

**RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS**

**Financial Statements for the
Years Ended December 31, 2021 and 2020
and Independent Auditors' Report**

RURAL WATER DISTRICT NO. 1

MORRIS COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 1
Morris County, Kansas

Opinion

We have audited the accompanying financial statements of Rural Water District No. 1 of Morris County, Kansas (the "District"), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position 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 the District as of December 31, 2021 and 2020, and the results of their operations and their 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 audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements 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 audits. 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 doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 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 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 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.

Other Matter: Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Acord Cox + Scott, LLC

January 24, 2022

Rural Water District No. 1

Morris County, Kansas

Management Discussion and Analysis

FOR YEAR ENDING DECEMBER 31, 2021

This section of the Rural Water District No. 1, Morris County, Kansas annual financial report presents an analysis of the District's financial performance during the fiscal year ended December 31, 2021. This information is prepared and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

Rural Water District No. 1 Financial Overview for 2021

- The District's total assets of \$5,998,821 included capital assets of \$4,756,181. The District made \$105,953 of additions to capital assets in 2021.
- The District's total liabilities of \$2,846,240 included \$2,789,018 of long-term debt.
- The District's operating revenues for 2021 totaled \$905,927 and was approximately a 9% increase from the prior year.
- The District's costs and operating expenses increased by \$67,021 from \$713,181 in 2020 to \$780,202 in 2021. The increase was related to a increase in water purchases, chemicals and supplies, contract labor and repairs.
- During 2021 the District received \$28,000 from the sale of new benefit units.
- In 2021, the District's net position increased by \$55,767.

Overview of the Financial Statements

This report will include the Management Discussion and Analysis, Financial Statements for the years ended December 31, 2021 and 2020, and the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position exhibit the District's revenues and expenses for the fiscal years ended December 31, 2021 and 2020. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2021	2020	Dollar Change	Percent Change
Current and other assets	911,819	790,054	121,765	15.4%
Noncurrent assets	330,821	330,821	-	0.0%
Capital assets, net	4,756,181	4,941,330	(185,149)	-3.7%
Total Assets	5,998,821	6,062,205	(63,384)	-1.0%
Long-term debt	2,789,018	2,913,328	(124,310)	-4.3%
Other liabilities	57,222	52,063	5,159	9.9%
Total Liabilities	2,846,240	2,965,391	(119,151)	-4.0%
Net position invested in capital assets, net of related debt	1,967,163	2,028,002	(60,839)	-3.0%
Restricted net position	330,821	330,821	-	0.0%
Unrestricted net position	854,597	737,991	116,606	15.8%
Total Net Position	3,152,581	3,096,814	55,767	1.8%

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2021	2020	Dollar Change	Percent Change
Operating revenues	905,927	833,803	72,124	8.7%
Non-operating revenues	7,397	13,682	(6,285)	-45.9%
Total Revenues	913,324	847,485	65,839	7.8%
Depreciation expense	291,102	284,595	6,507	2.3%
Other operating expense	489,100	428,586	60,514	14.1%
Non-operating expense	105,355	110,336	(4,981)	-4.5%
Total Expenses	885,557	823,517	62,040	7.5%
Income (loss) before capital contributions	27,767	23,968	3,799	15.9%
Capital contributions	28,000	16,000	12,000	75.0%
Changes in net position	55,767	39,968	15,799	39.5%
Beginning net position	3,096,814	3,056,846	39,968	1.3%
Total Net Position	3,152,581	3,096,814	55,767	1.8%

Economic Factors and Next Year's Budget and Rates

The Board of Directors prepares a yearly budget. In preparing the budget, the staff and the Board of Directors continue to review water rates, debt schedules and benefit unit fees annually to insure the District is operating in a positive sound financial position. The Board does anticipate a rate adjustment for the upcoming year.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 1, Morris County, Kansas.

RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 617,852	\$ 506,032
Certificates of deposit	158,642	157,216
Accounts receivable	73,639	72,977
Prepays and other current assets	6,827	6,552
Inventory	54,859	47,277
Total current assets	<u>911,819</u>	<u>790,054</u>
NONCURRENT ASSETS		
Reserve account	<u>330,821</u>	<u>330,821</u>
Total noncurrent assets	<u>330,821</u>	<u>330,821</u>
CAPITAL ASSETS		
Depreciable capital assets	10,513,651	10,407,698
Less accumulated depreciation	<u>(5,757,470)</u>	<u>(5,466,368)</u>
Total capital assets, net	<u>4,756,181</u>	<u>4,941,330</u>
Total assets	<u>5,998,821</u>	<u>6,062,205</u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	130,471	124,305
Accounts payable	21,367	17,935
Accrued liabilities	<u>35,855</u>	<u>34,128</u>
Total current liabilities	<u>187,693</u>	<u>176,368</u>
LONG-TERM DEBT, less current maturities	<u>2,658,547</u>	<u>2,789,023</u>
Total liabilities	<u>2,846,240</u>	<u>2,965,391</u>
NET POSITION		
Invested in capital assets, net of related debt	1,967,163	2,028,002
Restricted	330,821	330,821
Unrestricted	<u>854,597</u>	<u>737,991</u>
Total net position	<u>\$ 3,152,581</u>	<u>\$ 3,096,814</u>

RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
WATER SALES	\$ 905,927	\$ 833,803
COST AND OPERATING EXPENSES:		
Personnel costs	160,289	143,747
Depreciation	291,102	284,595
Insurance	52,544	39,767
Utilities	91,295	81,060
Telephone	3,974	3,993
Professional fees	10,325	11,358
Office supplies	10,092	10,817
Postage	2,257	4,005
Repairs and contract labor	24,735	13,857
Rent	6,045	6,320
Mileage and truck	22,311	15,745
KRWA	716	712
Chemicals and supplies	42,549	28,384
Water purchases	52,523	49,601
Kansas water fees	6,391	7,024
Telemetry expense	403	7,013
Miscellaneous	2,651	5,183
	<u>780,202</u>	<u>713,181</u>
INCOME FROM OPERATIONS	<u>125,725</u>	<u>120,622</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	6,197	12,482
Interest expense	(105,355)	(110,336)
Other	1,200	1,200
	<u>(97,958)</u>	<u>(96,654)</u>
INCOME BEFORE CONTRIBUTIONS	27,767	23,968
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>28,000</u>	<u>16,000</u>
INCREASE IN NET POSITION	55,767	39,968
NET POSITION, BEGINNING OF YEAR	<u>3,096,814</u>	<u>3,056,846</u>
NET POSITION, END OF YEAR	<u>\$ 3,152,581</u>	<u>\$ 3,096,814</u>

RURAL WATER DISTRICT NO. 1
MORRIS COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 897,408	\$ 830,230
Cash payments to suppliers for goods and services	<u>(483,941)</u>	<u>(428,357)</u>
Net cash provided by operating activities	<u>413,467</u>	<u>401,873</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to capital assets	(105,953)	(103,798)
Contributions - benefit units and aid-in construction	28,000	16,000
Payments on long term debt	(124,310)	(249,401)
Interest paid	<u>(105,355)</u>	<u>(110,336)</u>
Net cash used in capital and related financing activities	<u>(307,618)</u>	<u>(447,535)</u>
NON-CAPITAL FINANCING ACTIVITIES:		
Other	<u>1,200</u>	<u>1,200</u>
INVESTING ACTIVITIES:		
Interest received	6,197	12,482
Change in reserve account	-	(74)
Change in certificates of deposit	<u>(1,426)</u>	<u>(3,628)</u>
Net cash provided by investing activities	<u>4,771</u>	<u>8,780</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	111,820	(35,682)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>506,032</u>	<u>541,714</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>617,852</u></u>	\$ <u><u>506,032</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 125,725	\$ 120,622
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation and amortization	291,102	284,595
Changes in:		
Accounts receivable	(662)	(527)
Inventory	(7,582)	(2,896)
Other current assets	(275)	(150)
Accounts payable	3,432	2,028
Accrued liabilities	<u>1,727</u>	<u>(1,799)</u>
Net cash provided by operating activities	<u>\$ 413,467</u>	<u>\$ 401,873</u>

RURAL WATER DISTRICT NO. 1

MORRIS COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

1. DESCRIPTION OF ENTITY

- a. Organization – The Rural Water District (the “District”) was established as a tax exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the district. Total meters at December 31, 2021 and 2020 were 779 and 772.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting – The District’s financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statement of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- c. Capital Assets – Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.

