

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

FINANCIAL STATEMENTS

Year Ending December 31, 2020

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PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

Financial Statements
Year ending December 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements:	
Statement of Net Position - Proprietary Fund	3
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	4
Statement of Cash Flows - Proprietary Fund	5
Notes to Financial Statements	6 - 11

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Wholesale Water Supply District No. 25

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Public Wholesale Water Supply District No. 25 (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Kansas Municipal Audit and Accounting Guide*. Those standards require 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Public Wholesale Water Supply District No. 25 as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

July 26, 2021

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

STATEMENT OF NET POSITION - PROPRIETARY FUND

December 31, 2020

Assets

Current assets:

Cash and cash equivalents	\$ 1,146,852
Total current assets	<u>1,146,852</u>

Noncurrent assets:

Capital assets, nondepreciable	
Construction in progress	89,371
Land	764,127
Capital assets, depreciable	21,748,656
Less: accumulated depreciation	<u>[734,053]</u>
Total noncurrent assets	<u>21,868,101</u>

Total assets	<u>\$ 23,014,953</u>
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Liabilities

Current liabilities:

Accounts payable	\$ 60,176
Accrued interest	79,619
Current portion of bonds payable	<u>258,150</u>
Total current liabilities	<u>397,945</u>

Noncurrent liabilities:

Bonds payable, less current portion	<u>17,225,225</u>
Total noncurrent liabilities	<u>17,225,225</u>

Total liabilities	<u>\$ 17,623,170</u>
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Net Position:

Net investment in capital assets	\$ 4,384,726
Unrestricted	<u>1,007,057</u>

Total net position	<u>\$ 5,391,783</u>
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The notes to the basic financial statements are an integral part of this statement.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
CHANGES IN NET POSITION - PROPRIETARY FUND

For the Year Ended December 31, 2020

Operating revenues	
Water Sales	\$ 639,193
Total operating revenues	<u>639,193</u>
Operating expenses	
Bank service charges	14
Insurance	28,047
Supplies and other expenses	162,197
Chemicals and lime	262,307
Testing and related expenses	11,767
Other contractual	130,107
Legal and professional	16,440
Permits	320
Field erosion and crop damage	2,822
Membership dues	4,528
Repairs	59,972
Depreciation expense	<u>546,275</u>
Total operating expenses	<u>1,224,796</u>
Operating income [loss]	<u>[585,603]</u>
Nonoperating revenues [expenses]	
Contributed capital	753,994
Loan forgiveness	6,711,291
Investment revenue	10,027
Interest expense	<u>[415,091]</u>
Total nonoperating revenues [expenses]	<u>7,060,221</u>
Change in net position	6,474,618
Net position - beginning of year	<u>[1,082,835]</u>
Net position - end of year	<u>\$ 5,391,783</u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 2020

Cash flows from operating activities	
Cash received	\$ 639,193
Cash paid to suppliers of goods or services	<u>[824,453]</u>
Net cash provided by [used in] operating activities	<u>[185,260]</u>
Cash flows from capital and related financing activities	
Proceeds from issued debt	4,202,330
Loan forgiveness	6,711,291
Contributed capital	753,994
Purchase and construction of capital assets	[89,371]
Principal repayment	[12,606,416]
Interest paid	<u>[438,235]</u>
Net cash provided by [used in] capital and related financing activities	<u>[1,466,407]</u>
Cash flows from investing activities	
Interest received	<u>10,027</u>
Net cash provided by [used in] investing activities	<u>10,027</u>
Net increase [decrease] in cash and cash equivalents	[1,641,640]
Cash and cash equivalents, January 1	<u>2,788,492</u>
Cash and cash equivalents, December 31	<u>\$ 1,146,852</u>
Reconciliation of operating income [loss] to net cash provided [used in] operating activities	
Operating income [loss]	\$ [585,603]
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities	
Depreciation expense	546,275
Increase [decrease] in accounts payable	<u>[145,932]</u>
Net cash provided by [used in] operating activities	<u>\$ [185,260]</u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2020

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Public Wholesale Water Supply District No. 25 (the District) is a wholesale water utility that provides wholesale domestic water service. The District was organized under authority of State Law, K.S.A. 19-3501 et. seq. Its purpose is to develop and ultimately operate a public water supply system that can deliver water to wholesale members. Its members currently consist of 2 entities: Rural Water District No. 5, Douglas County, and Rural Water District No. 5, Osage County. These Districts together serve an area located south and west of the City of Lawrence, Kansas. Collectively, they provide drinking water to approximately 10,000 persons, including farmers, ranchers, homeowners, and small businesses throughout their respective districts.

