

**RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY**

**FINANCIAL STATEMENTS**

**For the Years Ending December 31, 2021 and 2020**

This page intentionally left blank.

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

Financial Statements  
For the Years Ending December 31, 2021 and 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 - 10

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Rural Water District No. 3 Jefferson County

### **Report on the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 3 Jefferson County (the District), as of and for the years ending December 31, 2021 and 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.

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 Rural Water District No. 3 Jefferson County as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years ending in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit 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 Rural Water District No. 3 Jefferson County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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; 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.

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 for twelve months beyond the financial statement date.

#### **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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 amount 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 judgement, 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 Matters**

##### *Required Supplementary Information*

Management has omitted the management discussion and analysis, that accounting principles generally accepted in the United States of America require 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.

##### *Prior Period Financial Statements Audited by a Predecessor Auditor*

The District's financial statements for the year ended December 31, 2020, were audited by other auditors whose report dated February 14, 2021, expressed an unmodified opinion.

*Gordon CPA LLC*

Certified Public Accountant  
Lawrence, Kansas

March 3, 2022

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

STATEMENT OF NET POSITION - PROPRIETARY FUND  
For the Years Ending December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash	\$ 726,909	\$ 627,604
Accounts receivable	24,255	24,145
Prepaid and other expenses	31,901	32,583
Inventory	<u>63,397</u>	<u>48,381</u>
Total current assets	<u>846,462</u>	<u>732,713</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>769,198</u>	<u>793,116</u>
Total noncurrent assets	<u>769,198</u>	<u>793,116</u>
Total assets	<u>\$ 1,615,660</u>	<u>\$ 1,525,829</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 27,596	\$ 17,314
Accrued expenses	<u>893</u>	<u>836</u>
Total current liabilities	<u>28,489</u>	<u>18,150</u>
Total liabilities	<u>28,489</u>	<u>18,150</u>
Net Position:		
Net investment in capital assets	769,198	793,116
Unrestricted	<u>817,973</u>	<u>714,563</u>
Total net position	<u>1,587,171</u>	<u>1,507,679</u>
Total Liabilities and Net Position	<u>\$ 1,615,660</u>	<u>\$ 1,525,829</u>

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

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
CHANGES IN NET POSITION - PROPRIETARY FUND  
For the Years Ending December 31, 2021 and 2020

	2021	2020
Operating revenues		
Water sales	\$ 405,170	\$ 330,705
Miscellaneous	8,896	6,723
Total operating revenues	<u>414,066</u>	<u>337,428</u>
Operating expenses		
Analysis	746	1,309
Depreciation	78,261	75,061
Dues and subscriptions	800	871
Directors' fees	2,350	3,850
Insurance	6,327	6,043
Kansas One Call	190,879	368
Maintenance costs	359	179,366
Miscellaneous	600	-
Office supplies	1,999	768
Postage	4,283	3,749
Professional fees	42,450	58,657
Chemicals and supplies	3,724	3,713
Taxes and licenses	3,098	2,828
Telephone	1,080	960
Other	2,167	2,021
Utilities	24,180	22,388
Total operating expenses	<u>363,303</u>	<u>361,952</u>
Operating income [loss]	<u>50,763</u>	<u>[24,524]</u>
Nonoperating revenues [expenses]		
Interest income	5,658	9,018
Total nonoperating revenues [expenses]	<u>5,658</u>	<u>9,018</u>
Net income (loss) before contributions	<u>56,421</u>	<u>[15,506]</u>
Capital contributions from members	<u>23,071</u>	<u>18,021</u>
Change in net position	79,492	2,515
Net position - beginning of year	<u>1,507,679</u>	<u>1,505,164</u>
Net position - end of year	<u>\$ 1,587,171</u>	<u>\$ 1,507,679</u>

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

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
For the Years Ending December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from customers	\$ 413,956	\$ 332,764
Cash paid to suppliers of goods or services	<u>[289,037]</u>	<u>[281,915]</u>
Net cash provided by operating activities	<u>124,919</u>	<u>50,849</u>
Cash flows from investing activities		
Interest received	<u>5,658</u>	<u>9,018</u>
Net cash provided by investing activities	<u>5,658</u>	<u>9,018</u>
Cash flows from capital and related financing activities		
Contributed capital	23,071	18,021
Purchase and construction of capital assets	<u>[54,343]</u>	<u>[48,541]</u>
Net cash provided by [used in] capital and related financing activities	<u>[31,272]</u>	<u>[30,520]</u>
Net increase [decrease] in cash and cash equivalents	99,305	29,347
Cash and cash equivalents - beginning of year	<u>627,604</u>	<u>598,257</u>
Cash and cash equivalents - end of year	<u>\$ 726,909</u>	<u>\$ 627,604</u>
Reconciliation of operating income [loss] to net cash provided [used in] operating activities		
Operating income [loss]	\$ 50,763	\$ [24,524]
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities		
Depreciation expense	78,261	75,061
[Increase] decrease in accounts receivable	[110]	[4,664]
[Increase] decrease in prepaid and other expenses	682	426
[Increase] decrease in inventory	[15,016]	3,316
Increase [decrease] in accounts payable	10,282	1,148
Increase [decrease] in accrued expenses	<u>57</u>	<u>86</u>
Net cash provided by [used in] operating activities	<u>\$ 124,919</u>	<u>\$ 50,849</u>

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



RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ending December 31, 2021 and 2020

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Rural Water District No. 3 Jefferson County (the District) was organized under Kansas law in 1965 and completed in 1967 with the purpose and objective to acquire water and water rights, and to build and acquire pipelines and other facilities for the purpose of furnishing water for domestic, agriculture livestock, and/or other purposes. The District provides services to patrons located within the District in Jefferson County.

