Rural Water District No. 1
Pottawatomie County, Kansas

Financial Statement
As of December 31, 2021
and For the Year Then Ended

With Report by Independent Auditors

KIENTZ & PENICK
CPAs, LLC

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KIENTZ & PENICK
CPAs, LLC

To the Board of Directors of
Rural Water District No. 1 Pottawatomie County, Kansas
Wamego, Kansas

February 23, 2022

Independent Auditor's Report

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, Pottawatomie County, Kansas (the District), as of and for the year ended December 31, 2021 and the related notes 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 previous paragraph, the financial statement referred to above does not present fairly, in accordance 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 or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the 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 Opinion on U.S. Generally Accepted Accounting Principles

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* (KMAAG). 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 described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of KMAAG, 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 regulatory basis of accounting described in Note 1 and the accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibility of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with KMAAG as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial

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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.

Auditor's 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 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 summary statement of receipts, expenditures, and unencumbered cash - regulatory basis (basic financial statement) as a whole. Schedule 1 – Regulatory Basis Receipts and Expenditures – Actual is presented for additional analysis and is not a required part of the basic financial statement. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statement or to the 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 information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

We 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 April 16, 2021, which contained an unmodified opinion on the basic

financial statement. The 2020 basic financial statement and their 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 2020 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Type Fund						
Water Utility Fund	$ 5,905,046	$ 3,048,833	$ 2,376,715	$ 6,577,164	$ 147,886	$ 6,725,050

Composition of Ending Cash Balance

Cash on hand	$ 250
Checking accounts	2,488,065
CDARS	3,412,170
Certificates of deposit	824,565
	$ 6,725,050

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

Rural Water District No. 1, Pottawatomie County, Kansas (the District) was incorporated and organized on September 11, 1972 under K.S.A. 82a-613 et. seq. to provide water to areas of Pottawatomie County adjacent to Wamego, Kansas. The District is a Kansas municipality and is exempt from federal and state income taxes.

The District is a quasi-municipal corporation governed by an elected nine-member council and provides water to over 3,000 members of rural Pottawatomie County, Kansas. All water sales are made to residents in the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

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, electric fund, etc.).

Regulatory Basis of Accounting

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of accounting principles generally accepted in the United States of America (U.S. GAAP) and allowing the District to instead use the regulatory basis of accounting as prescribed and published in the Kansas Municipal Audit and Accounting Guide (KMAAG).

This 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 for each fund. The regulatory basis also involves 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. This basis of accounting 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.

Budgetary Information

Kansas statutes do not require the District to adopt a budget.

Note 2: Deposits and Investments

Deposits and investments include an operating checking account, certificates of deposit, and Certificate of Deposit Account Registry Service (CDARS). Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

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 deposits 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.

Note 2: Deposits and Investments (Continued)

Concentration of credit risk

Kansas 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. Kansas statutes 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, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated.

On December 31, 2021, the District's carrying amount of deposits was $6,725,050 and the bank balance was $6,726,239. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance, $3,412,170 was secured through participation in CDARS, $2,867,008 was secured by pledged securities and the remaining bank balance of $197,061 was unsecured.

Note 3: Stewardship, Compliance and Accountability

Compliance with Kansas Statutes

As noted in Note 2, there was an unsecured bank balance as of December 31, 2021. Management is not aware of any other statutory violation incurred in the year ended December 31, 2021.

Note 4: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

Note 5: Benefit Units

Members of the District are required to pay a $4,000 fee for each benefit unit prior to connecting to the District’s lines. The District added 118 new benefit units during the year, totaling $472,000.

Note 6: Commitments

During 2021, the board of directors approved a contract with Riley Construction Company, Inc. to construct a new office and maintenance shop in Wamego, Kansas. The total approved cost was $1,608,559. As of December 31, 2021 the District has paid $218,086 and encumbered $85,012 for a total expenditure cost of $303,098. The project is estimated to be completed in late 2022.

Note 7: Compensated Absences

The District maintains a policy of providing vacation time to its full time employees granted in varying amounts depending on length of service. Employees are required to use the vacation in the year following or the vacation balance will be forfeited. Upon separation of the District, employees are not paid for any unused accumulated vacation.

The District allows employees to earn sick leave at a rate of one day per month following the commencement of their employment. Sick leave may be accumulated up to a maximum of 90 days. Upon separation from the District, with exception of a retiring employee, the employee is not paid for any unused accumulated sick leave.

Note 8: Date of Management 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 23, 2022, which is the date at which the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

	2021	2020
Cash Receipts		
Water sales	$ 2,116,188	$ 1,783,916
Late charges	11,945	13,743
Interest income	56,415	107,315
Other charges	24,886	27,865
Member contributions	472,000	586,100
Miscellaneous income	76,167	18,067
Installs	291,232	141,210
Total Cash Receipts	3,048,833	2,678,216
Expenditures		
Salaries	249,370	260,109
Payroll expense	18,860	19,908
Repairs and facility maintenance	125,978	122,720
Utilities	102,948	103,623
Water purchases	544,531	470,834
Insurance	51,374	36,536
Employee benefits	32,725	37,362
Vehicle expense	14,664	10,426
Miscellaneous	4,018	8,181
Water protection and sampling fees	11,432	18,093
Equipment and supplies	138,485	170,451
Director's expense	8,700	12,050
Travel and education	53	7,934
Engineering fees	26,087	12,763
Dues and subscriptions	1,020	1,170
Professional services	8,632	6,847
Capital outlay	1,010,370	672,325
Office	27,468	39,882
Total Expenditures	2,376,715	2,011,214
Cash Receipts Over (Under) Expenditures	672,118	667,002
Unencumbered Cash Balance – Beginning	5,905,046	5,238,044
Unencumbered Cash Balance – Ending	$ 6,577,164	$ 5,905,046