B. Government-wide and Fund Financial Statements

The statement of net position and the statement of revenues, expenses, and changes in net position report information on the District as a whole. All activities of the District are business-type activities operated as a single proprietary fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services. All other revenues and expenses not meeting this definition are nonoperating. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

D. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments (including certificates of deposits) with original maturities of twelve months or less from the date of acquisition.

The District invests its unrestricted cash in a financial institution in northeast Kansas.

E. Capital Assets

In early 2012, the District was granted a "direct loan" from the USDA and financing was reserved for a public water supply system. The project was substantially completed in October 2019 and the costs moved from construction in process to the appropriate asset category.

Property, plant and equipment of the District are depreciated using the straight-line method over the following useful lives:

	Capitalization <u>Policy</u>	Depreciation <u>Method</u>	Useful <u>Life</u>
Wells	\$ 5,000	Straight Line	10 to 40 years
Distribution Lines	\$ 5,000	Straight Line	10 to 40 years
Meters	\$ 5,000	Straight Line	10 years
Structures	\$ 5,000	Straight Line	40 years
Equipment	\$ 5,000	Straight Line	10 to 30 years
Plumbing	\$ 5,000	Straight Line	3 to 10 years
Purification	\$ 5,000	Straight Line	10 to 20 years

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2020

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Contributions from Founding Members

In the current and prior years, three (3) rural water districts made capital contributions to the District. The total contributions of each District through December 31, 2020, were as follows:

Rural Water District No. 2, Douglas County	\$ 102,000
Rural Water District No. 5, Douglas County	857,764
Rural Water District No. 5, Osage County	<u>857,764</u>
Total Contributions	<u>\$1,817,528</u>

G. Net Position

The District's net position is displayed in three components as follows:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislations.

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

H. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Income Taxes

The District is considered a municipality and is therefore a tax-exempt entity and is not subject to income taxes at either the federal or state level.

Note 2. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31, 2020:

Checking	\$ 1,005,363
Money Market	<u>141,489</u>
Total Cash and Cash Equivalents	<u>\$ 1,146,852</u>

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2020

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

B. 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 at December 31, 2020.

At December 31, 2020 the District's carrying amount of deposits was \$1,146,852 and the bank balance was \$1,147,507. The bank balance was held in one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and \$897,507 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

C. Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
Nondepreciable assets:				
Land	\$ 764,127	\$ -	\$ -	\$ 764,127
Construction in process	-	89,372	-	89,372
Depreciable assets:				
Structures	21,714,541	-	-	21,714,541
Equipment	34,115	-	-	34,115
Total capital assets	<u>22,512,783</u>	<u>89,372</u>	<u>-</u>	<u>22,602,155</u>
Less accumulated depreciation for:				
Structures	-	542,863	-	542,863
Equipment	<u>187,778</u>	<u>3,412</u>	<u>-</u>	<u>191,190</u>
Total accumulated depreciation	<u>187,778</u>	<u>546,275</u>	<u>-</u>	<u>734,053</u>
Capital assets, net	<u>\$ 22,325,005</u>	<u>\$ [456,903]</u>	<u>\$ -</u>	<u>\$ 21,868,102</u>

Current year depreciation expense was \$546,275.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2020

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities

The changes in the District's long-term obligations during the year consisted of the following:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020	Amounts Due Within One Year
Water System Revenue Bonds					
Series 2016 A	\$ 5,850,875	\$ -	\$ 100,456	\$ 5,750,419	\$ 102,842
Series 2016 B	7,868,045	-	135,089	7,732,956	138,298
Series 2020 A	-	3,000,000	-	3,000,000	-
Series 2020 B	-	1,000,000	-	1,000,000	17,010
Kansas Public Water Supply Loan	12,168,541	202,330	12,370,871	-	-
Total	<u>\$ 25,887,461</u>	<u>\$ 4,202,330</u>	<u>\$ 12,606,416</u>	<u>\$ 17,483,375</u>	<u>\$ 258,150</u>

