# Rural Water District No. 1, Dickinson County, Kansas

## Financial Statements
## As of December 31, 2023 and 2022
## and For the Years Then Ended

**With Report by Independent Auditors**

KIENTZ & PENICK
CPAs, LLC

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KIENTZ & PENICK
CPAs, LLC

**To the Board of Directors**
Rural Water District No. 1,
Dickinson County, Kansas
2979 Main St.
Talmage, KS 67482

March 4, 2024

**Independent Auditor's Report**

**Opinion**
We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Dickinson County, Kansas (the District), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**
We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Auditing and Accounting Guide*. Our responsibilities under those standards are further described below in the *Auditor's Responsibilities for the Audit of the Financial Statements* 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 audit opinion.

**Other Matters**
Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basis financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Responsibilities of Management for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 within one year after the date that the financial statements are available to be issued.

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**Auditor's Responsibilities for the Audits 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 statements, 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 statements.
- 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 statements.
- 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 508,356 | $ 394,686 |
| Accounts receivable | 28,258 | 28,527 |
| Prepaid expense | 9,654 | 9,654 |
| Inventory | 35,378 | 36,181 |
| **Total Current Assets** | 581,646 | 469,048 |
| **Noncurrent Assets** | | |
| Capital assets, net | 4,409,492 | 4,486,128 |
| **Total Assets** | $ 4,991,138 | $ 4,955,176 |
| **Liabilities and Net Position** | | |
| **Current Liabilities** | | |
| Accounts payable | $ - | $ 2,755 |
| Accrued liabilities | 4,948 | 2,063 |
| Long-term debt | 56,875 | 55,841 |
| **Total Current Liabilities** | 61,823 | 60,659 |
| **Noncurrent Liabilities** | | |
| Long-term debt – net of current portion | 2,396,777 | 2,452,812 |
| **Total Liabilities** | 2,458,600 | 2,513,471 |
| **Net Position** | | |
| Net investment in capital assets | 1,955,840 | 1,977,475 |
| Unrestricted | 576,698 | 464,230 |
| **Total Net Position** | 2,532,538 | 2,441,705 |
| **Total Liabilities and Net Position** | $ 4,991,138 | $ 4,955,176 |

| | 2023 | 2022 |
|---|---|---|
| **Operating Revenues** | | |
| Water sales | $ 376,214 | $ 341,048 |
| Other operating revenue | 22,188 | 17,809 |
| **Total Operating Revenues** | 398,402 | 358,857 |
| | | |
| **Operating Expenses** | | |
| Payroll | 99,099 | 89,769 |
| Employee benefits | 16,930 | 30,231 |
| Chemicals and supplies | 4,004 | 3,275 |
| Depreciation | 140,301 | 108,914 |
| Dues and fees | 3,903 | 3,092 |
| Insurance | 28,003 | 27,618 |
| Professional fees | 17,104 | 455 |
| Office expense | 23,624 | 15,187 |
| Repairs and maintenance | 52,355 | 39,169 |
| Utilities | 21,046 | 21,233 |
| Miscellaneous expense | 3,587 | 3,155 |
| Mileage | 5,950 | 6,411 |
| Other taxes | 800 | 1,579 |
| Vehicle expense | 1,174 | 344 |
| **Total Operating Expenses** | 417,880 | 350,432 |
| | | |
| **Net Operating Income (Expense)** | (19,478) | 8,425 |
| | | |
| **Nonoperating Revenue (Expense)** | | |
| Interest income | 2,672 | 927 |
| Gain on disposal of fixed assets | - | 2,958 |
| Interest expense | (43,674) | (45,332) |
| **Total Nonoperating Revenue (Expense)** | (41,002) | (41,447) |
| | | |
| **Net Loss Before Capital Contributions** | (60,480) | (33,022) |
| | | |
| **Capital Contributions** | | |
| Benefit unit sales | 71,303 | 6,400 |
| Aid in construction | 80,010 | - |
| **Total Capital Contributions** | 151,313 | 6,400 |
| | | |
| **Change in Net Position** | 90,833 | (26,622) |
| **Net Position – Beginning** | 2,441,705 | 2,468,327 |
| **Net Position – Ending** | $ 2,532,538 | $ 2,441,705 |

