JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2

FINANCIAL STATEMENTS & INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2022 & 2021



Cummins,
Coffman &
Schmidtlein
Certified Public Accountants, P.A.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2

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Certified Public Accountants, P.A.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 2
Jefferson County, KS

Opinion

We have audited the accompanying financial statements of Jefferson County Rural Water District No. 2, which comprise the statement of net position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Rural Water District No. 2 as of December 31, 2022 and 2021, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Jefferson County Water District No. 2 and to meet our 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial about Jefferson County Water District No. 2's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor's Responsibility

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 generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Jefferson County Water District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Jefferson County Water District No. 2'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 Matter

Required Supplementary Information

Management has omitted Management's 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 considered to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Water District No. 2 financial statements as a whole. The Schedule of Operating Activities is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

Cummins, Coffman & Schmidtlein, CPA's, P.A.
Topeka, Kansas
June 2, 2023

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
For the years ended

Assets

	December 31 2022	December 31 2021
Current assets		
Cash and cash equivalents	$ 535,743	$ 517,075
Accounts receivable	29,517	28,982
Prepaid expense	1,885	1,246
Total current assets	567,145	547,303
Non-current assets		
Property and equipment, net	778,995	849,301
Total assets	$ 1,346,140	$ 1,396,604

Liabilities and Net Position

	December 31 2022	December 31 2021
Current liabilities		
Accounts payable	$ 1,683	$ 11,633
Other payables	-	350
Customer deposits	200	200
Total current liabilities	1,883	12,183
Net position		
Invested in capital assets	778,995	849,301
Unrestricted	565,262	535,120
Total net position	1,344,257	1,384,421
Total liabilities and net position	$ 1,346,140	$ 1,396,604

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION
For the Years Ended

	December 31 2022	2021
Revenues		
Water sales	$ 198,260	$ 209,326
Other income	7,838	23,983
Total operating revenues	206,098	233,309
Operating expenses	(253,619)	(222,267)
Income (loss) from operations	(47,521)	11,042
Non-operating revenues (expense)		
Interest income	1,780	773
Farm income	5,577	16,389
Farm expense	-	(5,103)
Total non-operating revenues (expense)	7,357	12,059
Net income (loss) before contributions	(40,164)	23,101
Capital contributions		
Benefit units sold	-	24,000
Total capital contributions	-	24,000
Change in net assets	(40,164)	47,101
Net position - beginning of year	1,384,421	1,337,320
Net position - end of year	$ 1,344,257	$ 1,384,421

The accompanying notes are an integral part of these financial statements.

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
Years Ended

	December 31 2022	2021
Cash flows from (used in) operating activities:		
Cash receipts from customer and reimbursements for services	$ 197,085	$ 204,572
Interest income	1,780	773
Miscellaneous cash receipts	7,838	163
Cash payments for goods and services	(145,600)	(149,537)
Cash payments to employees for services	(48,012)	(48,012)
Net cash from (used in) operating activities	13,091	7,959
Cash flows from (used in) investing activities:		
Purchase of capital assets	-	(104,653)
Proceeds from farm activity	5,577	16,389
Purchases for farm activity	-	(5,103)
Net cash from (used in) investing activities	5,577	(93,367)
Cash flows from (used in) financing activities:		
Proceeds from sale of benefit units	-	24,000
Proceeds from new district lines purchased from patrons	-	23,820
Net cash from (used in) financing activities	-	47,820
Net increase (decrease) in cash and cash equivalents	18,668	(37,588)
Cash at beginning of year	517,075	554,663
Cash at end of year	$ 535,743	$ 517,075
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ (47,521)	$ 11,042
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	70,306	75,438
Interest income	1,780	773
Changes in assets and liabilities		
Accounts receivable	(535)	(4,754)
Prepaid expenses	(640)	-
Accounts payable	(10,299)	(74,540)
Net cash provided by operating activities	$ 13,091	$ 7,959

The accompanying notes are an integral part of these financial statements.

1. Organization and Significant Accounting Policies

Organization

The Rural Water District No. 2, Jefferson County, Kansas (the District) was organized in 1965 as a quasi-municipal corporation, established under and pursuant to the provisions of K.S.A. 82a-612 et seq. of the statutory of law of Kansas. The District was established for the purpose of constructing and operating a water supply distribution system to benefit units within Jefferson County, Kansas.

