Rural Water District No. 1, Riley County, Kansas

Financial Statements
As of December 31, 2022 and 2021
and For the Years Then Ended

With Report by Independent Auditors

KIENTZ & PENICK
CPAs, LLC

Table of Contents

	Page
Independent Auditor's Report	1 – 2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 10

KIENTZ & PENICK
CPAs, LLC

To the Board of Directors of
Rural Water District No. 1 Riley County, Kansas
2616 Eureka Terrace
Manhattan, KS 66502

May 11, 2023

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Riley County (the District), as of and for the years ended December 31, 2022 and 2021, 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, 2022 and 201, 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 audits. 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 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 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 audits.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 1,040,981	$ 783,719
Certificates of deposit	1,800,385	1,784,496
Accounts receivable	15,845	1,755
Member's receivable	25,277	25,755
Total Current Assets	2,882,488	2,595,725
Noncurrent Assets		
Capital assets, net	1,310,686	1,446,659
Member's receivable	173,215	198,491
Total Noncurrent Assets	1,483,901	1,645,150
Total Assets	$ 4,366,389	$ 4,240,875
Liabilities and Net Position		
Liabilities (each is current)		
Accounts payable	$ 4,536	$ 7,027
Member deposits	32,092	30,763
Total Liabilities	36,628	37,790
Net Position		
Net investment in capital assets	1,310,686	1,446,659
Unrestricted	3,019,075	2,756,426
Total Net Position	4,329,761	4,203,085
Total Liabilities and Net Position	$ 4,366,389	$ 4,240,875

	2022	2021
Operating Revenues		
Water sales and non-usage fees	$ 935,022	$ 793,758
Cost of sales		
Water purchases	(360,009)	(303,182)
Gross Profit	575,013	490,576
Other Operating Income	3,930	5,545
Operating Expenses		
Professional services	6,174	7,081
Engineering fees	10,210	11,535
Depreciation	138,066	135,241
Insurance	8,562	6,208
Repairs and maintenance	78,256	88,197
Management services	235,836	156,856
Utilities	10,628	9,747
Water protection fee	3,898	3,679
Locates	772	7,172
Office expense	12,101	5,114
Miscellaneous	21,531	20,315
Total Operating Expenses	526,034	451,145
Net Operating Income	52,909	44,976
Nonoperating Revenue		
Interest income	26,267	6,717
Net Income Before Capital Contributions	79,176	51,693
Capital Contributions		
Benefit unit sales	47,500	129,500
Member funded water system expansion	-	70,756
Total Capital Contributions	47,500	200,256
Change in Net Position	126,676	251,949
Net Position – Beginning	4,203,085	3,951,136
Net Position – Ending	$ 4,329,761	$ 4,203,085

	2022	2021
Cash Flows from Operating Activities		
Cash received from customers	$ 926,191	$ 801,846
Cash paid to suppliers	(750,468)	(640,059)
Net Cash Provided by Operating Activities	175,723	161,787
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,093)	(104,078)
Benefit unit sales	47,500	129,500
Net Cash Provided by Capital and Related Financing Activities	45,407	25,422
Cash Flows from Investing Activities		
Interest income	26,267	6,717
Change in certificates of deposit	(15,889)	(4,248)
Principal received from member's receivable	25,754	55,658
Net Cash Provided by Investing Activities	36,132	58,127
Net Change in Cash and Cash Equivalents	257,262	245,336
Cash and Cash Equivalents – Beginning	783,719	538,383
Cash and Cash Equivalents – Ending	$ 1,040,981	$ 783,719
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net operating income	$ 52,909	$ 44,976
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	138,066	135,241
(Increase) decrease in accounts receivable	(14,090)	553
Decrease in accounts payable	(2,491)	(20,973)
Increase in member deposits	1,329	1,990
Net Cash Provided by Operating Activities	$ 175,723	$ 161,787
Noncash Financing Transactions		
Member funded water system expansion which increased receivable	$ -	$ 70,756

Note 1: Summary of Significant Accounting Policies

Organization

Rural Water District No. 1, Riley County, Kansas (the District), was declared incorporated by the Board of Commissioners of Riley County, Kansas, on July 22, 1974 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the area of the District. The District is governed by a nine member board of directors. The following is a summary of the District's significant accounting policies.

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 (GASB) 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 special assessments, 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District considers all highly liquid deposits with original maturities of twelve months or less to be cash and cash equivalents. This includes investments in money market and checking accounts.

Accounts Receivable

Accounts receivable include amounts due from customers for water use. All receivables are current and, therefore, due within one year.

Allowance for Doubtful Accounts

The District bills customers monthly. Invoices not paid by the 20th day of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. Most customers pay before they are disconnected and there have been no amounts written off in the past three years. Management has evaluated all receivables and determined that the allowance for doubtful accounts should be $0 as of December 31, 2022 and 2021.

Capital Assets

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of $1,000 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: waterlines and storage – 15 to 40 years, pumps and treatment equipment – 10 years, office equipment – 5 years, equipment and tools – 10 years, water meters – 10 years.

