



Certified Public Accountants

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
FINANCIAL STATEMENTS
Years Ended December 31, 2020 and 2019

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EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
Board of Directors
December 31, 2020

Randy White
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EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
Officers
December 31, 2020

Kathleen B. Sexton, President
313 N. Walnut Creek Drive
Derby, KS 67037

Robert Mendoza, Vice-President
1637 E Blue Spruce Circle
Derby, KS 67037

Lynn Ciarleglio, Secretary
501 S Georgie
Derby, KS 67037

Jean Epperson, Treasurer
512 W. Rosewood
Rose Hill, KS 67133



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
El Paso Water Company, Inc.
Derby, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of El Paso Water Company, Inc. (the Company), a component unit of the City of Derby, Kansas, which comprise the balance sheets as of December 31, 2020 and 2019, the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

An Independently Owned Member, RSM US Alliance

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

BT + Co., P.A.

April 15, 2021
Topeka, Kansas

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Utility plant:		
Land and land improvements	\$ 75,059	\$ 75,059
Wells, pumphouses and equipment	995,839	995,839
Mains and storage tanks	4,457,556	4,457,556
Meters	685,738	704,421
Warehouse building	58,954	58,954
Office furniture and equipment	25,213	25,213
Automotive and other equipment	357,665	357,665
	6,656,024	6,674,707
Less allowance for depreciation	(5,475,878)	(5,378,477)
Total	1,180,146	1,296,230
Current assets:		
Cash	787,370	680,486
Accounts receivable	481,347	468,478
Unbilled receivables	283,630	263,600
Materials and supplies	39,386	55,435
Prepaid insurance	3,362	3,362
Total current assets	1,595,095	1,471,361
	\$ 2,775,241	\$ 2,767,591

(Continued)

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
BALANCE SHEETS
(Continued)
December 31, 2020 and 2019

	2020	2019
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 276,625	\$ 249,082
Stockholder's equity:		
Common stock, no par value, stated value \$ 25 per share: authorized 40,000 shares; issued and outstanding 34,860 shares	871,500	871,500
Additional paid-in capital	303,054	303,053
Retained earnings	1,924,053	1,943,947
	3,098,607	3,118,500
Treasury stock at cost - 3,545 shares	(599,991)	(599,991)
Total stockholder's equity	2,498,616	2,518,509
	\$ 2,775,241	\$ 2,767,591

See accompanying notes to financial statements.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
STATEMENTS OF INCOME
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues	<u>\$ 6,755,183</u>	<u>\$ 5,795,911</u>
Operating expenses:		
Operation and maintenance	4,425,624	3,929,424
Depreciation	<u>116,084</u>	<u>130,691</u>
Total operating expenses	<u>4,541,708</u>	<u>4,060,115</u>
Net income	<u><u>\$ 2,213,475</u></u>	<u><u>\$ 1,735,796</u></u>

See accompanying notes to financial statements.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
STATEMENTS OF RETAINED EARNINGS
Years Ended December 31, 2020 and 2019

	2020	2019
Balance, beginning of year	\$ 1,943,947	\$ 2,034,523
Net income	2,213,475	1,735,796
Cash dividends to the City of Derby, Kansas	(2,233,369)	(1,826,372)
Balance, end of year	\$ 1,924,053	\$ 1,943,947

See accompanying notes to financial statements.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	\$ 2,213,475	\$ 1,735,796
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	116,084	130,691
Changes in assets and liabilities:		
Accounts and unbilled receivables	(32,899)	(41,838)
Materials and supplies	16,049	70,293
Accounts payable	27,544	(19,883)
	2,340,253	1,875,059
Cash flows from investing activities:		
Purchases of equipment	-	(3,266)
Cash flows from financing activities:		
Dividends paid	(2,233,369)	(1,826,372)
Net increase in cash	106,884	45,421
Cash, beginning of year	680,486	635,065
Cash, end of year	\$ 787,370	\$ 680,486

See accompanying notes to financial statements.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1 - Nature of Organization and Summary of Significant Accounting Policies

Organization and Operations

El Paso Water Company, Inc. (the Company) is a water utility company serving customers located in Derby, Kansas. The Company is a component unit of the City of Derby, Kansas. Water sales comprise the majority of the Company's operating revenues, which could be adversely affected by the amount of local rainfall, conservation measures by customers or an interruption of service from the City of Wichita, Kansas water supply. On January 27, 1999, all stock of the company not redeemed as treasury stock was acquired by the City of Derby, Kansas.

