

**Russell Rural Water District No.3
Susank, Kansas**

Financial Statements

Years Ended December 31, 2022 and 2021

**VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Manhattan, Kansas 66502**

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**Russell Rural Water District No.3
December 31, 2022 and 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Russell Rural Water District No. 3 Susank, Kansas

Unmodified Opinion

We have audited the accompanying financial statements of Russell Rural Water District No. 3, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Russell Rural Water District No. 3 as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Russell Rural Water District No. 3 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 Russell Rural Water District No. 3's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's 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 GAAS 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 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 Russell Rural Water District No. 3'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 Russell Rural Water District No. 3'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.

VonFeldt, Bauer & VonFeldt, Chtd.

VONFELDT, BAUER & VONFELDT, CHARTERED
Certified Public Accountants
Manhattan, Kansas

March 10th, 2023

Russell Rural Water District No. 3
Susank, Kansas
Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 209,388.57	\$ 140,714.57
Accounts receivable - trade and other	60,292.32	199.30
Investments - other	58,780.41	58,369.16
Total Current Assets	<u>328,461.30</u>	<u>199,283.03</u>
Property, Plant and Equipment		
Water system	1,494,288.43	1,483,748.43
Building	47,870.00	47,870.00
Office equipment	15,730.78	15,730.78
Vehicle	74,800.50	74,800.50
Land	12,061.00	12,061.00
Construction in progress	322,628.49	325,368.49
Less accumulated depreciation	<u>(1,395,548.41)</u>	<u>(1,361,029.33)</u>
Net Property, Plant and Equipment	<u>571,830.79</u>	<u>598,549.87</u>
Total Assets	<u><u>\$ 900,292.09</u></u>	<u><u>\$ 797,832.90</u></u>

The notes to the financial statements are an integral part of this statement.

Russell Rural Water District No. 3
Susank, Kansas
Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable - trade	\$ 17,692.67	\$ 14,021.96
Prepaid customer accounts	5,825.07	5,224.14
Accrued salaries	3,437.25	3,010.50
Sales and payroll tax payable	2,290.06	2,023.81
Current portion of long term liability	9,129.48	8,856.31
Total Current Liabilities	<u>38,374.53</u>	<u>33,136.72</u>
Long term Liabilities		
USDA Project Loan	445,338.98	407,596.82
Lease-purchase agreement	6,254.49	15,371.34
	<u>451,593.47</u>	<u>422,968.16</u>
Total Liabilities	489,968.00	456,104.88
Members' Equity		
Unreserved	409,324.09	340,728.02
Reserved	1,000.00	1,000.00
Total Members' Equity	<u>410,324.09</u>	<u>341,728.02</u>
Total Liabilities and Members' Equity	<u><u>\$ 900,292.09</u></u>	<u><u>\$ 797,832.90</u></u>

The notes to the financial statements are an integral part of this statement.

Russell Rural Water District No. 3
Susank, Kansas
Statements of Operations
December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Sale of water	\$ 598,433.83	\$ 501,536.75
Refunds and insurance proceeds	4,253.72	4,006.27
Reimbursements	2,537.85	354.00
Sale of units	2,000.00	4,000.00
Miscellaneous income	2,591.40	839.91
Total Operating Revenues	<u>609,816.80</u>	<u>510,736.93</u>
Operating Expenses		
Salaries	95,926.69	85,188.45
Contract labor	3,535.00	5,975.00
Depreciation	34,519.08	32,199.25
Dues	516.30	467.30
Building maintenance	3,742.97	1,456.17
Insurance	50,088.30	47,716.16
Lab fees	487.00	381.00
Legal and accounting	8,150.00	7,750.00
Mileage	1,195.75	1,475.93
Miscellaneous	2,827.91	3,616.35
Office supplies	13,234.01	10,817.77
Printing and postage	2,605.13	2,641.57
Payroll tax	7,305.75	6,429.51
Purchase of water	183,826.48	169,495.03
Reimburse customers cost	1,059.62	1,153.53
Repairs and maintenance	71,912.59	79,444.96
Sales tax	938.52	434.84
Training and conferences	1,616.39	2,285.70
Utilities	13,658.61	12,288.73
Vehicle expense	12,959.75	9,765.08
USDA Loan and Grant Expenses	401.25	0.00
Water protection	1,002.63	0.00
Total Operating Expenses	<u>511,509.73</u>	<u>480,982.33</u>
Income (Loss) from Operations	98,307.07	29,754.60
Other Income (Expenses)		
Interest income	498.98	57.08
Interest expense	(30,209.98)	(9,719.39)
Total Other Income (Expenses)	<u>(29,711.00)</u>	<u>(9,662.31)</u>
Net Income (Loss)	<u>\$ 68,596.07</u>	<u>\$ 20,092.29</u>

The notes to the financial statements are an integral part of this statement.

