate Share of the Net Pension Liability for all available years (2019 and 2018).

| | <u>12.31.19</u> | <u>12.31.18</u> |
|--|-----------------|-----------------|
| District's proportion of the net pension liability | 0.021971% | 0.015557% |
| District's proportionate share of the Net pension liability | \$ 307,017 | \$ 216,832 |
| Covered employee payroll | 496,338 | 355,663 |
| District's pension liability as a percentage Of covered employee payroll | 61.86% | 60.97% |
| Plan fiduciary net position as a percentage Of the total pension liability | 75.02% | 74.22% |

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

Note 9 Reclassifications

Certain amounts from the prior periods have been reclassified to correspond with the current year presentation.

NOTE 10 Line Extensions and Meter Deposits

The District requires benefit holders to pay the cost of extending lines. The charges for these extensions was \$24,645 for the 2019 year and \$15,847 for the 2018 year.

NOTE 11 Contracts

In June of 1974, the District entered into a 40 year contract with an addendum added in May 1975, for treatment of water from the City of Lawrence, Kansas. New contracts were entered into in December 1998 and October 2008.

In 1977, The District entered into a 40-year contract with the State of Kansas, represented by the Kansas Water Resources Board, which allows the District to withdraw 48 million gallons of water from Clinton Lake. The Kansas Water Resources Board has the right to review the contract and determine a new rate every ten years. In 1995, the District entered into an additional 40-year contract with the State of Kansas, Represented by the Kansas Water Resources Board, which allows the District to withdraw 135 million gallons of water from Clinton Lake.

The City of Lawrence and the Tri-District plant treat, process and transport water to Rural Water District No. 5. The agreement with the Tri-District plant expired in 2019.

The District has also entered into an agreement with Public Wholesale Water Supply District No. 25 (PWWSD) which is a wholesale water utility that provides wholesale domestic water service. PWWSD was organized under authority of State Law, K.S.A. 19-3501 *et. seq.* Its purpose is to develop and ultimately operate a public water supply system that can deliver water to wholesale members. Its members currently consist of 2 entities. Rural Water District No. 5, Douglas County, and Rural Water District No. 5,

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 11 Contracts Continued

Osage County. These Districts together serve an area located south and west of the City of Lawrence, Kansas. Collectively they provide drinking water to approximately 10,000 persons including farmers, ranchers, homeowners, and small businesses throughout their respective districts.

PWWSD has water purchase contracts with Rural Water District No. 5, Douglas County and Rural Water District No. 5, Osage County, that are 40-year contracts for these member entities to purchase water from the District. These contracts allow both entities to purchase up to 1 million gallons per day. PWWSD started supplying water under this agreement in late 2019.

NOTE 12 Property, Plant, and Equipment

Capital asset activity for the year ended December 31, 2019 was as follows:

| | <u>January 1, 2019</u> | <u>Additions</u> | <u>Adjustments</u> | <u>December 31, 2019</u> |
|-----------------------------------|------------------------|--------------------|--------------------|--------------------------|
| Rural Water System | \$ 6,603,908 | \$ 109,430 | \$ - | \$ 6,713,338 |
| Building and Improvements | 142,211 | - | - | 142,211 |
| Operating Equipment | <u>348,352</u> | <u>40,792</u> | <u>(15,729)</u> | <u>373,415</u> |
| Total Capital Assets | 7,094,471 | 150,222 | (15,729) | 7,228,964 |
| Less | | | | |
| Accumulated Depreciation | <u>(4,052,217)</u> | <u>(205,369)</u> | <u>14,009</u> | <u>(4,243,577)</u> |
| Total Property and equipment, net | <u>\$ 3,042,254</u> | <u>\$ (55,147)</u> | <u>\$ (1,720)</u> | <u>\$ 2,985,387</u> |

Depreciation expense for the year ended December 31, 2019 was \$205,369.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

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> |
|-----------------------------------|------------------------|---------------------|--------------------|--------------------------|
| Rural Water System | \$ 6,603,908 | \$ - | \$ - | \$ 6,603,908 |
| Building and Improvements | 142,211 | - | - | 142,211 |
| Operating Equipment | <u>336,852</u> | <u>11,500</u> | <u>-</u> | <u>348,352</u> |
| Total Capital Assets | 7,082,971 | 11,500 | - | 7,094,471 |
| Less | | | | |
| Accumulated Depreciation | <u>(3,848,337)</u> | <u>(203,880)</u> | <u>-</u> | <u>(4,052,217)</u> |
| Total Property and equipment, net | <u>\$ 3,234,634</u> | <u>\$ (192,380)</u> | <u>\$ -</u> | <u>\$ 3,042,254</u> |

Depreciation expense for the year ended December 31, 2018 was \$203,880.