Basis of Accounting

The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. For the purposes of the statements of cash flows, the District considers operating, money market and petty cash bank accounts as cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of current and past due water usage charges and other charges for late fees. The accounts receivable balance at December 31, 2022 and 2021 is $29,517 and $28,982.

Property and Equipment

Property and equipment are recorded at cost. Improvements 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. 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 in income for the period. The District does not have a formal capitalization policy. Depreciation on all assets is provided using the straight-line method over estimated useful as follows:

	Years
Meters	15-40
Distribution lines	10-40
Office building	20-40
Office equipment	5

1. Organization and Significant Accounting Policies (continued)

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for $8,000.

Net Position

The District's net position is classified as follows:

Invested in capital assets – This represents the District's total investment in capital assets, net of accumulated depreciation and reduced by any outstanding debt attributable to the acquisition, construction or improvements of those assets.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Operating Revenues and Expenses

Operating revenues and expenses result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At December 31, 2022 and 2021, cash balances are comprised of demand deposits and certificates of deposit. Custodial credit risk is the risk that in the event of a bank failure, the district's deposits in excess of coverage may be lost. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposits at all times.

At December 31, 2022, the District's carrying amounts of deposits were $535,190, of which $250,000 was covered by FDIC insurance. $215,952 was collateralized by securities held in safekeeping pledged to the District. The district was exposed to credit risk in the amount of $69,238 at December 31, 2022 for amounts exceeding coverage.

At December 31, 2021, the District's carrying amounts of deposits were $516,875, of which $250,000 was covered by FDIC insurance. $133,319 was collateralized by securities held in safekeeping pledged to the District. The district was exposed to credit risk in the amount of $133,557 at December 31, 2021 for amounts exceeding coverage.

3. Property and Equipment

The following represents a summary of changes of property and equipment at :

	December 31 2022	December 31 2021
Easements	$ 1,280	$ 1,280
Water lines and wells	1,862,535	1,862,535
Equipment	11,320	11,320
Land	113,860	113,860
Building	157,889	157,889
Vehicles	16,685	16,685
Total property & equipment	$ 2,163,569	$ 2,163,569
Less accumulated depreciation:		
Water lines and wells	$ (1,308,365)	$ (1,242,789)
Equipment	(10,075)	(9,489)
Building	(49,449)	(45,305)
Vehicles	(16,685)	(16,685)
Total accumulated depreciation	(1,384,574)	(1,314,268)
Property and equipment, net	$ 778,995	$ 849,301

Depreciation expense for the years end December 31, 2022 and 2021 was $70,306 and $75,438, respectively.

4. Compensated Absences

The District does not have a paid time off policy for employees, therefore, no accrual is required.

5. Risk Management

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District has insurance through Allied Insurance for all aspects of their business.

6. Compliance with Kansas Statutes

Management is aware of no statutory violations for the period covered by the audit.

7. Tax Exempt Status

Rural Water District No. 2, Jefferson County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability expense.

While the District is not required to file tax returns, the payroll activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

8. Subsequent Event

Subsequent events were evaluated through the date of the audit report, which is the date the financial statements were available to be issued. No events were found requiring disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY RURAL WATER DISTRICT NO. 2
SCHEDULE OF OPERATING EXPENSES
For the Years Ended

	December 31	
	2022	2021
Chemicals	$ -	$ 673
Depreciation	70,306	75,438
Ditching	45,065	-
Dues and subscriptions	544	294
Finder's fee	75	125
Business insurance	8,872	18,207
Vehicle insurance	968	942
Professional fees	7,936	11,655
Miscellaneous	8,152	2,281
Mowing services	2,165	960
Office and postage expense	2,406	2,271
Bond payment	37	250
Returned check	107	308
Repairs	240	-
Salaries	48,012	48,012
Supplies	24,318	30,477
Payroll taxes	3,674	3,674
Other taxes	2,449	2,848
Water protection tax	1,100	1,382
Testing expenses	653	1,004
Utilities	21,962	17,402
Vehicle Costs	4,578	4,064
Total operating expenses	$ 253,619	$ 222,267