Deposits

The Company maintains deposits in banks. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$ 250,000 per bank. At times, the Company's deposits may exceed the FDIC insurance limits. To date, the Company has not experienced losses in any of these accounts.

Utility Plant

Utility plant assets are reflected at cost as of the time of acquisition. The Company generally capitalizes all expenditures for utility plant assets in excess of \$ 2,500.

Maintenance and repair costs are charged to income as incurred, and significant renewals and betterments are capitalized. When assets are retired or disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged to income.

Depreciation is provided for in amounts sufficient to charge the cost of depreciable assets to operations over their estimated service lives. For substantially all capital assets acquired prior to 1987, an accelerated method of depreciation (declining-balance) is used for financial reporting purposes, except for assets acquired prior to January 1, 1976, which are depreciated using the straight-line method for financial reporting purposes. All capital assets acquired subsequent to 1987 are depreciated using the straight-line method. Estimated useful lives are as follows:

	Years
Land improvements	20
Wells, pumphouses and equipment	40
Mains and storage tanks	50
Meters	5 - 15
Warehouse building	40
Office furniture and equipment	5 - 7
Other	3 - 10

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
NOTES TO FINANCIAL STATEMENTS
(Continued)

In previous years, purchased water meters were classified as capital assets and depreciated over their estimated useful lives. Beginning on January 1, 2013, the Company determined that new meter costs going forward will be recognized as expenses in the period incurred as the individual meter costs are below the capitalization threshold of the Company.

Revenue Recognition

Revenue is primarily derived from the sale of water to customers. Revenues are recognized as services are provided. Sales and other taxes the Company collects concurrently are excluded from revenue. The Company does not have a significant financing component. The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue.

The Company's customers consist of private customers, primarily located within the City of Derby, Kansas.

For performance obligations related to water sales, control transfers to the customer over time. Revenue under water sales contracts is recognized on the basis of gallons used using rates approved by the City of Derby, Kansas city council.

The Company has elected as a practical expedient the accounting policy under which it excludes from the transaction price taxes it collects from its customers that were assessed by a government authority on (or contemporaneous with) the entity's revenue-generating transactions with its customers. The Company therefore reports sales revenue net of sales tax.

Accounts Receivable

Accounts receivable consist of both residential and commercial water sales. Unbilled receivables are recorded for services provided for which customers have not been billed at December 31, 2020 and 2019. The Company utilizes the direct write-off method of accounting for bad debts. Accounts greater than 90 days past due are considered uncollectible and are written off. Management has determined that an allowance for doubtful accounts is not necessary at December 31, 2020 and 2019.

Materials and Supplies

Inventories of materials and supplies are stated at the lower of cost or market; cost is determined using the last-in, first-out method.

Income Tax Matters

The Company has received a Private Letter Ruling from the Internal Revenue Service concluding that the Company is a public utility for purposes of Internal Revenue Code 115(1) and, accordingly, its income from the operation of the public utility is excludable from taxation.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Company's policy is to evaluate uncertain tax positions annually. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements.

The Company files income tax returns in the U.S. federal jurisdiction and Kansas state jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2016.

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 recognized and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Pending Accounting Pronouncement

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the income statement. In January 2018, FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. This ASU clarifies how land easements should be treated. The new standards are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Management is currently evaluating the effect that the standards will have on the financial statements.

2 - Related Party Transactions

The Board of Directors of El Paso Water Company, Inc. is comprised of the Mayor and City Council members of the City of Derby, Kansas. The City of Derby, Kansas bills the water charges for the Company. All employees of the Company are employees of the City of Derby, Kansas. The Company makes a monthly reimbursement to the City of Derby, Kansas for contract labor. The total contract labor reimbursement from the Company to the City of Derby, Kansas for the years ended December 31, 2020 and 2019 was \$ 688,506 and \$ 702,784, respectively.