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 demand deposits and certificates of deposit.

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

E. Accounts Receivable

The District offers unsecured credit for water services and the collection of accounts receivable is generally current with very few uncollectible accounts. Uncollectible accounts are written off in the period in which they become uncollectible.

F. Inventory

The District's inventory is valued at cost, it consists primarily of materials and supplies used for maintaining the water distributions system. Cost is determined on a first-in, first-out method.

G. Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$3,010 per meter. The benefit units in service on December 31, 2021 and 2020 were 808 and 801, respectively.

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ending December 31, 2021 and 2020

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and expenses

Revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities.

I. Capital Assets

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. The District maintains an account for capital assets, which consists of buildings, wells, water system, standpipes and equipment. Depreciation is computed using the straight-line method over the useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income or loss for the period.

J. 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."

The District's restricted net position is comprised designated funds as determined by the Board.

K. 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.

L. 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.

M. Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in these financial statements.

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ending December 31, 2021 and 2020

Note 2. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Cash and cash equivalents consist of the following for the years ending December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash, unrestricted	\$ 726,909	\$ 627,604

B. Deposits

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, 2021 and 2020.

At December 31, 2021 and 2020, the District's carrying amount of deposits, including certificates of deposit, was \$726,909 and \$627,604, respectively, and the bank balance was \$726,742 and \$629,064, respectively. The bank balance was held in two banks, resulting in a concentration of credit risk. Of the bank balances, \$250,000 was covered by federal depository insurance and the remaining balances for both years were collateralized with securities held by the pledging financial institutions' agents in the District's name.

B. Accounts Receivable

Accounts receivable are carried at the original billed amount. Management determines bad debts that have become uncollectible and writes them off in the period that the accounts become uncollectible.

C. Prepaid and Other Expenses

Prepaid and other expenses for the years ending December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Deposits	\$ 500	\$ 582
Prepaid insurance	5,745	5,278
REA capital credits	<u>25,656</u>	<u>26,723</u>
Total prepaid and other expenses	<u>\$ 31,901</u>	<u>\$ 32,583</u>

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ending December 31, 2021 and 2020

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ending December 31, 2021 and 2020 was as follows:

	Balance December 31, <u>2020</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2021</u>
Capital assets not being depreciated				
Land	\$ 37,023	\$ -	\$ -	\$ 37,023
Capital assets being depreciated				
Plant and lines	2,408,139	54,343	-	2,462,482
Building	<u>30,386</u>	<u>-</u>	<u>-</u>	<u>30,386</u>
Total capital assets	<u>2,475,548</u>	<u>54,343</u>	<u>-</u>	<u>2,529,891</u>
Less: accumulated depreciation				
Plant and lines	[1,659,093]	[77,214]	-	[1,736,307]
Building	<u>[23,339]</u>	<u>[1,047]</u>	<u>-</u>	<u>[24,386]</u>
Total accumulated depreciation	<u>[1,682,432]</u>	<u>[78,261]</u>	<u>-</u>	<u>[1,760,693]</u>
Total capital assets, net of accumulated depreciation	<u>\$ 793,116</u>	<u>\$ [23,918]</u>	<u>\$ -</u>	<u>\$ 769,198</u>
	Balance December 31, <u>2019</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2020</u>
Capital assets not being depreciated				
Land	\$ 37,023	\$ -	\$ -	\$ 37,023
Capital assets being depreciated				
Plant and lines	2,359,598	48,541	-	2,408,139
Building	<u>30,386</u>	<u>-</u>	<u>-</u>	<u>30,386</u>
Total capital assets	<u>2,427,007</u>	<u>48,541</u>	<u>-</u>	<u>2,475,548</u>
Less: accumulated depreciation				
Plant and lines	[1,585,079]	[74,014]	-	[1,659,093]
Building	<u>[22,292]</u>	<u>[1,047]</u>	<u>-</u>	<u>[23,339]</u>
Total accumulated depreciation	<u>[1,607,371]</u>	<u>[75,061]</u>	<u>-</u>	<u>[1,682,432]</u>
Total capital assets, net of accumulated depreciation	<u>\$ 819,636</u>	<u>\$ [26,520]</u>	<u>\$ -</u>	<u>\$ 793,116</u>

Depreciation expense was \$78,261 and \$85,061, respectively for the years ended December 31, 2021 and 2020.

RURAL WATER DISTRICT NO. 3 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ending December 31, 2021 and 2020

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.

C. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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 District. Management is not aware of any violations of Kansas statutes during the years ended December 31, 2021 and 2020.

D. Water Supply Agreement

The District entered into a Wholesale Water Purchase Agreement with Rural Water District No. 11, Jefferson County on October 14, 2019. The first delivery started in September 2020. In addition, the District entered into a Public Utility Agreement with the City of Ozawkie as a new water supply source. Purchases by the City of Ozawkie commenced in January 2021.

E. Concentrations of Credit Risk

The District is engaged in the sale of water to customers located in Jefferson County, Kansas.

F. Subsequent Events

Subsequent events for management's review have been evaluated through March 3, 2022, the date the financial statements were available to be issued.