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from customers | $ 398,671 | $ 359,661 |
| Cash paid to suppliers | (163,502) | (118,763) |
| Cash paid to employees | (113,144) | (119,585) |
| **Net Cash Provided by Operating Activities** | 122,025 | 121,313 |
| **Cash Flows from Investing Activities** | | |
| Interest income | 2,672 | 927 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchase of capital assets | (63,665) | (207,887) |
| Proceeds from sale of capital assets | - | 5,200 |
| Capital contributions | 151,313 | 6,400 |
| Proceeds from USDA grant | - | 287,914 |
| Proceeds from issuance of long-term debt | - | 250,000 |
| Principle paid on long-term debt | (55,001) | (54,302) |
| Interest paid on long-term debt | (43,674) | (45,332) |
| **Net Cash Provided by (Used in) Capital and Related Financing Activities** | (11,027) | 241,993 |
| **Net Change in Cash and Cash Equivalents** | 113,670 | 364,233 |
| **Cash and Cash Equivalents – Beginning** | 394,686 | 30,453 |
| **Cash and Cash Equivalents – End** | $ 508,356 | $ 394,686 |
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Net Operating Income (Expense) | $ (19,478) | $ 8,425 |
| **Adjustments to reconcile operating income to net cash provided by operating activities** | | |
| Depreciation | 140,301 | 108,914 |
| Decrease in accounts receivable | 269 | 804 |
| Decrease in inventory | 803 | - |
| Increase (decrease) in accounts payable | (2,755) | 2,755 |
| Increase in accrued liabilities | 2,885 | 415 |
| **Net Cash Provided by Operating Activities** | $ 122,025 | $ 121,313 |

## Note 1: Summary of Significant Accounting Policies

### Organization

Rural Water District No. 1, Dickinson County, Kansas (the District), was incorporated in 1972 as a quasi-municipal corporation under Kansas Statute K.S.A. 82a-612 et seq. to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located in portions of Dickinson County. The District is governed by a seven-member board of directors.

### The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District. The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Based on these criteria, there are no component units to be included within the District as a reporting entity.

### Basis of Presentation

*Government-wide statements*. The *statement of net position* and the *statement of revenues, expenses, and changes in net position* display information about the primary government, the District. These statements include the financial activities of the overall government business-type activities which are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The District reports the following proprietary (business-type enterprise) fund:

*Water System Fund*. This business-type enterprise fund accounts for the operation and maintenance of the water system of the District. All activities and balances of the entity are accounted for in this fund.

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Proprietary Fund Financial Statements*. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include capital contributions, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

### Cash and Cash Equivalents

The District considers all bank deposit accounts and money market accounts classified as current assets to be cash and cash equivalents. The District considers these funds available for current operations.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

Accounts receivable are customer water bills that have been invoiced but remain unpaid. All receivables are considered due upon receipt. Receivables are reported net of an allowance for uncollectible accounts. The District provides an allowance for doubtful accounts based upon review of outstanding receivables, historical collection information and existing economic conditions. The allowance for uncollectible accounts netted with accounts receivable was $0 for each of the years ended December 31, 2023 and 2022.

**Inventory**

Inventory is valued at the lower of cost or market and consists of pipe, valves, meters and other items needed to repair or add water lines.

**Capital Assets**

Capital assets purchased for $2,500 or more are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of the assets range from 5 to 40 years. Capital assets purchased or built are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method over the following estimated useful lives: water distribution system – 10 to 50 years; machinery and equipment – 3 to 10 years; buildings – 10 to 50 years; and vehicles – 10 years.

**Net Position**

Net position is comprised the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following two components:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Unrestricted* – This component of net position consists of net position that do not meet the definition of “net investment in capital assets.”