Russell Rural Water District No. 3
Susank, Kansas
Statements of Changes in Members' Equity
December 31, 2022 and 2021

	<u>Unreserved</u>	<u>Reserved</u>	<u>Total</u>
Members' equity balance at December 31, 2020	\$ 320,635.73	\$ 1,000.00	\$ 321,635.73
Net income (loss)	<u>20,092.29</u>	<u>0.00</u>	<u>20,092.29</u>
Members' equity balance at December 31, 2021	340,728.02	1,000.00	341,728.02
Net income (loss)	<u>68,596.07</u>	<u>0.00</u>	<u>68,596.07</u>
Members' equity balance at December 31, 2022	<u><u>\$ 409,324.09</u></u>	<u><u>\$ 1,000.00</u></u>	<u><u>\$ 410,324.09</u></u>

The notes to the financial statements are an integral part of this statement.

Russell Rural Water District No. 3
Susank, Kansas
Statements of Cash Flows
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flow From Operating Activities		
Net income (loss)	\$ 68,596.07	\$ 20,092.29
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	54,579.08	40,557.58
(Increase) decrease in assets:		
Trade receivables	(60,093.02)	4,299.28
Investments - other	(411.25)	(21.31)
Increase (decrease) in liabilities:		
Accounts payable - trade	3,670.71	1,404.96
Pre-paid customer accounts	600.93	(13,939.23)
Accrued salaries and paid time off	426.75	765.05
Sales and payroll taxes payable	266.25	375.81
Net Cash Provided By (Used In) Operating Activities	<u>67,635.52</u>	<u>53,534.43</u>
Cash Flow From Investing Activities		
Purchase of fixed assets	(7,800.00)	(421,911.49)
Net Cash Provided By (Used In) Investing Activities	<u>(7,800.00)</u>	<u>(421,911.49)</u>
Cash Flow From Financing Activities		
Principal payments on lease purchases	(8,843.68)	(25,093.18)
Proceeds from lease purchases	0.00	0.00
Proceeds from USDA line of credit	17,682.16	449,388.49
Net Cash Provided By (Used In) Financing Activities	<u>8,838.48</u>	<u>424,295.31</u>
Net Increase (Decrease) In Cash	68,674.00	55,918.25
Cash At Beginning Of Year	<u>140,714.57</u>	<u>84,796.32</u>
Cash At End Of Year	<u><u>\$ 209,388.57</u></u>	<u><u>\$ 140,714.57</u></u>
Supplemental Cash Flow Information:		
Cash payments made for interest	<u>10,149.98</u>	<u>1,361.06</u>

The notes to the financial statements are an integral part of this statement.

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Russell Water District No 3 (the District) is located in Susank, Kansas and is organized and established under the provisions of K.S.A 82a-612 of the Kansas Statutes. The District is a quasi-governmental governed by an elected seven-member board. The District provides for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District. The District has no legally separate organizations for which elected officials of the District are financially accountable or for which exclusion from these financial statements would cause them to be misleading or incomplete.

Basis of Accounting

The financial statements of the District are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all significant receivables, payables and other liabilities, accordingly.

Estimates

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers cash equivalents to include cash and all highly liquid debt instruments having original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable represents deposits made by customers during the following January plus estimated amounts due on delinquent accounts. Customers read their own water meters on the first day of each month, compute the amount due, and remit payment for the prior month's water usage to the District no later than the fifth day of the month except for customers that have the new cellular meters. The district reads these new meters monthly using the cellular technology and bills the customers based on the meter reading. Late charges, debt service fees and other fees are included in the sale of water. Meter amounts are verified by the District staff annually. If customer accounts become 60 days or more overdue, customer water supply is shut off. Accounts receivable over 90 days totaled \$0 for December 31, 2022 and 2021. An allowance for receivables is computed based upon the likelihood of future uncollectible accounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. For the years ended December 31, 2022 and 2021, management considered all accounts fully collectible.

Advertising

The District expenses advertising costs when they are incurred. Advertising expense totaled \$0 for the years ended December 31, 2022 and 2021.

**Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2022 and 2021**

Note 1 – Summary of Significant Accounting Policies, continued

Compensated Absences

Employees of the District were entitled to PTO depending on length of service and other factors. Starting in 2020 no PTO can be carried over to the subsequent year. Employees will not be reimbursed for unused PTO upon termination of employment therefore a PTO accrual is not necessary.

Property and Equipment

Property and equipment is recorded at cost. The District's threshold for capitalization is \$5,000. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets ranging from five to thirty-nine years.

