

RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2021

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
For the Year Ended December 31, 2021

BOARD OF DIRECTORS

Don Benoit – Chairman

Norma Braun – Vice-Chairman

Roger Comeau – Secretary/Treasurer

Jimmy Jackson

James Ochampaugh

Darren Rubottom

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
For the Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3
2335 Highway 183
Plainville, KS 67663

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2021 and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Rural Water District No. 3, Rooks County, Kansas as of December 31, 2021, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Rural Water District No. 3, Rooks County, Kansas as of December 31, 2021, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statement section of the report. We are required to be independent of the Rural Water District No. 3, Rooks County, Kansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Matter Giving Rise to Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the financial statement is prepared by the Rural Water District No. 3, Rooks County, Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibility of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rural Water District No. 3, Rooks County, Kansas'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 Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 statement.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statement, 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 statement.
- 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 Rural Water District No. 3, Rooks County, Kansas'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 statement.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt the Rural Water District No. 3, Rooks County, Kansas'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and are not a required part of the basic financial statement, however is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of changes in capital assets (Schedule 2 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, 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 basic financial statement taken as a whole, on the basis of accounting described in Note 1.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2020 (not presented herein), and have issued our report thereon dated November 10, 2021, which contained an unmodified opinion on the basic financial statement. The 2020 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://www.admin.ks.gov/offices/oar/municipal-services>. The 2020 actual column (2020 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2020 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2020 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2020 basic financial statement. The 2020 comparative information was subjected to the auditing procedures applied in the audit of the 2020 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records use to prepare the 2020 basic financial statement or to the 2020 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2020 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2020, on the basis of accounting described in Note 1.

Mapes & Miller LLP

Certified Public Accountants

September 7, 2022
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis
For The Year Ended December 31, 2021

FUNDS	Beginning	Prior Year	Receipts	Expenditures	Ending	Add	Ending
	Unencumbered	Cancelled			Unencumbered	Encumbrances	
	Cash Balance	Encumbrances			Cash Balance	and Accounts Payable	Cash Balance
Business Fund:							
Water Utility Fund	\$ 666,567	\$ 1,000	\$ 417,826	\$ 446,979	\$ 638,414	\$ 15,906	\$ 654,320

COMPOSITION OF CASH:

Solutions North Bank	
Stockton, Kansas	
Checking Account	\$ 385,146
Money Market Account	99,501
Money Market Account	45,541
Total Solutions North Bank	<u>530,188</u>
Astra Bank	
Plainville, Kansas	
Certificates of Deposit	<u>124,132</u>
Total Reporting Entity	<u>\$ 654,320</u>

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

RURAL WATER DISTRICT NO.3
Rooks County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The district was incorporated on September 21, 1976. Rural Water District No. 3 was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes. The purpose of the district is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the district, and to others as authorized by the by-laws.

Regulatory Basis Fund Types

The following regulatory basis fund types comprise the financial activities of the district for the year of 2021:

Business Fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.).

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The district has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the district to use the regulatory basis of accounting.

2. RESTRICTED UNENCUMBERED CASH

Under the terms of a loan resolution security agreement between the District and USDA Farmers Home Administration the following business fund cash is restricted for specific purposes:

	<u>2021</u>	<u>2020</u>
Unencumbered Cash Restricted for Reserve	\$118,745	\$118,745
Unencumbered Cash Available for Operations	<u>519,669</u>	<u>547,822</u>
Total Unencumbered Cash	<u>\$638,414</u>	<u>\$666,567</u>

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, or in an adjoining county if such institution has been designated as an official depository, 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. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investment 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 and 9-1405.

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, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured as of December 31, 2021.

At December 31, 2021, the District's carrying amount of deposits was \$654,320 and the bank balance was \$656,259. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$374,132 was covered by federal depository insurance; \$282,127 was collateralized with securities held by the pledging financial institutions' agents in the district's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. LOAN AND RESERVE REQUIREMENTS

As shown in Note 12, on July 14, 2009 and April 17, 2012 the District entered into promissory note agreements with USDA Farmers Home Administration to borrow \$1,153,000 and \$942,000, respectively for the cost of construction of a water supply system and improvements. These agreements are secured by a real estate mortgage of the water system assets and operations.

Provisions of the loan agreements make the following requirements:

As required by the July 14, 2009 agreement each month the district shall transfer \$495 into a Reserve Account until such account accumulated to \$59,400. As shown in Note 2, this requirement has been met.

As required by the April 17, 2012 agreement each month the district shall transfer \$495 into a Reserve Account until such account accumulated to \$59,345. As shown in Note 2, this requirement has been met.

5. COMPLIANCE WITH KANSAS STATUTES

No statute violations noted in 2021.

6. COMPENSATED ABSENCES

The district provides two weeks of vacation and two weeks sick leave per year to the Operations Manager. No accrued benefits are paid upon termination.

7. RISK MANAGEMENT

Rural Water District No. 3 is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The district continues to carry commercial insurance coverage to cover these risks. The district has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

8. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the district utilizes services by companies owned and operated by a member of the board of directors. Services provided by these companies were for backhoe services to repair water leaks and snow removal. Total amount paid or to be paid to these companies for the year amounted to \$690.

9. COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the district’s financial condition, liquidity and future results of operations. Management is actively monitoring the global and local situation on its financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the district is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for fiscal year 2021.