- d. Accounts receivable – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.
- e. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.
- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.
- h. Net position – In the proprietary fund financial statements, equity is classified as net position and displayed in three components:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – Consists of net assets with constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of all other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

- i. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

3. CASH AND DEPOSITS

At December 31, 2021 and 2020, the carrying amounts of the District's deposits, including certificates of deposit, were covered by depository insurance or by collateral held by the District's agent in the District's name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2019	Additions	Disposals	2020
Depreciable capital assets:				
Water system	9,887,380			9,887,380
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	155,372	103,797		259,169
Vehicles	87,376			87,376
	10,303,901	103,797	-	10,407,698
Less accumulated depreciation	(5,181,773)	(284,595)		(5,466,368)
Total capital assets, net	5,122,128	(180,798)	-	4,941,330

	2020	Additions	Disposals	2021
Depreciable capital assets:				
Water system	9,887,380			9,887,380
Land and easements	30,116			30,116
Building	143,657			143,657
Equipment	259,169	105,953		365,122
Vehicles	87,376			87,376
	10,407,698	105,953	-	10,513,651
Less accumulated depreciation	(5,466,368)	(291,102)		(5,757,470)
Total capital assets, net	4,941,330	(185,149)	-	4,756,181

5. LONG-TERM DEBT

Changes in long-term debt were as follows:

	2019	Additions	Retirements	2020	Due in One Year
Long-term debt	\$ 3,162,729	-	249,401	\$ 2,913,328	\$ 124,305

	2020	Additions	Retirements	2021	Due in One Year
Long-term debt	\$ 2,913,328	-	124,310	\$ 2,789,018	\$ 130,471

Details of revenue bonds and other long-term debt outstanding at December 31, 2021 and 2020 are as follows:

	2021	2020
KRWFA, Revenue Bonds, Series 2014, due in annual installments of \$85,000 to \$140,000, including interest at 3.37% through maturity in 2033.	\$ 1,350,000	\$ 1,445,000
Note payable, Rural USDA, Rural Development, due in monthly installments of \$4,282, including interest of 4.125%, through maturity in 2049 (A).	837,167	853,647
Note payable, Rural USDA, Rural Development, due in monthly installments of \$2,908, including interest of 3.625%, through maturity in 2049 (A).	601,851	614,681
	<u>2,789,018</u>	<u>2,913,328</u>
Less current portion	130,471	124,305
	<u>\$ 2,658,547</u>	<u>\$ 2,789,023</u>

(A) The District is required to establish and fund a reserve account with a balance of at least one average annual loan installment. The balance in the reserve account is \$330,821 and \$330,821 as of December 31, 2021 and 2020, respectively. The loans are also secured by the District's revenues and substantially all of its assets.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 110%.

Interest expense on long-term debt totaled \$105,355 and \$110,336 for the years ended December 31, 2021 and 2020, respectively.

Maturities of long-term debt for years subsequent to December 31, 2021 are as follows:

	Principal	Interest	Total
2022	130,471	101,305	231,776
2023	136,683	96,723	233,406
2024	137,944	91,223	229,167
2025	144,254	87,074	231,328
2026	150,618	82,005	232,623
2027-2031	830,521	327,095	1,157,616
2032-2036	428,772	195,378	624,150
2037-2041	296,396	135,004	431,400
2042-2046	360,435	70,965	431,400
2047-2049	172,924	7,462	180,386
	<u>\$ 2,789,018</u>	<u>\$ 1,194,234</u>	<u>\$ 3,983,252</u>

Debt Service Coverage Calculation:

Income before contributions	\$ 27,767
Add:	
Depreciation and amortization	291,102
Interest expense	105,355
Income available for debt service	<u>\$ 424,224</u>
Debt service	
Interest expense	\$ 105,355
Principal payments	130,471
	<u>\$ 235,826</u>
Debt service coverage ratio	<u>1.80</u>

6. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations 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 water district. There were no apparent statutory violations during the years ended December 31, 2021 and 2020.

7. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Morris and surrounding counties. The District grants credit to those customers and requires no collateral.

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