Ordinary maintenance and repairs of property and equipment are charged to operations when incurred. Upon retirement, sale or other disposition of property and equipment, the cost and related accumulated depreciation are eliminated from the account and any resulting gain or loss is included in operations.

Depreciation expense for the years ended December 31, 2022 and 2021 totaled \$34,519.08 and \$32,199.25, respectively.

Intangible Assets

Intangible assets are recorded at cost. The District's threshold for amortization is \$5,000. Amortization is computed using the straight-line method over the life of the asset. Amortization expense for the years ended December 31, 2022 and 2021 totaled \$20,060.00 and \$8,358.33 respectively.

Impairment of Long-Lived Assets

The District reviews long lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. No impairment loss was recognized for the years ended December 31, 2022 or 2021.

Prepaid Customer Accounts

Prepaid customer accounts are comprised of overpayments by water customers as of December 31, 2022. Such overpayments represent unearned revenue and are classified as a current liability. Prepaid customer accounts at December 31, 2022 and 2021 totaled \$5,825.07 and \$5,224.14, respectively.

Date of Management's Review

Management has evaluated subsequent events through March 10th, 2023, the date on which the financial statements were available to be issued.

Note 2 – Uninsured Cash

The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. There may be times during the year that the District's balances are in excess of FDIC limit. However, at December 31, 2022 and 2021, the District did not have balances in excess of the FDIC insured limits.

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2022 and 2021

Note 3 – Investments – Other

Certificates of deposit held for investment that are not debt securities are included in “investments-other”. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short term investments. At December 31st, 2022 and 2021, the District held certificates of deposit totaling \$58,780.41 and \$58,369.16 respectively, bear interest at rates ranging from .20% to .25% and have remaining maturities ranging from one to six months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 4 – Reserved Members’ Equity

A portion of members’ equity at December 31, 2022 and 2021 was reserved as a bond with the Kansas Department of Human Resources against future liabilities of the District. Reserved members’ equity totaled \$1,000 at both December 31, 2022 and 2021. Interest earned on this bond is deposited into the District’s operating account.

Note 5 – Concentration

Approximately 35% of the District’s expenses were paid to the City of Otis for water purchases for the years ended December 31, 2022 and 2021, representing a significant portion of total expenses paid by the District.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of; damage to, or destruction of assets; errors and omissions; workers’ compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years.

Note 7 – Related Parties

All District board members and management are also water benefit unit owners and customers. No payments qualifying as related party transactions were made for the years ended December 31, 2022 or 2021.

Note 8 – Sales Tax

Sales tax is imposed on the District by both Barton and Russell counties in the State of Kansas. The District collects that sales tax from water customers and remits the entire amount to the State. Sales tax rates charged by Barton and Russell counties for 2022 were 7.5% and 8.5%, respectively. The District’s policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Note 9 – Lease-purchase agreements

The District had one lease purchase agreements with a total balance of \$15,383.97 and of which \$9,129.48 was considered current for the year ended December 31, 2022. The lease purchase agreement was for the purchase of a new pickup truck. The lease-purchase bears interest at a rate of 3.174% and has a maturity date of August 2024. The note is secured by the District’s pickup truck. Scheduled principal payments of leases payable for the following years ending December 31, are as follows:

2023	\$ 9,129.48
2024	6,254.49
	<u>\$ 15,383.97</u>

Russell Rural Water District No. 3
Susank, Kansas
Notes to the Financial Statements
December 31, 2022 and 2021

Note 10 – Line of Credit

The District has one line of credit loan as of December 31, 2022 totaling \$5,077,190.14. The related debt outstanding on that line of credit as of December 31, 2022 was \$445,338.98. The line of credit bears interest of 2.50% and has a due date of 2/11/2024. The line of credit is to fund the USDA water line project construction and will be paid off at the end of the project by the USDA.

Bank Balance as of 12/31/22	\$ 467,070.65
Less: Loan Origination Fees	(50,150.00)
Plus: Accumulated Amortization	28,418.33
Line of Credit Outstanding as of 12/31/22	<u>\$ 445,338.98</u>

Note 11 - Revenue from Contracts with Customers

Revenue is measured based on the sale of water, which establishes a contract with District customers. All customers reside in the District. The District recognizes revenue when it satisfies its performance obligation, i.e. when water is available and use of water occurs. A transaction price of \$9 per gallon of water used is charged upon water usage as well as a debt fee of \$40 per customer per month. For customers with self-read meters, customers determine use and payment that is due. For customers with the new cellular read meters, the District gets reads those meters using the cellular technology and bills the customers. Sale of water occurs at the point of time when water is used and totaled \$598,433.83 and \$501,536.75 as of December 31, 2022 and 2021, respectively.