The City of Derby, Kansas receives dividends from the Company. Cash dividends paid to the City of Derby, Kansas from the Company were \$ 2,233,369 and \$ 1,826,372 for the years ended December 31, 2020 and 2019, respectively.

The Company also leases office space from the City of Derby, Kansas. Total rental expense included in operations was \$ 14,300 for the years 2020 and 2019.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Water Rights

As of December 31, 1996, the Company hired a consultant to prepare a business valuation of the Company. Included in the valuation were water rights with a value of \$ 851,600. This value was based upon transactions in water rights in the area. The Company does not have a cost basis in the water rights, and therefore, in accordance with accounting principles generally accepted in the United States of America, they are not reflected on the balance sheets.

4 - Commitments

In April 2004, the City of Derby, Kansas issued \$ 9,455,000, 1.10% - 5.00% General Obligation Water System Refunding Bonds, Series 2004-A, with varying maturities up to December 1, 2022. Principal payments for 2016 through 2022 were refunded in September 2013, when the City of Derby, Kansas issued \$ 3,375,000, 2.50% - 3.00% General Obligation Water System Refunding Bonds, Series 2013-B, with varying maturities up to December 1, 2022. All of the Series 2013-B issuance pertained to the Company.

In September 2012, the City of Derby, Kansas issued \$ 3,165,000, 1.00% - 2.125% General Obligation Bonds, Series 2012-B, with varying maturities up to December 1, 2026. Of the \$ 3,165,000 Series 2012-B issuance, \$ 708,120 pertained to the Company.

In December 2018, the City of Derby, Kansas issued both \$ 6,900,000, 3.00% - 3.35% General Obligation Bonds, Series 2018-A, with varying maturities up to December 1, 2038 and \$ 5,680,000, 3.50% - 5.00% General Obligation Bonds, Series 2018-B, with varying maturities up to December 1, 2039. Of the \$ 6,900,000 Series 2018-A bond issuance, \$ 775,000 pertained to the Company. Of the \$ 5,680,000 Series 2018-B bond issuance, \$ 2,710,000 pertained to the Company.

The Company paid dividends to the City of Derby, Kansas of \$ 2,233,369 and \$ 1,826,372 for the years 2020 and 2019, respectively, related to principal and interest payments on the Series 2012-B, Series 2013-B, Series 2018-A and Series 2018-B bond issues. Future dividend payments to the City of Derby, Kansas are anticipated in order to retire the Series 2012-B, Series 2013-B, Series 2018-A and Series 2018-B bonds.

5 - Water Purchased from City of Wichita

All water sold is purchased from the City of Wichita, Kansas. The original wholesale water services contract contained a 100% “take or pay” provision. In March 2014, the City of Wichita, Kansas modified the “take or pay” provision to reduce the threshold to 50% for one year. This modification was extended through the remainder of the contract. In November 2020, the Company entered into a new contract with the City of Wichita, Kansas for wholesale water services. The contract contained a 50% “take or pay” provision based on the volume of water specified in a schedule of projected water usage. The term of the contract is 23 years, and it has the option to extend for an additional 10 years. No amounts were paid under the “take or pay” provision for 2020 or 2019.

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - Risks and Contingencies

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the pandemic.

It is unknown how long the adverse conditions associated with the pandemic will last and what the complete financial effect will be to the Company. Accordingly, while management cannot quantify the financial or other impacts to the Company as of December 31, 2020, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

7 - Subsequent Events

The Company has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

EL PASO WATER COMPANY, INC.
CITY OF DERBY, KANSAS
SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Contract labor	\$ 688,506	\$ 702,784
Repairs and maintenance	201,988	287,011
Wichita water purchases	3,245,257	2,645,759
Electric power	26,566	25,193
Other utilities	5,148	7,461
Office supplies and postage	11,390	15,456
Rentals/operating leases	14,300	14,300
Water treating supplies	854	2,144
Insurance	20,504	26,170
Professional fees	85,856	94,068
Dues and subscriptions	2,957	2,498
Other taxes	20	20
Miscellaneous	122,278	106,560
	<u>4,425,624</u>	<u>3,929,424</u>
Total	<u>\$ 4,425,624</u>	<u>\$ 3,929,424</u>