Acord Cox & Scott, LLC
Certified Public Accountants

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

Financial Statements for the
Years Ended December 31, 2021 and 2020
and Independent Auditors' Report

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

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9325 Pflumm Rd. Lenexa, KS 66215
913•541•1993

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 3
Miami County, Kansas

Qualified Opinion

We have audited the accompanying financial statements of Rural Water District No. 3, Miami County (the "District"), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the District has not implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions"* and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2021 and 2020, KPERS computed and published the net pension liability (NPL) as of June 30, 2021 and June 30, 2020 for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately $33,000 and $46,000 at December 31, 2021 and 2020, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter: Management's Discussion and Analysis

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 is the responsibility of management and, 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.

Acord Cox + Scott, LLC

February 28, 2022

Rural Water District No. 3
Miami County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 3, Miami County, Kansas annual financial report presents an analysis of the District's financial performance during the year ended December 31, 2021. This information is prepared and presented in conjunction with the annual audited financial reports prepared by the District's independent auditing firm.

Rural Water District No. 3 Financial Overview for 2021

- The District's total assets increased by $92,237 from $3,282,424 in 2020 to $3,374,661 in 2021.
- The District's revenues from water sales decreased by $12,267 from $692,059 in 2020 to $679,792 in 2021.
- The District's costs and operating expenses increased by $23,825 from $336,602 in 2020 to $360,427 in 2021.
- During 2021 the District made capital expense investments of $94,087.

Overview of the Financial Statements

This report will include the Management's Discussion and Analysis, Financial Statements for the years ended December 31, 2021 and 2020 along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Activities and Changes in Net Position exhibit the District's revenues and expenses for the years ended December 31, 2021 and 2020. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash flow resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Activities and Changes in Net Position present information on the District's financial condition. The District's net position is indicated by the difference between its assets and liabilities. An improvement in the District's financial condition is reflected in its increase of net position.

Net Position

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

Table 1
Condensed Statements of Net Position

	2021	2020	Dollar Change	Percent Change
Current and other assets	1,260,207	1,171,095	89,112	7.6%
Capital assets, net	2,114,454	2,111,329	3,125	0.1%
Total Assets	**3,374,661**	**3,282,424**	92,237	2.8%
Current Liabilties	62,092	55,904	6,188	11.1%
Total Liabilities	**62,092**	**55,904**	6,188	11.1%
Net position invested in capital assets, net of related debt	2,114,454	2,111,329	3,125	0.1%
Unrestricted	1,198,115	1,115,191	82,924	7.4%
Total Net Position	**3,312,569**	**3,226,520**	86,049	2.7%

Total assets increased by $92,237 from $3,282,424 in 2020 to $3,374,661 in 2021. This is primarily a result of a net increase in cash and cash equivalents. Current assets consist primarily of cash, receivables and inventory.

Total liabilities increased by $6,188 from $55,904 in 2020 to $62,092 in 2021. An increase in accounts payable and deposits attributed to the overall increase in liabilities.

Total net position increased by $86,049 from $3,226,520 in 2020 to $3,312,569 in 2021.

Table 2
Condensed Statements of Activities and Changes in Net Position

	2021	2020	Dollar Change	Percent Change
Operating Revenues, Net	371,460	383,811	(12,351)	-3.2%
Non-operating Revenues	2,516	4,550	(2,034)	-44.7%
Total Revenues	**373,976**	**388,361**	**(14,385)**	**-3.7%**
Depreciation Expense	90,963	88,341	2,622	3.0%
Other Operating Expense	269,464	248,261	21,203	8.5%
Total Expenses	**360,427**	**336,602**	**23,825**	**7.1%**
Income Before Captial Contributions	13,549	51,759	(38,210)	-73.8%
Capital Contributions	72,500	37,490	35,010	93.4%
Changes in Net Position	86,049	89,249	(3,200)	-3.6%
Beginning Net Position	3,226,520	3,137,271	89,249	2.8%
Total Net Position	**3,312,569**	**3,226,520**	**86,049**	**2.7%**

The Statements of Activities and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, income before capital contributions of $13,549, combined with capital contributions of $72,500, resulted in a net increase in net position of $86,049 for the year ended December 31, 2021.