Long-term obligations of the District consist of the following as of December 31, 2020:

	Interest Rate	Amount Outstanding	Original Amount	Date of Issue	Final Maturity
Revenue Bonds					
Series 2016 A	2.375%	\$ 5,750,419	\$ 5,949,000	12/28/2016	12/28/2056
Series 2016 B	2.375%	7,732,956	8,000,000	12/28/2016	12/28/2056
Series 2020 A	2.750%	3,000,000	3,000,000	1/27/2020	1/27/2060
Series 2020 B	1.875%	1,000,000	1,000,000	12/28/2020	12/28/2060
Total Revenue Bonds		<u>\$17,483,375</u>	<u>\$17,949,000</u>		

During the year ended December 31, 2020, the District completed a public water supply system project that was being financed in the interim by a Kansas Public Water Supply Loan Fund (KPWSLF project No. 2894).

The total cost for the project was \$21,714,541, of which \$6,711,291 was forgiven through the KPWSLF. The balance of \$15,659,680 was primarily financed through the issue of revenue bonds series 2016-A, Series 2016-B, and Series 2020-A purchased by the United States Department of Agriculture - Rural Development (RD/USD).

On December 28, 2020, the District issued Series 2020-B revenue bonds in the amount of \$1,000,000 purchased by the RD/USDA. These bonds carry a 1.875% interest rate with principal and interest payment due annually with final maturity scheduled for December 28, 2060. The proceeds from these bonds will be used to construct a soda ash storage facility.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2020

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Future maturities for the balances of the RD/USDA revenue bonds as of December 31, 2020 are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 258,150	\$ 421,706	\$ 679,856
2022	264,195	415,434	679,629
2023	316,133	409,246	725,379
2024	323,676	401,703	725,379
2025	331,498	394,100	725,598
2026 - 2030	1,780,803	1,846,297	3,627,100
2031 - 2035	2,005,369	1,621,714	3,627,083
2036 - 2040	2,258,402	1,368,662	3,627,064
2041 - 2045	2,543,640	1,083,527	3,627,167
2046 - 2050	2,865,086	761,908	3,626,994
2051 - 2055	3,227,409	399,556	3,626,965
2056 - 2060	1,309,014	72,365	1,381,379
	<u>\$ 17,483,375</u>	<u>\$ 9,196,218</u>	<u>\$ 26,679,593</u>

D. Net Investment in Capital Assets

The following represents the net position of the District reported as net investment in capital assets as of December 31, 2020:

Capital assets, net of depreciation	\$ 21,868,101
Revenue bonds outstanding at year end	<u>[17,483,375]</u>
Net investment in capital assets	<u>\$ 4,384,726</u>

Note 3. OTHER INFORMATION

A. Commitments and Contingencies Litigation

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

B. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded the commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 25

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2020

Note 3. OTHER INFORMATION (Continued)

C. Contracts

The District has water rights from 3 well fields to the east of Lawrence adjacent to the Kansas River. These water rights grant the District 2,074 acre-feet of water annually to treat and sell to member entities. The District also has water purchase contracts with Rural Water District No. 5, Douglas County and Rural Water District No. 5, Osage County, that are 40-year contracts for these member entities to purchase water from the District. These contracts allow both entities to purchase up to 1 million gallons per day.

The District will produce 100% of its water supply from 3 well fields and a water treatment plant owned by the District. These facilities lie in the Kansas River Valley just to the east of Lawrence, Kansas. There are no other suppliers of water available to the District, although each of the member entities has backup sources of water. The District does not currently have any employees and is paying Rural Water District No. 5, Douglas County a management fee for services provided to the District.

The District uses the services of two plant operators who are technically employed by Rural Water District No. 5, Douglas County (RWD #5). The District has a contract in place in which they reimburse RWD #5 for a portion of these payroll costs. The District reimbursed RWD #5 a total of \$130,205 under this contract during the year ended December 31, 2020.