RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

FINANCIAL STATEMENTS

For the Years Ending December 31, 2021 and 2020

GORDONCPA
AUDITING
ACCOUNTING
CONSULTING

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AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

Board of Directors
Rural Water District No. 1 Jefferson County

We have audited the financial statements of the business-type activities of the Rural Water District No. 1 Jefferson County (the District) for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 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 statements 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. The most sensitive estimate affecting the District's financial statements was:

> Management's estimate of accumulated depreciation is based on the straight-line method of depreciation. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

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 statements 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 February 9, 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 statements 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Restriction of Use

This information is intended solely for the use of the Board of Directors and management of the Rural Water District No. 1 Jefferson County and is not intended to be, and should not be, used by anyone other than these specified parties.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

February 9, 2022

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RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

Financial Statements
For the Years Ending December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1 Jefferson County

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1 Jefferson County (the District), as of and for the years ending December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 1 Jefferson County as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years ending in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District No. 1 Jefferson County 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 for twelve months beyond the financial statement date.

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 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 amount 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 judgement, 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.

Other Matters

Required Supplementary Information

Management has omitted the management discussion and analysis, that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Prior Period Financial Statements Audited by a Predecessor Auditor

The District's financial statements for the year ended December 31, 2020, were audited by other auditors whose report dated February 5, 2021, expressed an unmodified opinion.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

February 9, 2022

RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

STATEMENT OF NET POSITION - PROPRIETARY FUND
For the Years Ending December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 83,414	$ 80,688
Certificates of deposit	1,091,337	908,423
Certificates of deposit - restricted	287,944	214,474
Accounts receivable	49,051	49,751
Prepaid and other expenses	7,830	6,963
Inventory	78,642	72,377
Total current assets	1,598,218	1,332,676
Noncurrent assets:		
Capital assets, net of accumulated depreciation	1,482,454	1,564,206
Total noncurrent assets	1,482,454	1,564,206
Total assets	$ 3,080,672	$ 2,896,882
Liabilities		
Current liabilities:		
Accounts payable	$ 14,341	$ 15,744
Accrued expenses	6,111	5,402
Total current liabilities	20,452	21,146
Total liabilities	20,452	21,146
Net Position:		
Net investment in capital assets	1,482,454	1,564,206
Restricted	287,944	214,474
Unrestricted	1,289,822	1,097,056
Total net position	3,060,220	2,875,736
Total Liabilities and Net Position	$ 3,080,672	$ 2,896,882

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

RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
CHANGES IN NET POSITION - PROPRIETARY FUND
For the Years Ending December 31, 2021 and 2020

	2021	2020
Operating revenues		
Water sales	$ 494,611	$ 467,276
Late fees	10,006	8,164
Miscellaneous	10,601	3,862
Total operating revenues	515,218	479,302
Operating expenses		
Personnel costs	30,501	27,879
Contract services	125,457	133,715
Utilities	31,106	28,942
Office supplies	9,887	9,792
Repairs and maintenance	18,478	48,544
Professional fees	15,776	16,835
Depreciation and amortization	109,178	116,635
Insurance	10,804	9,684
Vehicle expenses	212	210
Bad debt	450	-
Chemicals and supplies	5,810	4,485
Lab fees	404	3,937
Water taxes	3,954	3,898
Rent	253	-
Total operating expenses	362,270	404,556
Operating income [loss]	152,948	74,746
Nonoperating revenues [expenses]		
Interest income	6,506	14,930
Total nonoperating revenues [expenses]	6,506	14,930
Net income (loss) before contributions	159,454	89,676
Capital contributions from members	25,030	22,150
Change in net position	184,484	111,826
Net position - beginning of year	2,875,736	2,763,910
Net position - end of year	$ 3,060,220	$ 2,875,736

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

RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Years Ending December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from customers	$ 515,918	$ 472,695
Cash paid to suppliers of goods or services and to employees for services	[260,918]	[280,868]
Net cash provided by operating activities	255,000	191,827
Cash flows from investing activities		
Interest received	6,506	14,930
Net cash provided by investing activities	6,506	14,930
Cash flows from capital and related financing activities		
Contributed capital	25,030	22,150
Purchase and construction of capital assets	[27,426]	[12,208]
Net cash provided by [used in] capital and related financing activities	[2,396]	9,942
Net increase [decrease] in cash and cash equivalents	259,110	216,699
Cash and cash equivalents - beginning of year	1,203,585	986,886
Cash and cash equivalents - end of year	$ 1,462,695	$ 1,203,585
Reconciliation of operating income [loss] to net cash provided [used in] operating activities		
Operating income [loss]	$ 152,948	$ 74,746
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities		
Depreciation expense	109,178	116,635
[Increase] decrease in accounts receivable	700	[6,607]
[Increase] decrease in prepaid and other expenses	[867]	[221]
[Increase] decrease in inventory	[6,265]	3,644
Increase [decrease] in accounts payable	[1,403]	3,237
Increase [decrease] in accrued expenses	709	393
Net cash provided by [used in] operating activities	$ 255,000	$ 191,827

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

RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ending December 31, 2021 and 2020

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Rural Water District No. 1 Jefferson County (the District) was organized under Kansas law in 1959 with the purpose and objective to acquire water and water rights, and to build and acquire pipelines and other facilities for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons located within the District in Jefferson County. The District does not have any component units.