The District's net operating revenues decreased by $12,351 from $383,811 in 2020 to $371,460 in 2021. Total operating expenses increased by $23,825 from $336,602 in 2020 to $360,427 in 2021. An increase in repairs, maintenance and supplies expense attributed to the overall increase in expense.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 3, Miami County, KS Business Manager at P. O. Box 35 Osawatomie, KS 66064.

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

ASSETS	**2021**	**2020**
CURRENT ASSETS		
Cash and cash equivalents	$ 1,106,794	$ 1,042,701
Accounts receivable	70,708	73,674
Prepaid expense	6,716	5,560
Inventory	75,989	49,160
Total current assets	1,260,207	1,171,095
CAPITAL ASSETS		
Nondepreciable capital assets	25,372	24,692
Depreciable capital assets	5,205,264	5,111,856
Less accumulated depreciation	(3,116,182)	(3,025,219)
Depreciable capital assets, net	2,089,082	2,086,637
Total capital assets, net	2,114,454	2,111,329
Total assets	$ 3,374,661	$ 3,282,424
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 41,206	$ 36,556
Accrued liabilities	2,386	7,848
Advance benefit unit payments	18,500	11,500
Total current liabilities	62,092	55,904
NET POSITION		
Invested in capital assets, net of related debt	2,114,454	2,111,329
Unrestricted	1,198,115	1,115,191
Total net position	$ 3,312,569	$ 3,226,520

See notes to financial statements.

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
WATER SALES	$ 679,792	$ 692,059
COST OF WATER PURCHASED	308,332	308,248
GROSS PROFIT	371,460	383,811
COSTS AND OPERATING EXPENSES		
Salaries	63,202	55,247
KPERS	5,870	5,413
Payroll taxes	6,392	3,466
Repair, maintenance and supplies	54,486	50,436
Contract labor	62,807	60,855
Utilities and telephone	22,930	21,937
Vehicle expense	1,389	1,233
Professional fees	8,786	12,814
Water taxes	3,079	3,152
Water samples	1,864	1,635
Office supplies	15,942	13,632
Insurance	14,612	9,562
Dues and conventions expense	5,924	5,380
Other	2,181	3,499
Depreciation	90,963	88,341
	360,427	336,602
INCOME FROM OPERATIONS	11,033	47,209
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2,516	4,550
	2,516	4,550
INCOME BEFORE CONTRIBUTIONS	13,549	51,759
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	72,500	37,490
INCREASE IN NET POSITION	86,049	89,249
NET POSITION, BEGINNING OF YEAR	3,226,520	3,137,271
NET POSITION, END OF YEAR	$ 3,312,569	$ 3,226,520

See notes to financial statements.

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES:		
Cash received from members for water	$ 689,758	$ 681,927
Cash payments to suppliers for goods and services	(531,129)	(487,840)
Cash payments to employees for services	(75,464)	(64,126)
Net cash provided by operating activities	83,165	129,961
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and extensions	72,500	37,490
Acquisition and construction of fixed assets	(94,088)	(21,456)
Net cash provided by (used in) capital and related financing activities	(21,588)	16,034
INVESTING ACTIVITIES:		
Interest received	2,516	4,550
Net cash provided by investing activities	2,516	4,550
NET CHANGE IN CASH AND CASH EQUIVALENTS	64,093	150,545
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,042,701	892,156
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,106,794	$ 1,042,701
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income	$ 11,033	$ 47,209
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	90,963	88,341
Changes in:		
Accounts receivable	2,966	(7,143)
Inventories	(26,829)	10,950
Prepaid expense and other current assets	(1,156)	(3,120)
Accounts payable and other current liabilities	6,188	(6,276)
Net cash provided by operating activities	$ 83,165	$ 129,961

See notes to financial statements.