**Operating Revenues and Expenses**

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

**Income Taxes**

The District is a quasi-municipality and, as such, it is not subject to income taxes.

**Budgetary Information**

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund type used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

**Benefit Units**

Members of the District are required to pay a fee for each benefit unit prior to connecting to the District’s lines. The price of a benefit unit was $6,400 for each of the years ended December 31, 2023 and 2022.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through March 4, 2024 which is the date the financial statements were available to be issued.

**Note 2: Deposits and Investments**

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 fund 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*

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 the District. 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%.

*Depository Security Coverage – December 31, 2023*

On December 31, 2023, the District's carrying amount of deposits was $508,356 and the bank balance was $512,010. This difference is outstanding checks and deposits in transit. Of the bank balance, $469,531 was covered by federal depository insurance and the remaining $42,479 is unsecured.

*Depository Security Coverage – December 31, 2022*

On December 31, 2022, the District's carrying amount of deposits was $394,686 and the bank balance was $406,401. This difference is outstanding checks and deposits in transit. Of the bank balance, $250,000 was covered by federal depository insurance and the remaining $156,401 is unsecured.

**Note 3: Capital Assets**

Capital asset activity for the year ended December 31, 2023 was as follows:

| | Balance on December 31, 2022 | Additions | Retirements | Balance on December 31, 2023 |
|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | |
| Land and easements | $ 28,776 | $ - | $ - | $ 28,776 |
| **Depreciable Capital Assets** | | | | |
| Buildings | 45,052 | - | - | 45,052 |
| Machinery and equipment | 108,391 | - | - | 108,391 |
| Water distribution system | 5,504,482 | 63,665 | - | 5,568,147 |
| Vehicles | 60,050 | - | - | 60,050 |
| **Total Depreciable Capital Assets** | 5,717,975 | 63,665 | - | 5,781,640 |
| Accumulated depreciation | (1,260,623) | (140,301) | - | (1,400,924) |
| **Total Depreciable Capital Assets, Net** | 4,457,352 | (76,636) | - | 4,380,716 |
| **Capital Assets, Net** | $ 4,486,128 | $ (76,636) | $ - | $ 4,409,492 |

Capital asset activity for the year ended December 31, 2022 was as follows:

| | Balance on December 31, 2021 | Additions | Retirements | Balance on December 31, 2022 |
|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | |
| Land and easements | $ 28,776 | $ - | $ - | $ 28,776 |
| Construction in progress | 3,696,155 | 16,524 | (3,712,679) | - |
| **Total Nondepreciable Capital Assets** | 3,724,931 | 16,524 | (3,712,679) | 28,776 |
| **Depreciable Capital Assets** | | | | |
| Buildings | 45,052 | - | - | 45,052 |
| Machinery and equipment | 108,391 | - | - | 108,391 |
| Water distribution system | 1,600,440 | 3,904,042 | - | 5,504,482 |
| Vehicles | 84,510 | - | (24,460) | 60,050 |
| **Total Depreciable Capital Assets** | 1,838,393 | 3,904,042 | (24,460) | 5,717,975 |
| Accumulated depreciation | (1,173,927) | (108,914) | 22,218 | (1,260,623) |
| **Total Depreciable Capital Assets, Net** | 664,466 | 3,795,128 | (2,242) | 4,457,352 |
| **Capital Assets, Net** | $ 4,389,397 | $ 3,811,652 | $ (3,714,921) | $ 4,486,128 |