Net Position

Net position is comprised of 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 "restricted" or "net investment in capital assets."

Income Taxes

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

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.

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. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Contributions

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operating revenue is recognized for the capital contribution that was originally recorded.

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 is for internal use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

Subsequent Events

Management has evaluated subsequent events through May 11, 2023 which is the date the financial statements were available to be issued.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

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.

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 deposit 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%.

December 31, 2022

On December 31, 2022, the District's carrying amount of deposits, including certificates of deposit, was $2,841,366 and the bank balance was $2,841,803. The bank balance was held by one bank. Of the bank balance, $250,000 was covered by federal depository insurance and $2,531,928 was secured through participation in the IntraFi Network Deposits program. The remaining $59,875 was unsecured.

December 31, 2021

On December 31, 2021, the District's carrying amount of deposits, including certificates of deposit, was $2,568,215 and the bank balance was $2,569,243. The bank balance was held by one bank. Of the bank balance, $158,000 was covered by federal depository insurance. The remaining $2,411,243 was secured through participation in the IntraFi Network Deposits program.

Note 3: Capital Assets

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	$ 12,711	$ -	$ -	$ 12,711
Depreciable Capital Assets				
Waterlines and storage	3,381,376	-	-	3,381,376
Pumps and treatment equipment	478,859	-	-	478,859
Office equipment	11,568	-	-	11,568
Equipment and tools	31,610	-	-	31,610
Water meters	597,018	2,093	-	599,111
Total Depreciable Capital Assets	4,500,431	2,093	-	4,502,524
Cost Basis of Capital Assets	4,513,142	2,093	-	4,515,235
Less: Accumulated Depreciation	3,066,483	138,066	-	3,204,549
Capital Assets, Net	$ 1,446,659	$ (135,973)	$ -	$ 1,310,686

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balance on December 31, 2020	Additions	Retirements	Balance on December 31, 2021
Nondepreciable Capital Assets				
Land and easements	$ 12,461	$ 250	$ -	$ 12,711
Depreciable Capital Assets				
Waterlines and storage	3,306,358	75,018	-	3,381,376
Pumps and treatment equipment	478,859	-	-	478,859
Office equipment	11,568	-	-	11,568
Equipment and tools	31,610	-	-	31,610
Water meters	568,208	28,810	-	597,018
Total Depreciable Capital Assets	4,396,603	103,828	-	4,500,431
Cost Basis of Capital Assets	4,409,064	104,078	-	4,513,142
Less: Accumulated Depreciation	2,931,242	135,241	-	3,066,483
Capital Assets, Net	$ 1,477,822	$ (31,163)	$ -	$ 1,446,659

Note 4: Member's Receivable

Blue River Hills

During 2014, the District entered into an agreement with the people of the Blue River Hills area to annex the area into the district. The agreement states that the residents are required to repay the infrastructure and connect costs of the annexation over 20 years, with an annual interest rate of 3% calculated on the outstanding balance. Residents are permitted to pay in full to avoid interest costs. As of December 31, 2022 and 2021, the residents of the Blue River Hills area had an outstanding balance of $166,391 and $177,837, respectively.

Rocky Ford South

During 2018, the District entered into an agreement with the people of the Rocky Ford South area to annex the area into the district. The agreement states that the residents are required to repay the infrastructure and connect costs of the annexation. The agreement called for payments of $50 per month until the balance is paid, with an annual interest rate of 3% calculated on any outstanding balance after the first year. Residents are permitted to pay in full to avoid interest costs. As of December 31, 2022 and 2021, the residents of the Rocky Ford South area had an outstanding balance of $4,115 and $9,904, respectively.

Freeman Road

During 2021, the District entered into an agreement with the people of the Freeman Road area to annex the area into the district. The agreement states that the residents are required to repay the infrastructure and connect costs of the annexation. The agreement called for payments of $50 per month per month until the balance is paid, with an annual interest rate of 3% calculated on any outstanding balance after September 1, 2022. Residents are permitted to pay in full to avoid interest costs. As of December 31, 2022 and 2021, the residents of the Freeman Road area had an outstanding balance of $27,986 and $36,505, respectively.

Future receipts of principal and interest for these member's receivables are as follows:

Year Ended December 31	Principal	Interest	Total
2023	$ 25,277	$ 5,616	$ 30,893
2024	21,227	4,922	26,149
2025	21,393	4,276	25,669
2026	12,790	3,758	16,548
2027	13,179	3,369	16,548
Thereafter	104,626	11,654	116,280
Total	$ 198,492	$ 33,595	$ 232,087

Note 5: Member Deposits

The District requires new members of the District to place a $50 deposit on their account. This deposit is returned upon transfer of the member's benefit unit to another member or forfeiting of their benefit unit.

Note 6: Risk Management

The District is exposed to various risks of loss related to torts; eft 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 EMC Companies. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

Note 7: Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the District. The District had an unsecured depository balance as of December 31, 2022. This appears to be a statutory violation. There were no apparent statutory violations during the year end December 31, 2021.