RURAL WATER DISTRICT NO. 3
MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

1. DESCRIPTION OF ENTITY

   a. Organization and Description of Operations – The Rural Water District (the "District") was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at December 31, 2021 and 2020 were 1,034 and 1,023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

   b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.

   c. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.

   d. 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.

   e. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.

f. Capital Assets – 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. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.

g. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

h. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.

i. Net position – Net position represents the difference between assets and liabilities in the financial statmenets. Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

j. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

3. CASH AND INVESTMENTS

At December 31, 2021 and 2020, except for the deposits held in the Municipal Investment Pool, the carrying amounts of the District's deposits and certificates of deposit were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The balance held in the Municipal Investment Pool at December 31, 2021 and 2020 was $3.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2020	Additions	Disposals & Transfers	2021
Nondepreciable capital assets:				
Land	24,692	680		25,372
	24,692	680	-	25,372
Depreciable capital assets:				
Building	176,237			176,237
Transmission and distribution	4,754,194	58,496		4,812,690
Pumps	120,350	23,970		144,320
Furniture and fixtures	61,075	10,942		72,017
	5,111,856	93,408	-	5,205,264
Less accumulated depreciation	(3,025,219)	(90,963)		(3,116,182)
Depreciable capital assets, net	2,086,637	2,445	-	2,089,082
Total capital assets, net	2,111,329	3,125	-	2,114,454

	2019	Additions	Disposals & Transfers	2020
Nondepreciable capital assets:				
Land	24,257	435		24,692
	24,257	435	-	24,692
Depreciable capital assets:				
Building	176,237			176,237
Transmission and distribution	4,733,643	20,551		4,754,194
Pumps	120,350			120,350
Furniture and fixtures	60,605	470		61,075
	5,090,835	21,021	-	5,111,856
Less accumulated depreciation	(2,936,878)	(88,341)		(3,025,219)
Depreciable capital assets, net	2,153,957	(67,320)	-	2,086,637
Total capital assets, net	2,178,214	(66,885)	-	2,111,329

5. PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS

Pension Plan

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The 2021 and 2020 payroll for employees covered by the System was $68,245 and $53,889.

Covered employees are required by state statute to contribute statutorily defined rates of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the years ended December 31, 2021 and 2020 was $8,281 and $8,030, which consisted of $3,231 and $3,086 from employees and $5,050 and $4,944 from the District; these contributions represented approximately 12.1% and 14.9% of 2021 and 2020 covered payroll.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions”, which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, “Accounting for Pensions by State and Local Government Employers”, as well as the requirements of Statement No. 50, “Pension Disclosures”, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

As of December 31, 2021, the District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately $33,000 and $46,000 at December 31, 2021 and 2020, respectively, for its proportionate share of the net pension liability.

Other Post-Employment Benefits

Substantially all of the District's employees are covered by a long-term disability benefit plan sponsored by KPERS.

Effective for fiscal years beginning after June 15, 2017, GASB issued Statement No. 75, “Accounting and financial reporting for other post-employment benefits”, which establishes accounting and financial reporting for OPEB provided to the employees of state and local government employers. GASB 75 requires a liabilitiy for OPEB obligations, known as the Total OPEB Liability (for unfunded plans) to be recognized on the balance sheets of participating employers. Changes in the Total OPEB Liability will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As of December 31, 2021, the District has not implemented GASB Statement No. 75 as it was determined the implementation would not have a material effect on the financial statements. If the District implemented GASB Statement No. 75, the District would have reported a Total OPEB Liability of approximately $108 and $126 at December 31, 2021 and 2020, respectively.

6. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. The liability for accrued vacation at December 31, 2021 and 2020 amounted to $785 and $5,971 respectively.

7. RELATED PARTY TRANSACTIONS

The District utilizes a contractor ("the Contractor") whose spouse is a member of the District's board of directors. During 2021 and 2020 the Contractor was paid $110,691 and $94,741 respectively.

The spouse of the District's business manager is also a member of the District's board of directors.

The District is a member of Public Wholesale Water District #13 (PWWD 13) and has water purchase agreement with the PWD which includes minimum purchase rates and terms defined in the agreement. For the years ended December 31, 2021 and 2020, the District purchased $96,395 and $97,795, respectively, of water from PWWD 13.

8. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the years ended December 31, 2021 or 2020.

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