10. SUBSEQUENT EVENTS

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

11. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2021, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Loan Agreements:									
USDA Rural Development	4.125%	07/14/09	1,153,000	07/14/49	\$ 985,677	\$ -	\$ 18,636	\$ 967,041	\$ 40,308
USDA Rural Development	2.750%	04/17/12	942,000	04/17/52	815,118	-	16,686	798,432	22,206
Total Loan Agreements					\$ 1,800,795	\$ -	\$ 35,322	\$ 1,765,473	\$ 62,514

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2022	2023	2024	2025	2026	2027-2031	2032-2036
PRINCIPAL							
Loan Agreements	\$ 36,568	\$ 37,862	\$ 39,203	\$ 40,595	\$ 42,037	\$ 233,756	\$ 278,732
INTEREST							
Loan Agreements	61,268	59,974	58,633	57,241	55,799	255,424	210,448
Total Principal & Interest	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 97,836</u>	<u>\$ 489,180</u>	<u>\$ 489,180</u>
	2037-2041	2042-2046	2047-2051	2052			Total
PRINCIPAL							
Loan Agreements	\$ 332,744	\$ 397,674	\$ 315,957	\$ 10,345			\$ 1,765,473
INTEREST							
Loan Agreements	156,436	91,506	21,437	51			1,028,217
Total Principal & Interest	<u>\$ 489,180</u>	<u>\$ 489,180</u>	<u>\$ 337,394</u>	<u>\$ 10,396</u>			<u>\$ 2,793,690</u>

RURAL WATER DISTRICT NO. 3
REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
BUSINESS FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

Schedule 1

For The Year Ended December 31, 2021
(With Comparative Actual Total for the Prior Year Ended December 31, 2020)

WATER UTILITY FUND

	2021	2020
Receipts:		
Operating Receipts		
Water Sales	\$ 237,467	\$ 206,367
Monthly Meter Fees	136,192	134,862
Late Charges and Other Revenue	9,030	9,964
Other Income	18,012	267
Total Operating Receipts	<u>400,701</u>	<u>351,460</u>
Non-Operating Income		
Interest Income	1,125	2,232
PPP Loan Proceeds	-	23,900
Member Investments	16,000	20,000
Total Non-Operating Receipts	<u>17,125</u>	<u>46,132</u>
Total Receipts	<u>417,826</u>	<u>397,592</u>
Expenditures:		
Operator/Manager Salary	77,764	95,431
Secretary/Bookkeeper Salary	31,125	28,296
Director's Fees	8,839	10,999
Payroll Taxes	10,817	9,351
Property Taxes	537	491
Auditing and Accounting	518	4,884
Engineering Fees	-	814
Legal Fees	-	300
Lab Fees	2,027	667
Utilities	31,467	28,387
Operating Supplies, Maintenance and Repairs	51,136	37,612
Telephone and Internet	2,780	2,665
Postage	1,392	1,444
Office Supplies	1,071	1,823
Insurance	17,280	15,171
Vehicle Expense	28,797	14,804
Licenses, Dues and Subscriptions	1,984	1,012
Meeting Expense	627	274
Miscellaneous	1,809	807
USDA Interest Expense	62,514	63,718
USDA Loan Principal Payments	35,322	34,118
New Source Project Expense	-	2,285
Capital Asset Purchases	79,173	48,773
Total Expenditures	<u>446,979</u>	<u>404,126</u>
Receipts Over (Under) Expenditures	(29,153)	(6,534)
Unencumbered Cash, Beginning	666,567	673,101
Prior Year Cancelled Encumbrance	<u>1,000</u>	<u>-</u>
Unencumbered Cash, Ending	<u>\$ 638,414</u>	<u>\$ 666,567</u>

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas

Schedule 2

SCHEDULE OF CHANGES IN CAPITAL ASSETS
For the Year Ended December 31, 2021

	Capital Assets 1/1/2021	Additions	Deductions	Capital Assets 12/31/2021
Pumps, Treatment Equipment and Facilities	\$ 519,360	\$ 23,234	\$ 26,589	\$ 516,005
Wells	61,448	-	-	61,448
Transmission Lines and Storage Facilities	5,047,253	55,939	-	5,103,192
Easements	74,256	-	-	74,256
Office Equipment and Furniture	6,662	7,240	-	13,902
Vehicles	71,129	-	-	71,129
Buildings	658,864	-	-	658,864
 Total Capital Assets	 6,438,972	 86,413	 26,589	 6,498,796
 Less: Accumulated Depreciation	 3,522,190	 128,806	 23,289	 3,627,707
 Net Capital Assets	 <u>\$ 2,916,782</u>			 <u>\$ 2,871,089</u>

Capital assets are recorded above at cost and are being depreciated over their estimated useful lives by use of the straight-line method. The following table reflects depreciation expense for 2021:

	Estimated Useful Life	
Equipment and Tools	10 years	\$ -
Pumps, Treatment Equipment and Facilities	10 years	21,437
Wells	30 years	640
Transmission Lines and Storage Facilities	36-40 years	79,164
Office Equipment and Furniture	5-10 years	1,890
Vehicles	5 years	9,523
Buildings	39 years	16,152
 Total Depreciation		 <u>\$ 128,806</u>