RURAL WATER DISTRICT NO. 1

MARION COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2022

Rural Water District No. 1, Marion County, Kansas

For the Year Ended December 31, 2022

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Knudsen Monroe & Company LLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
Marion 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, Marion County, Kansas (Water District), as of and for the year ended December 31, 2022, 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, 2022, 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, 2022, 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 2022 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 2022 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 2022 basic financial statement. The 2022 information has been 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 accompanying supplementary information is fairly stated in all material respects, in relation to the 2022 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, 2021 (not presented herein), and have issued our report thereon dated February 25, 2022, which contained an unmodified opinion on the basic financial statement. The 2021 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 2021 actual column (2021 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2022 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2022 basic financial statement. Such 2021 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 2021 basic financial statement. The 2021 comparative information was 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 2021 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, 2021, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company, LLC

Certified Public Accountants
Newton, Kansas
March 10, 2023

Rural Water District No. 1, Marion County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis

For the Year Ended December 31, 2022

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund						
Water Utility	$ 117,702	202,251	184,260	135,693	11,845	147,538

Composition of Cash	
Tampa State Bank	
Checking	$ 82,549
Certificates of Deposit	64,989
Total Reporting Entity	$ 147,538

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, Marion County, Kansas was incorporated and organized on July 8, 1968, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Marion County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes. The Water District had 356 and 355 benefit units at December 31, 2022 and 2021, respectively.

Regulatory Basis Fund Type

Business Fund – used to account in whole or in part for 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, 2022.

At December 31, 2022, the Water District's carrying amount of deposits, was $147,538 and the bank balance was $152,335. The bank balance was held by one bank resulting in a concentration of credit risk. All bank deposits were covered by federal depository insurance at December 31, 2022.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2022.

4. LONG-TERM DEBT

Changes in long-term liabilities for the Water District for the year ended December 31, 2022, 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
KDHE Loan	3.59%	07/15/03	$ 328,522	08/01/25	$ 70,613	-	19,286	51,327	2,133

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

	Year ending December 31			
	2023	2024	2025	Total
KDHE Loan				
Principal	$ 19,985	20,708	10,634	51,327
Interest	1,665	941	191	2,797
Total principal and interest	$ 21,650	21,649	10,825	54,124

Net revenues of the Water District have been pledged as security for the KDHE loan. The Water District is required to have net receipts, as defined in the loan agreement, each year of at least 125% of that year's principal and interest payment requirements. The Water District was in compliance with this requirement for the year ended December 31, 2022.

5. 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. One new benefit unit was added during the year.

6. RELATED PARTIES

All the members of the Board of Directors and several employees 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. Other related party transactions for contract labor services in the amount of $5,763 were provided by a Board member or family members.

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 2021 to 2022 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. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2022, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through March 10, 2023, which is the date at which the financial statement was available to be issued.

RURAL WATER DISTRICT NO. 1

MARION COUNTY

REGULATORY – REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

Rural Water District No. 1, Marion County, Kansas

Business Fund

SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis

For the Year Ended December 31, 2022
(With Comparative Actual Totals for the Prior Year Ended December 31, 2021)

	2021	2022
WATER UTILITY		
RECEIPTS		
Water sales	$ 181,592	193,702
Interest income	855	554
Rental income	4,400	4,400
Other income	69	595
Benefit unit application fees	2,500	3,000
Total receipts	189,416	202,251
EXPENDITURES		
Salaries	28,370	32,163
Payroll taxes	2,170	2,460
Utilities	15,639	17,000
Office supplies	5,484	5,110
Insurance	12,300	11,093
Repairs	83,256	71,559
Mileage	4,857	6,215
Professional fees	3,545	5,911
Chemicals and lab fees	7,911	9,142
Water fees	1,759	1,958
Loan fees	296	230
Bond principal	18,612	19,286
Interest	2,741	2,133
Total expenditures	186,940	184,260
Receipts over (under) expenditures	2,476	17,991
UNENCUMBERED CASH, beginning	115,226	117,702
UNENCUMBERED CASH, ending	$ 117,702	135,693