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

| | Capitalization Policy | Depreciation Method | Useful Life |
|---------------------------|-----------------------|---------------------|----------------|
| Rural water system | \$5,000 | Straight Line | 20 to 40 years |
| Building and improvements | 5,000 | Straight Line | 15 to 40 years |
| Operating equipment | 5,000 | Straight Line | 5 to 10 years |

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

NOTE 13 Accrued Liabilities

Accrued liabilities consisted of accrued payroll as of December 31, 2019 and 2018.

NOTE 14 Long Term Debt

In 2012, the District refinanced loans from the Kansas Public Water Supply Loan Fund (KPWSLF) to Revenue Bonds totaling \$650,000 bearing interest from .75% to 2.40%, revenues of the District have been pledged as security for the Bonds.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 14 Long Term Debt Continued

The District paid off the Bonds in December of 2018.

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>2012</u> | <u>\$ 650,000</u> | <u>\$ 305,000</u> | <u>\$ -</u> | <u>\$ (305,000)</u> | <u>\$ -</u> |

Interest expense on outstanding debt for the year ended December 31, 2018 was \$9,220.

As noted above The District has also entered into an agreement with Public Wholesale Water Supply District No. 25 (PWWSD) which is a wholesale water utility that provides wholesale domestic water service. Its members currently consist of 2 entities. Rural Water District No. 5, Douglas County, and Rural Water District No. 5, Osage County.

In addition to the interest paid on the District's Bond the District made a payment of interest due on the Bond Issue for the PWWSD. This interest payment had to be paid by the District (with Osage Rural Water District No. 5 paying the same amount, each District responsible for half the payment due) as PWWSD has yet to deliver water to the two Districts and thus is unable to charge for the water supplied, therefore Rural Water District No. 5, Douglas County, and Rural Water District No. 5, Osage County had to make the interest payment due on behalf of PWWSD in December 2018.

The District's payment on the PWWSD obligation was \$165,644 in 2018 and \$280,685 in 2019. In addition to the one-time payment of \$280,685 in December of 2019 the District has started making payments of \$29,000 a month to PWWSD so that the PWWSD can satisfy the debt payment due in 2020 with funds collected from the District throughout the year versus one large payment at year end.

For the 2020 calendar year through 2056, additional payments estimated at \$281,000 each year will need to be paid by the District to the PWWSD so that the PWWSD can pay its bond and interest obligations.

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 15 Invested in Capital, Net of Related Debt

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

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Property, plant and equipment net of accumulated depreciation | \$ 2,985,387 | \$ 3,042,254 |
| Debt outstanding at year end | - | - |
| Invested in Capital, net of related debt | <u>\$ 2,985,387</u> | <u>\$ 3,042,254</u> |

NOTE 16 Concentrations of Risk

The District is engaged in the sale of water to customers located in and around Douglas County, Kansas. The District acquires all of its water supply from the State of Kansas based on the agreements as detailed in Note 11. The City of Lawrence and the Tri-District plant treat, process and transport water to Rural Water District No. 5. There are currently no other suppliers of water available to the District. See Note 11 for future plans regarding water acquisition and treatment.

NOTE 17 Compensated Absences

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees who have worked more than 10 years but less than 20 years, earn 15 days of vacation. For employees with 20 years of service, the employee will earn 20 days of vacation. The District policy allows full time employees sick leave at the rate of eight hours per month with an accumulation to a maximum of 720 hours. Upon separation from the District the employee shall be compensated at their regular rate of pay for 25% of unused accumulated sick leave. No accrued vacation or sick leave is included in these financial statements. The District's policy is to recognize the costs of compensated absences when actually paid to employees.

NOTE 18 Commitments and Contingencies Litigation

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

Rural Water District No. 5
Douglas County, Kansas
NOTES TO FINANCIAL STATEMENTS

NOTE 19 Related Parties

The District sells water to members of the Board of Directors. The amounts are nominal and not considered material to the financial statements.

NOTE 20 Subsequent Events Review

Subsequent events for management's review have been evaluated through February 26, 2020 the date the financial statements were available to be issued.