

**To the Board of Directors**

Rural Water District No. 10,
Leavenworth County, Kansas
P.O. Box 70
Linwood, KS 66052

October 13, 2022

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District No. 10, Leavenworth County, Kansas (the District) as of and for the year ended December 31, 2021 and the related notes to the financial statement. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (GAAS) and the Kansas Municipal Audit and Accounting Guide (KMAAG), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 2, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements, which includes a disclosure that the District reports according to the regulatory basis of accounting as prescribed and published by the State of Kansas in KMAAG. This basis of accounting is different from accounting principles generally accepted in the United States (U.S. GAAP) and the differences between the regulatory basis of accounting and U.S. GAAP are presumed to be material.

No new accounting policies were adopted, and the application of existing policies was not changed during 2021. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not identify any such estimates during our audit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statement taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statement or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Regulatory-Required Supplemental Information (RRSI)

We were engaged to report on RRSI, which accompanies and supplements the financial statement. With respect to the RRSI, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the regulatory basis of accounting as prescribed and published in KMAAG, the method of preparing the RRSI has not changed from the prior period, and the RRSI is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the RRSI to the underlying accounting records used to prepare the financial statement or to the financial statement directly.

Restriction on Use

This information is intended solely for the information and use of Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

**Rural Water District No. 10
Leavenworth County, Kansas**

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

With Report by Independent Auditors



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To the Board of Directors of
Rural Water District No. 10 Leavenworth County, Kansas
P.O. Box 70
Linwood, KS 66052

October 13, 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. 10, Leavenworth 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 *Basis for Adverse and Unmodified Opinions* section of our report, 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 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* (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 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 Statement

Our objectives are to obtain reasonable assurance about whether the financial statement 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 statement.

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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

<u>Fund</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
Business Type Fund						
Water Utility Fund	\$ 755,776	\$ 453,321	\$ 483,604	\$ 725,493	\$ 8,293	\$ 733,786

Composition of Ending Cash Balance

Checking accounts	\$ 59,205
Certificates of deposit	529,175
Money market accounts	145,406
Ending Cash Balance	<u>\$ 733,786</u>

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

Rural Water District No. 10, Leavenworth County, Kansas (the District) was incorporated and organized in 1974 under K.S.A. 82a-613 et. seq. to provide drinking water to patrons in parts of Reno and Sherman Townships in Leavenworth County, 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 seven-member council and provides water to over 300 members of rural Leavenworth 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.

Regulatory Basis of Accounting

The 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 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).

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 a money market account. 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 \$733,786 and the bank balance was \$735,809. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$704,990 was covered by federal depository insurance and \$30,819 was collateralized with securities held by the pledging financial institution's agents in the District's name.

Note 3: 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 4: Benefit Units

Members of the District are required to pay a \$6,000 fee for each benefit unit prior to connecting to the District's lines. The District added 5 new benefit units during the year, totaling \$29,000.

Note 5: Kansas Department of Transportation Project

In 2020, the District entered into a contract with the Kansas Department of Transportation to relocate water line and appurtenances to clear a section of land for a proposed highway construction. The total estimated cost of the project was \$180,535. The project was completed in 2021. As of December 31, 2021, the District has received reimbursements totaling \$166,845. As of December 31, 2021, the District is owed \$8,873.

Note 6: Water Purchase Commitments

The District has entered into a water purchase contract with Rural Water District No. 13, Jefferson County, Kansas. The contract stipulates that the District pay a \$35 per month base fee with a base rate of \$6.40 per 1,000 gallons of water delivered, with a minimum usage quantity of 200,000 gallons per month and maximum usage quantity of 1,250,000 gallons per month. Should the District exceed the maximum usage, the base rate rises to \$6.55 per 1,000 gallons of water delivered.

The District has entered into a water purchase contract with Suburban Water, Inc. The contract stipulates that the District pay a \$232 per month base fee with a minimum usage quantity of 100,000 gallons per month. Should the District exceed the minimum usage, the base rate is \$3.78 per 1,000 gallons of water delivered.

Note 7: 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 October 13, 2022, which is the date at which the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

Receipts

Water sales	\$ 242,903
Member contributions	29,000
Interest income	14,030
Line extensions and relocation reimbursements	166,845
Other income	543
Total Receipts	<u>453,321</u>

Expenditures

Salaries	22,983
Payroll expense	2,066
Water purchases	119,146
Professional fees	50,030
Repairs and maintenance	16,049
Contractor services	14,285
Management fees	20,940
Utilities	2,110
Line extensions and relocation expense	178,232
Installs	26,960
Materials and supplies	15,136
Miscellaneous expense	4,192
Office expense	4,082
Rent	1,000
Insurance	4,257
Vehicle expense	2,136
Total Expenditures	<u>483,604</u>

Receipts Under Expenditures (30,283)

Unencumbered Cash Balance – Beginning	<u>755,776</u>
Unencumbered Cash Balance – Ending	<u>\$ 725,493</u>