RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2021

Rural Water District No. 1, Harvey County, Kansas

For the Year Ended December 31, 2021

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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, 2021, 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, 2021, 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, 2021, 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 Audit of 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 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 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 2021 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 additional analysis and is not a required part of the 2021 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 2021 basic financial statement. The 2021 information has been 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 accompanying supplementary information is fairly stated in all material respects, in relation to the 2021 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, 2020 (not presented herein), and have issued our report thereon dated February 10, 2021, which contained an unmodified opinion on the basic financial statement. The 2020 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/oar/municipal-services. The 2020 actual column (2020 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2021 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2021 basic financial statement. Such 2020 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 2020 basic financial statement. The 2020 comparative information was subjected to the auditing procedures applied in the audit of the 2020 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 2020 basic financial statement or to the 2020 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 2020 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, 2020, on the basis of accounting described in Note 1.

Knudsen, Monroe + Company, LLC

Certified Public Accountants
Newton, Kansas
February 7, 2022

Rural Water District No. 1, Harvey County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis

For the Year Ended December 31, 2021

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund						
Water Utility	$ 1,969,489	881,849	794,596	2,056,742	118,900	2,175,642

Composition of Cash:

Walton State Bank, Checking	$ 21,262
Walton State Bank, Money Market	1,220,463
Walton State Bank, Certificates of Deposit	455,843
Halstead Bank, Certificates of Deposit	478,074
Total Reporting Entity	$ 2,175,642

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, 2021

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 1,171 and 1,165 benefit units at the end of December 31, 2021 and 2020, respectively.

Regulatory Basis Fund Type

Business Fund – funds 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

The District did not obtain surety bonds from contractors on two water tower maintenance contracts as required by K.S.A. 60-1111. The District does not expect any losses on either of these contracts.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that 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, 2021.

At December 31, 2021, the District's carrying amount of deposits was $2,175,642 and the bank balance was $2,187,214. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $532,834 was covered by federal depository insurance and $1,654,380 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 $45,800.

5. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2021, 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	$ 1,910,000	-	255,000	1,655,000	40,639

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

	Year ending December 31						
	2022	2023	2024	2025	2026	2027	Total
KRWFA, Series B							
Principal	$ 260,000	265,000	270,000	275,000	285,000	300,000	1,655,000
Interest	36,304	31,494	26,194	20,456	14,269	7,500	136,217
Total principal and interest	$ 296,304	296,494	296,194	295,456	299,269	307,500	1,791,217

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, 2021, per the following calculations.

Debt Service Ratio Calculation for the year ending December 31:

	2021
Receipts over expenditures	$ 87,253
Interest expense	40,639
Capital outlay	116,800
Principal payments	255,000
Less benefit unit sales	(45,800)
Total revenue available for debt service	$ 453,892
Debt service principal and interest	$ 295,639
Debt service ratio	1.54

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 $5,166 for the year ended December 31, 2021.

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 effect on the District's financial statement.

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

	2021
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 Kansas Rural Water Finance Authority long term debt on that date.	$ 123,459
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.	25,000
Total restrictions on cash	$ 424,959

11. CORONAVIRUS PANDEMIC

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity and future results of operations. Management is actively monitoring the global and local situation on its financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for fiscal year 2021. Future potential impacts may include patrons inability to pay for their water usage, and/or an unexpected increase in the cost of the District's water supply.

12. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2021, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through February 7, 2022, 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, 2021

Rural Water District No. 1, Harvey County, Kansas

SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

For the Year Ended December 31, 2021
(With Comparative Actual Totals for the Prior Year Ended December 31, 2020)

	2020	2021
RECEIPTS		
Water sales	$ 782,706	805,896
Miscellaneous income	43,594	23,765
Interest income	12,890	6,388
Benefit unit sales	32,300	45,800
Total receipts	871,490	881,849
EXPENDITURES		
Water purchases	8,941	8,947
Office supplies and expenses	12,358	13,722
Professional fees	10,477	8,469
Salaries	181,259	186,374
Payroll taxes and benefits	38,222	42,588
Utilities	42,668	43,705
Dues and fees	2,791	3,560
Insurance	27,248	33,099
Repairs and maintenance	24,412	18,329
Vehicle and mileage	10,879	15,128
Other expenses	7,722	8,236
Interest expense	44,389	40,639
Principal	250,000	255,000
Capital outlay	172,290	116,800
Total expenditures	833,656	794,596
Receipts over expenditures	37,834	87,253
UNENCUMBERED CASH, beginning	1,931,655	1,969,489
UNENCUMBERED CASH, ending	$ 1,969,489	2,056,742