RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2023

Rural Water District No. 1, Harvey County, Kansas

For the Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
Harvey County, Kansas

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 1, Harvey County, Kansas (District), as of and for the year ended December 31, 2023, and the related disclosures 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 District as of December 31, 2023, 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 accompanying financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2023, and the aggregate receipts and expenditures for the year then 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 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 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 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 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 that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2023 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 is not a required part of the 2023 basic financial statement, but is required to be presented under the provisions of the *Kansas Municipal Audit and 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 2023 basic financial statement. The 2023 information has been subjected to the auditing procedures applied in the audit of the 2023 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 2023 basic financial statement or to the 2023 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 supplementary information is fairly stated in all material respects, in relation to the 2023 basic financial statement 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 District as of and for the year ended December 31, 2022 (not presented herein), and have issued our report thereon dated February 1, 2023, which contained an unmodified opinion on the basic financial statement. The 2022 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 https://admin.ks.gov/offices/accounts-reports/local-government/ municipal-services. The 2022 actual column (2022 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2023 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2023 basic financial statement. Such 2022 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 2022 basic financial statement. The 2022 comparative information was 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 2022 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, 2022, on the basis of accounting described in Note 1.

Knudsen, Monroe + Company, LLC

Certified Public Accountants
Newton, Kansas
February 1, 2024

Rural Water District No. 1, Harvey County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis

For the Year Ended December 31, 2023

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund						
Water Utility	$ 2,176,761	975,705	746,812	2,405,654	14,996	2,420,650

Composition of Cash:

Walton State Bank, Checking	$ 17,936
Walton State Bank, Money Market	1,438,867
Walton State Bank, Certificates of Deposit	469,338
Halstead Bank, Certificates of Deposit	494,509
Total Reporting Entity	$ 2,420,650

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

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENT

December 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Harvey County, Kansas was incorporated and organized on March 24, 1975, by order of the Board of County Commissioners, Harvey County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Harvey and Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes. The District had 1,196 and 1,183 benefit units at the end of December 31, 2023 and 2022, respectively.

Regulatory Basis Fund Type

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

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 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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred during the year ended December 31, 2023.

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 statues 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. All deposits were legally secured at December 31, 2023.

At December 31, 2023, the District's carrying amount of deposits was $2,420,650 and the bank balance was $2,423,875. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $521,161 was covered by federal depository insurance and $1,902,714 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

4. BENEFIT UNITS

Members of the District are required to pay a deposit for a benefit unit prior to connecting to the District's lines. New benefit units added during the year totaled $52,200.

5. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2023, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
KRWFA, Series B	0.4-2.5%	05/01/15	$ 2,765,000	08/01/27	$ 1,395,000	-	265,000	1,130,000	31,494

Current maturities of long-term debt and interest for the next four years through maturity are as follows:

	Year ending December 31				
	2024	2025	2026	2027	Total
KRWFA, Series B					
Principal	$ 270,000	275,000	285,000	300,000	1,130,000
Interest	26,194	20,456	14,269	7,500	68,419
Total principal and interes	$ 296,194	295,456	299,269	307,500	1,198,419

Net revenues of the District have been pledged as security for the Kansas Rural Water Finance Authority debt, and the District is required to have net revenues, as defined in the debt agreement, each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2023, per the following calculations.

Debt Service Ratio Calculation for the year ending December 31:

	2023
Receipts over expenditures	$ 228,893
Interest expense	31,494
Capital outlay	-
Principal payments	265,000
Less benefit unit sales	(52,200)
Total revenue available for debt service	$ 473,187
Debt service principal and interest	$ 296,494
Debt service ratio	1.60

6. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

The District's personnel policies grant compensated absences in the form of vacation and sick days each year to staff. Eligible employees earn 10 days of vacation and sick leave annually after one year of employment; 15 days of vacation and 12 days of sick leave annually after nine years of employment, and 20 days of vacation and 12 days of sick leave annually after 19 years of employment. Up to 40 hours of vacation may be carried over to the following year, but all vacation time must be used the following year. Up to 160 hours (192 hours after nine years) of sick leave may be carried forward each year.

7. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 2008. Basically, all employees are eligible to participate. The District matches employee contributions to the plan up to three percent of compensation. The District's contributions were $6,039 for the year ended December 31, 2023.

8. RISK MANAGEMENT

The 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. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Insurance Companies through Krueger Insurance Management Inc. in Newton, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

During the ordinary course of its operations, the District is a party to potential claims, legal actions and complaints. It is the opinion of the District's management and legal counsel that these matters are not anticipated to have a material financial impact on the District.

9. RELATED PARTIES

All the members of the Board of Directors are District customers. For all board members the only material transactions were water purchases made on the same terms as all other District customers. All were current at year end.

10. RESTRICTIONS ON CASH

	2023
Principal and Interest Account	
Under the terms of the debt agreement, the District is required to add to a reserve account each month an amount necessary to meet, on the next payment date, all interest and principal of the District's Kansas Rural Water Finance Authority long term debt on that date	$ 123,414
Bond Reserve Account	
Kansas Rural Water Finance Authority Revenue Bonds Series B, 2015 requires a 10% reserve account.	276,500
Maintenance Reserve	
The Board of Directors periodically designates an amount for future maintenance costs.	50,000
Total restrictions on cash	$ 449,914

11. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2023, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through February 1, 2024, which is the date at which the financial statement was available to be issued.

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

REGULATORY - REQUIRED
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023

Rural Water District No. 1, Harvey County, Kansas

SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

For the Year Ended December 31, 2023
(With Comparative Actual Totals for the Prior Year Ended December 31, 2022)

	2022	2023
RECEIPTS		
Water sales	$ 812,078	854,564
Miscellaneous income	48,018	41,511
Interest income	5,021	27,430
Benefit unit sales	44,300	52,200
Total receipts	909,417	975,705
EXPENDITURES		
Water purchases	13,257	18,534
Office supplies and expenses	13,199	17,004
Professional fees	11,200	19,195
Salaries	189,728	204,298
Payroll taxes and benefits	45,548	50,182
Utilities	45,959	46,078
Dues and fees	2,528	3,540
Insurance	30,274	32,521
Repairs and maintenance	66,660	32,939
Vehicle and mileage	19,629	16,754
Other expenses	9,017	9,273
Interest expense	36,304	31,494
Principal	260,000	265,000
Capital outlay	46,095	-
Total expenditures	789,398	746,812
Receipts over expenditures	120,019	228,893
UNENCUMBERED CASH, beginning	2,056,742	2,176,761
UNENCUMBERED CASH, ending	$ 2,176,761	2,405,654