**Note 4: Long-Term Debt**

Changes in long-term debt for 2023 and 2022 are as follows:

| | Balance on December 31, 2022 | Additions | Retirements | Balance on December 31, 2023 |
|---|---|---|---|---|
| Capital lease | $ 21,872 | $ - | $ 8,737 | $ 13,135 |
| USDA RD loan No. 91-01 | 2,240,770 | - | 41,834 | 2,198,936 |
| USDA RD loan No. 91-03 | 246,011 | - | 4,430 | 241,581 |
| **Total Long-Term Debt** | $ 2,508,653 | $ - | $ 55,001 | $ 2,453,652 |

| | Balance on December 31, 2021 | Additions | Retirements | Balance on December 31, 2022 |
|---|---|---|---|---|
| Capital lease | $ 31,077 | $ - | $ 9,205 | $ 21,872 |
| USDA RD loan No. 91-01 | 2,281,878 | - | 41,108 | 2,240,770 |
| USDA RD loan No. 91-03 | - | 250,000 | 3,989 | 246,011 |
| **Total Long-Term Debt** | $ 2,312,955 | $ 250,000 | $ 54,302 | $ 2,508,653 |

Long-term debt, net of the current portion consists of the following on December 31, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| **Capital Lease.** The District entered into a capital lease agreement with Caterpillar Financial Services Corporation for the lease of heavy equipment in the amount of $46,461. The lease calls for monthly payments of $842 with an interest rate of 3.35%. The lease matures in March of 2025. | $ 13,135 | $ 21,872 |
| **USDA RD Loan No. 91-01.** During 2021, the District obtained a Rural Development loan from the United States Department of Agriculture in the amount of $2,319,000. This loan was used to refinance a previous interim loan from Pinnacle Bank. The purpose of the loan was to finance capital improvements to the water distribution system throughout the District. The loan requires monthly payments of $6,726 with an interest rate of 1.75% and matures in January 2061. | 2,198,936 | 2,240,770 |
| **USDA RD Loan No. 91-03.** During 2022, the District obtained a Rural Development loan from the United States Department of Agriculture in the amount of $250,000. The loan was subsequent additional funding for the same water system project as Loan No. 91-01. The loan requires monthly payments of $725 with an interest rate of 1.75% and matures in January 2062. | 241,581 | 246,011 |
| Less: Current portion of long-term debt | (56,875) | (55,841) |
| **Long-Term Debt, Net of Current Portion** | $ 2,396,777 | $ 2,452,812 |

**Note 4: Long-Term Debt (Continued)**

Future maturities of long-term debt are as follows:

| Due in Year(s) Ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 56,875 | $ 42,642 | $ 99,517 |
| 2025 | 51,262 | 41,457 | 92,719 |
| 2026 | 48,814 | 40,598 | 89,412 |
| 2027 | 49,674 | 39,738 | 89,412 |
| 2028 | 50,451 | 38,961 | 89,412 |
| 2029-2033 | 266,321 | 180,739 | 447,060 |
| 2034-2038 | 290,630 | 156,430 | 447,060 |
| 2039-2043 | 317,159 | 129,901 | 447,060 |
| 2044-2048 | 346,064 | 100,996 | 447,060 |
| 2049-2053 | 377,715 | 69,345 | 447,060 |
| 2054-2058 | 412,195 | 34,865 | 447,060 |
| 2059-2062 | 186,492 | 3,657 | 190,149 |
| **Total** | $ 2,453,652 | $ 879,329 | $ 3,332,981 |

Total interest incurred and expensed in 2023 and 2022 was $43,674 and $45,332, respectively.

**Note 5: 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 Smart Insurance. The District did not experience losses related to these risks during the years ended December 31, 2023 and 2022.

**Note 6: Compliance with Kansas Statutes**

References made herein to the statutes are not intended as interpretations of law but are offered for consideration of the Kansas Director of Accounts and Reports and interpretation by the Dickinson County Attorney and legal representatives of the District. The District had unsecured deposits as of December 31, 2023 and 2022. This appears to be a statutory violation.

**Note 7: Compensated Absences**

The District grants vacation to all employees at a rate based on years of experience. Employees are allowed a maximum carryover of one-half of earned hours during the year. In the event of termination, an employee is reimbursed for accumulated vacation days. Management of the District does not believe the related liability, if any, is material to the financial statements and accordingly has not accrued such a liability in the accompanying financial statements.