DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

FINANCIAL STATEMENTS

Year ended December 31, 2021

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DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Financial Statements
Year ended December 31, 2021

TABLE OF CONTENTS

	Page Number
INTRODUCTORY SECTION	
Table of Contents	i
FINANCIAL SECTION	
Independent Auditor's Report	1 - 2
Summary Statement of Receipts, Expenditures and Unencumbered Cash	3
Notes to the Financial Statements	4 - 6
Schedule 1	
Summary of Expenditures - Actual and Budget	7
Schedule 2	
Schedule of Receipts and Expenditures - Actual and Budget	
Water Utility Fund	8

GORDONCPA
AUDITING
ACCOUNTING
CONSULTING

4205 W 6th St Ste C
Lawrence, KS 66049

(785) 371-4847
cpagordon.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Douglas County Rural Water District No. 1
Lawrence, Kansas

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Douglas County Rural Water District No. 1 (the District), Lawrence, Kansas, 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 of 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 the 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 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 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 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 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 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however, are 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 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.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

February 9, 2022

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2021

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:							
Water Utility	$ 1,315,914	$ -	$ 381,489	$ 407,817	$ 1,289,586	$ 1,452	$ 1,291,038
Total Reporting Entity	$ 1,315,914	$ -	$ 381,489	$ 407,817	$ 1,289,586	$ 1,452	$ 1,291,038

COMPOSITION OF CASH:	
Checking	$ 55,667
Money market	36,238
Certificates of deposit	1,199,033
Petty cash	100
Total Reporting Entity	$ 1,291,038

The notes to the financial statements are an integral part of this statement.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1

Notes to the Financial Statements
December 31, 2021

NOTE 1 - Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

The Douglas County Rural Water District No. 1 (the District) is a water utility that provides services to 411 customers as of December 31, 2021. The District was organized as a quasi-municipal corporation 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 within the District.

Basis of Accounting

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.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the District for the year ended December 31, 2021:

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e., water fund, sewer fund, etc.).

Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund types used by the District. The budget established by the District and is presented in these financial statements for management use only. Expenditures are controlled internal spending limits monitored by the board of directors.

NOTE 2 - Deposits and Investments

Deposits. 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.

Investments. 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 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. All deposits were legally secured at December 31, 2021.

At December 31, 2021, the District's carrying amount of deposits was $1,291,038 and the bank balance was $1,291,023. The bank balance was held by two banks, resulting in a concentration of credit risk. Of the bank balance, $91,990 was covered by federal depository insurance. The remaining balance of $1,199,033 was held in an investment account of a commercial institution that was unsecured at December 31, 2021.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 - Retirement Plans

The District contributes to a retirement account established for each employee. The amount contributed and the basis on which contributions are made are determined annually be the Board and shall be in compliance with all federal and state laws. The District's contributed $9,735 to employee retirement accounts during the year ended December 31, 2021.

NOTE 4 - Compensated Absences

The District pays vacation time of up to 12 days a year for employees who have worked less than five years. Form employees who have worked more than 5 years, but less than 10 years, the District will pay for 15 days of vacation. Form employees who have worked more than 10 years, the District will pay for 18 days of vacation. There is no accumulation of vacation days from one year to the next. Those days not taken by the end of the year are paid prior to January 1 of the following year. The Board of Directors may, at its discretion, allow an employee to carry up to 5 days of vacation over to the next calendar year.

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

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 for which the District carries commercial insurance. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded insurance coverage for each of the last three years.

NOTE 6 - Other Long-Term Obligations from Operations

Other Post-Employment Benefits. As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

NOTE 7 - Benefit Units

Members of the District are required to pay a deposit for a benefit unit prior to connecting to the District's lines. No new benefit units were added during the year ended December 31, 2021.

NOTE 8 - Water Contract

In 1977, the District entered into a 40-year contract for treatment of water from the City of Lawrence, Kansas. The District purchases water from the City at a rate of $3.83 per 1,000 gallons. Currently, the contract is being renegotiated and the City continues to service the District in the interim.

NOTE 9 - Concentration of Suppliers

The District acquires 100% of its water supply from the City of Lawrence, Kansas. There are no other suppliers of water available for the District.

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2021

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year Budget	Variance Over [Under]
Business Funds:					
Water Utility	$ 379,667	$ -	$ 379,667	$ 407,817	$ 28,150

DOUGLAS COUNTY RURAL WATER DISTRICT NO. 1
Water Utility Fund
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2021

	Actual	Budget	Variance Over [Under]
Receipts			
Water sales	$ 360,699	$ 380,000	$ [19,301]
Memberships	-	10,000	[10,000]
Miscellaneous	13,061	3,250	9,811
Interest income	7,729	100	7,629
Total Receipts	381,489	$ 393,350	$ [11,861]
Expenditures			
Water purchased	230,753	$ 203,000	$ 27,753
Salaries and wages	48,184	51,847	[3,663]
Payroll taxes	3,686	3,700	[14]
Retirement contributions	9,735	9,500	235
Subcontractors and fees	71,904	57,500	14,404
Repairs and maintenance	6,638	3,500	3,138
Utilities and telephone	10,822	10,900	[78]
Insurance and bonds	6,435	5,800	635
Office expenses	12,942	15,400	[2,458]
Professional and other services	4,900	11,000	[6,100]
Dues and fees	-	570	[570]
Mileage and auto expenses	206	250	[44]
Board expenses	-	1,000	[1,000]
Bank fees	1,612	1,700	[88]
Plant and equipment purchases	-	4,000	[4,000]
Total Expenditures	407,817	$ 379,667	$ 28,150
Receipts Over [Under] Expenditures	[26,328]		
Unencumbered Cash, Beginning	1,315,914		
Unencumbered Cash, Ending	$ 1,289,586		

See independent auditor's report on the financial statements.