Rural Water District No. 3 – Cowley County

Annual Financial Report

November 30, 2022

Board of Directors

Mark McGee – Chariman
Fred Taylor – Vice Chairman
Sandra Rush – Secretary
Elliot Jackson – Treasurer
Bronze Hill
Gary Jones
John Postelwait
Justin Walls
Terry Willoughby

Management

April Walker – Office Manager
Jess Helphingstine – Water Operator

Independent Auditors

Cooper & Co. CPAs, P.A.
Certified Public Accountants
Wellington, Kansas

Rural Water District No. 3 – Cowley County

Year Ended November 30, 2022

TABLE OF CONTENTS

		Page Number
Independent Auditor's Report		1-3
Statement 1	Summary Statement of Receipts, Expenditures and Unencumbered Cash, Regulatory Basis	4
Notes to Financial Statements		5-9
	Regulatory – Required Supplemental Information	
Schedule 1	Summary of Regulatory Basis Expenditures – Actual and Budget	10
Schedule 2	Summary of Regulatory Basis Receipts and Expenditures	11

COOPER&CO.
CPAs, P.A.

INDEPENDENT AUDITOR'S REPORT

Rural Water District No. 3 – Cowley County
Arkansas City, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures and unencumbered cash balances of the Rural Water District No. 3 – Cowley County, (the District) as of and for the year ended November 30, 2022 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 accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of November 30, 2022, 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 District as of November 30, 2022, and the aggregate receipts and expenditures for the year ended in accordance with the financial reporting provisions of the *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 the Audit of the Financial Statement 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 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 District 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.

Responsibilities of Management for the Financial Statements
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

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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 District'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 Responsibility 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 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 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 statement.
- 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, 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 2022 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedule of regulatory basis receipts and expenditures (Schedules 1 and 2, as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the 2022 basic financial statement; however, are required to be presented under the provisions of the *Kansas*

Municipal Audit Accounting Guide. 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 2022 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the 2022 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 2022 basic financial statement or to the 2022 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 accompanying supplemental information is fairly stated in all material respects in relation to the 2022 basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2021 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedules of regulatory basis receipts and expenditures-actual-related municipal entities (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and are not a required part of the 2021 basic financial statement upon which we rendered an unmodified opinion dated December 22, 2022. The 2021 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, Office of Management Analysis and Standards at the following link: http://da.ks.gov/ar/muniserv/. Such 2021 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 2021 basic financial statement. The 2021 comparative information was subjected to the auditing procedures applied in the audit of the 2021 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 2021 basic financial statement or to the 2021 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 2021 comparative information is fairly stated in all material respects in relation to the 2022 basic financial statement taken as a whole, on the basis of accounting described in Note 1.

Cooper & Co CPAs, P.A.

Certified Public Accountants
Wellington, Kansas
January 25, 2023

Rural Water District No. 3 - Cowley County

Summary Statement of Receipts, Expenditures and Unencumbered Cash

Regulatory Basis

For the Year Ended November 30, 2022

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:							
Water Utility	$ 450,981	$ -	$ 480,268	$ 488,271	$ 442,978	$ 69,810	$ 512,788
Total reporting entity (Excluding Agency Funds)	$ 450,981	$ -	$ 480,268	$ 488,271	$ 442,978	$ 69,810	$ 512,788

Composition of Cash Balance:

Cash in checking accounts:		
Cash on Hand		$ 100
Union State Bank		
Regular Checking	64,499	
Money Market	33,324	
Certificates of Deposit	131,853	
Community National Bank CD	82,182	
Stock Exchange Bank CD	71,411	
Bank Deposits		383,269
Loan Reserve Fund, held by state treasurer		129,419
Total Reporting Entity		$ 512,788

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

Rural Water District No. 3 – Cowley County

Notes to Financial Statement

For the Year Ended November 30, 2022

1. Summary of Significant Accounting Policies

A. Municipal Financial Reporting Entity

Rural Water District No. 3, Cowley County, Kansas (the District) was organized and incorporated on September 29, 1965 under the provisions of K.S.A. 75-1117, for the purpose of constructing and operating a water supply distribution system. The District is a municipality under Kansas statues. The board of the District consists of nine directors, all of whom are participating members of the District, are elected by the District, and are participating members for three year terms.

B. Regulatory Basis Fund Types

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.)

C. Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The *Kansas Municipal Audit and Accounting* Guide (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 revenues 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.

D. Budgetary Information

The District is not subject to K.S.A. 79-2925, requiring budgets be legally adopted for all taxing subdivisions of the state.

2. 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 investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; US 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 November 30, 2022.

At November 30, 2022, the District's carrying amount of deposits was $383,269 and the bank balance was $385,680. The bank balance was held by three banks, resulting in a concentration of credit risk. All of the bank balances were covered by federal deposit insurance coverage.

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.

Restrictions – The District had $129,419 advanced from the KDHE (Kansas Department of Health and Environment) loan that was placed into a reserve account that the KDHE is holding. The district receives a credit on the reserve account during each billing cycle. The reserve account will be used to pay the final obligation payments.

