RURAL WATER DISTRICT NO. 1

SEDGWICK COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2023

Rural Water District No. 1, Sedgwick County, Kansas

For the Year Ended December 31, 2023

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Knudsen Monroe & Company LLC

512 N. Main St, Newton, Kansas 67114-2229 316 283-5366 • 316 283-8379 Fax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
Sedgwick 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, Sedgwick County, Kansas, (Water 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 Water 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 Water 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 Water 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 Water 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 Water 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 Water 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 Water 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 the purpose 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 Water District as of and for the year ended December 31, 2022 (not presented herein), and have issued our report thereon dated February 22, 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 the purpose 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 27, 2024

Rural Water District No. 1, Sedgwick 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	$ 1,581,208	384,319	331,190	1,634,337	2,713	1,637,050

Composition of Cash	
Intrust Bank, Checking	$ 215,171
Southwest National Bank	
Checking	106,993
Certificates of Deposit Account Registry Service (CDARS)	1,314,876
Cash on hand	10
Total Reporting Entity	$ 1,637,050

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Financial Reporting Entity

Rural Water District No. 1, Sedgwick County, Kansas was incorporated and organized on January 12, 1967, by order of the Board of County Commissioners, Sedgwick County, Kansas under provisions of K.S.A. 82a-613. The Water District is a Kansas municipality and is exempt from federal and state income taxes. The Water District was organized to provide water for rural Sedgwick County residents. The Water District had 435 and 442 benefit units at the end of December 31, 2023 and 2022, respectively.

Regulatory Basis Fund Type

Business Fund – used to account in whole or in part by fees charged to users of the goods or services (i.e., enterprise and internal service 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 Water 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 Water District to use the regulatory basis of accounting.

2. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Water District. The statute requires banks eligible to hold the Water District's funds have a main or branch bank in the county in which the Water 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 Water District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water 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 Water 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 Water District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

2. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Water District's deposits may not be returned to it. State statutes require the Water 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 Water District's carrying amount of deposits was $1,637,040 and the bank balance was $1,662,085. The bank balance was held by two banks resulting in a concentration of credit risk. All of the bank balances were covered by federal depository insurance.

Certificate of Deposit Account Registry Service (CDARS)

The Water District invests in the Certificate of Deposit Account Registry Service (CDARS), which is a private, for-profit service that breaks up large deposits and places them across a network of banks and savings associations around the United States. This allows the Water District to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

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

4. BENEFIT UNITS

Members of the Water District are required to pay a connection fee for a benefit unit prior to connecting to the Water District's lines. Receipts from new benefit units added during the year totaled $12,000.

5. CONCENTRATIONS OF RISK

Major Supplier

The Water District purchases 100 percent of its water from the City of Wichita, Kansas.

6. RELATED PARTIES

All the members of the Board of Directors are Water District customers. For all board members the only material transactions were water purchases made on the same terms as all other Water District customers. The Water District's bookkeeper is a related party to a member of the Board of Directors.

7. 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 purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2022 to 2023 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations, the Water District is exposed to various claims, legal actions and complaints. It is the opinion of the Water District's management that any current matters are not anticipated to have a material financial impact on the Water District.

8. AGREEMENTS

The Water District has a compensation agreement with the City of Bel Aire, Kansas for loss of service areas. The Water District receives compensation from the City of Bel Aire up to $75,000 annually to be applied to costs associated with the release of water service areas by the Water District to the City as such requests are made and approved. The total amount expected from this agreement was $750,000. Through December 31, 2023, the Water District has received $650,500. The Water District received payments in the amount of $43,000 for the year ended December 31, 2023.

9. SUBSEQUENT EVENTS

In January 2024 the Water District entered into a master project agreement with Core & Main for providing a Sensus FlexNet AMI meter reading system for approximately $260,000, including annual fees for five years.

10. 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 27, 2024, which is the date at which the financial statement was available to be issued.

RURAL WATER DISTRICT NO. 1

SEDGWICK COUNTY

REGULATORY – REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023

Rural Water District No. 1, Sedgwick County, Kansas

Business Fund

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
WATER UTILITY		
RECEIPTS		
Water sales	$ 306,437	319,106
Reconnect charges	500	800
Interest income	11,799	9,413
Other income	-	43,000
Benefit unit application fees	15,000	12,000
Total receipts	333,736	384,319
EXPENDITURES		
Water purchases	157,333	152,871
Salaries	46,065	14,099
Payroll taxes	3,569	1,092
Utilities	4,694	4,483
Office supplies	5,890	3,859
Insurance	12,824	13,384
Repairs	48,457	71,451
Mileage	4,258	4,697
Professional fees	15,895	21,970
Water fees	1,668	1,695
Other	9,210	29,651
Capital outlay	7,425	11,938
Total expenditures	317,288	331,190
Receipts over (under) expenditures	16,448	53,129
UNENCUMBERED CASH, beginning	1,564,760	1,581,208
UNENCUMBERED CASH, ending	$ 1,581,208	1,634,337