3. Long-term debt

Changes in long-term liabilities for the District for the year ended November 30, 2022 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 & Service Charges Paid
KDHE Loans:									
Loan Project No. 2852	2.60%	8/1/2016	$ 1,294,189	2/1/2036	$ 997,418	$ -	$ 57,445	$ 939,973	$ 25,562
Finance Leases:									
Galaxy - Sharp Copier	5.00% (Imputed)	10/15/2021	$ 5,776	10/15/2026	$ 5,691	$ -	$ 1,047	$ 4,644	$ 261
Total Contractual Indebtedness					$ 1,003,109	$ -	$ 58,492	$ 944,617	$ 25,823

3. Long-term debt (Continued)

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

Issue	2023	2024	2025	2026	2027	2028 thru 2032	2033 thru 2037	Total
Principal								
KDHE Loan Project No. 2852	$ 58,949	$ 60,492	$ 62,075	$ 63,699	$ 65,366	$ 353,402	$ 275,990	$ 939,973
Finance Lease	1,101	1,157	1,216	1,170	-	-	-	4,644
Total Principal	$ 60,050	$ 61,649	$ 63,291	$ 64,869	$ 65,366	$ 353,402	$ 275,990	$ 944,617
Interest & Service Fee								
KDHE Loan Project No 2852	$ 24,059	$ 22,516	$ 20,933	$ 19,309	$ 17,641	$ 61,636	$ 14,537	$ 180,631
Finance Lease	207	151	92	29	-	-	-	479
Total Interest & Serv. Fee	$ 24,266	$ 22,667	$ 21,025	$ 19,338	$ 17,641	$ 61,636	$ 14,537	$ 181,110
Total Principal, Interest & Service Fee	$ 84,316	$ 84,316	$ 84,316	$ 84,207	$ 83,007	$ 415,038	$ 290,527	$ 1,125,727

4. Debt service coverage ratio

The District is required to maintain a debt service coverage ratio of 125% as a covenant in the Loan Agreement with the Kansas Department of Health and Environment for Project No. 2852. The District did meet this obligation with Net Revenue Available for Debt Service as adjusted below:

Net Revenue (Loss)	$ (8,003)
Plus: Interest/Principal	83,008
Plus: Capital purchases in 2022	41,864
Net Revenue Availale for Debt Service	$ 116,869
2022 Loan Payments	$ 83,008
Debt Service Coverage Ratio	141%

5. Risk Management

The District continues to carry commercial insurance for all other risks of loss, including commercial property, automobile, general liability, and worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. Related Parties

All members of the board of directors and both employees are also the District's water customers. During 2022, transactions with these related parties involved water sales on the same terms as all other District water customers.

7. Other Long-Term Obligations from Operations

A. Death and Disability Other Post-Employment Benefits

As provided by K.S.A. 74-4927, disabled members in the Kansas Public Employees Retirement System (KPERS) receive long-term disability benefits and life insurance benefits. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. The employer contribution rate is set at 1% for the year ended December 31, 2022.

B. Compensated Absences

Vacation leave is earned after one full year of service for full-time employees according to the following schedule: after one year – 5 days, after three years – 10 days, after ten years – 15 days, and after 20 years – 20 days. Vacation must be used during the calendar year. Any unused vacation time will be forfeited. Full-time employees are also allowed 5 days paid personal leave. Employees are paid for unused personal leave days at the end of the year.

8. Defined Benefit Pension Plan

General Information about the Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.9% for KPERS for the fiscal year ended November 30, 2022. Contributions to the pension plan from the District were $10,972 for the year ended November 30, 2022.

Net Pension Liability

At November 30, 2022, the District's proportionate share of the collective net pension liability reported by KPERS was $61,210. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020, which was rolled forward to June 30, 2021. Rural Water District No. 3 – Cowley County's proportion of the net pension liability was based on the ratio of the District's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup with KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement.

8. Defined Benefit Pension Plan (continued)

Net Pension Liability (continued)

The June 30, 2022 KPERS report of net pension liability was not yet published at the date of this report.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

9. Subsequent Events

Management has evaluated subsequent events through January 25, 2023, which is the date the financial statement was available to be issued.

REGULATORY – REQUIRED SUPPLEMENTAL INFORMATION

Summary of Expenditures--Actual and Budget

Regulatory Basis

(Budgeted Funds Only)

For the Year Ended November 30, 2022

Fund	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance-Over (Under)

Rural Water District No 3 - Cowley County is not subject to the Kansas Budget Laws.

Rural Water District No. 3 - Cowley County

Business Funds

Water Utility Fund

Schedule of Receipts & Expenditures

Regulatory Basis

For the Year Ended November 30, 2022

(with comparative actual totals for the prior year ended November 30, 2021)

	2021 Actual	2022 Actual
Receipts		
Water service charge	$ 390,318	$ 459,595
Benefit unit sales	4,200	5,400
Penalties	5,885	6,624
Miscellaneous fees	1,475	6,950
Reserve account earnings	-	-
Loan reserve	130	155
Interest income	1,255	1,544
Total receipts	$ 403,263	$ 480,268
Expenditures		
Payroll expenses Payroll expenses	$ 113,610	$ 116,176
Contract labor	25,365	36,724
Payroll tax	10,394	11,461
Employee benefits	14,603	11,065
Utilities	22,084	33,107
Telephone	6,380	7,025
Repairs	2,867	17,248
Capital purchases	50,181	41,864
Insurance	10,496	24,007
Legal and accounting	9,634	6,714
Bank charges	659	1,452
Chemicals	16,377	21,768
Field expenses	31,786	40,070
Vehicle and mileage expenses	8,355	9,822
Water testing	1,283	910
Office expense	7,283	8,719
Postage	2,662	5,628
Membership and dues	996	1,523
Sales tax paid	-	-
Water protection fee	1,678	3,267
Miscellaneous expenses	11,684	6,713
Bond principal	55,981	57,446
Bond interest	27,027	25,562
Total expenditures	$ 431,385	$ 488,271
Receipts Over (Under) Expenditures	$ (28,122)	$ (8,003)
Unencumbered Cash, Beginning	479,103	450,981
Prior Year Cancelled Encumbrances	-	-
Unencumbered Cash, Ending	$ 450,981	$ 442,978