B. Government-wide and Fund Financial Statements

The statement of net position and the statement of revenues, expenses, and changes in net position report information on the District as a whole. All activities of the District are business-type activities operated as a single proprietary fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services. All other revenues and expenses not meeting this definition are nonoperating. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

D. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments (including certificates of deposits) with original maturities of twelve months or less from the date of acquisition.

The District invests its unrestricted cash in a financial institution in northeast Kansas.

E. Accounts Receivable

The District offers unsecured credit for water services and the collection of accounts receivable is generally current with very few uncollectible accounts. Uncollectible accounts are written off in the period in which they become uncollectible.

F. Inventory

The District's inventory is valued at cost, it consists primarily of materials and supplies used for maintaining the water distributions system. Cost is determined on a first-in, first-out method.

G. Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for $3,510 per meter. The benefit units in service on December 31, 2021 and 2020 were 984 and 982, respectively.

H. Line Extension and Meter Deposits

The District requires customers to pay in advance for the cost of constructing lines and renters are required to pay deposits for water services. For December 31, 2021 and 2020 the entire balance of $3,187 and $3,588 consisted of renter deposits.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Revenues and expenses

Revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. 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 type activities.

J. Reimbursed Income

Reimbursed income represents revenue from the customers for line extensions to provide water service to the benefit unit holder. All costs and related charges for new meters must be paid for in advance.

K. Capital Assets

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. The District maintains an account for capital assets, which consists of buildings, well, water system, standpipes and equipment. Depreciation is computed using the straight-line method over the useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income or loss for the period.

The District's capitalization policies are as follows:

	Capitalization Threshold	Estimated Useful life
Plant and equipment	$ 5,000	3 - 30 years
Distribution systems	5,000	10 - 40 years

L. Net Position

The District's net position is displayed in three components as follows:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislations.

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District's restricted net position is comprised designated funds as determined by the Board.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Income Taxes

The District is considered a municipality and is therefore a tax-exempt entity and is not subject to income taxes at either the federal or state level.

O. Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in these financial statements.

Note 2. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

Cash and cash equivalents consist of the following for the years ending December 31, 2021 and 2020:

	2021	2020
Cash, unrestricted	$ 83,317	$ 80,688
Restriced capital improvement	287,944	214,474
Certificates of deposit	1,091,335	908,423
Total cash and cash equivalents	$ 1,462,596	$1,203,585

B. 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 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 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, except during designated 'peak periods' when required coverage is 50%. All deposits were legally secured at December 31, 2021 and 2020.

At December 31, 2021 and 2020, the District's carrying amount of deposits was $1,462,596 and $1,203,585, respectively, and the bank balance was $1,462,368 and $1,203,934, respectively. The bank balance was held in one bank resulting in a concentration of credit risk. Of the bank balances, $250,000 was covered by federal depository insurance and the remaining balances for both years were collateralized with securities held by the pledging financial institutions' agents in the District's name.

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

B. Accounts Receivable

Accounts receivable are carried at the original billed amount. Management determines bad debts that have become uncollectible and writes them off in the period that the accounts become uncollectible.

The District had the following rate structure at December 31, 2021 and 2020:

Minimum	$17.50 per month, includes 2,000 gallons
Rate per 1,000 gallons	$3.80
Capital improvement fee	$7.50 per meter per month

C. Prepaid and Other Expenses

Prepaid and other expenses for the years ending December 31, 2021 and 2020 consist of the following:

	2021	2020
Deposits	1,260	805
Prepaid insurance	6,220	5,805
REA capital credits	351	353
Total prepaid and other expenses	7,831	6,963

D. Compensated Absences

The District does not have any formal policies concerning compensated absences.

E. Capital Assets

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

	Balance December 31, 2020	Additions	Deletions	Balance December 31, 2021
Land	$ 84,038	$ -	$ -	$ 84,038
Plant, lines and equipment	4,334,939	27,437	-	4,362,376
Building	77,506	-	-	77,506
Total capital assets	4,496,483	27,437	-	4,523,920
Less accumulated depreciation	[2,932,277]	[109,189]	-	[3,041,466]
Total capital assets, net of accumulated depreciation	$ 1,564,206	$ [81,752]	$ -	$ 1,482,454

Note 2. DETAILED NOTES ON ALL FUNDS (Continued)

E. Capital Assets (Continued)

Capital asset activity for the year ending December 31, 2020 was as follows:

	Balance December 31, 2019	Additions	Deletions	Balance December 31, 2020
Land	$ 84,038	$ -	$ -	$ 84,038
Plant, lines and equipment	4,322,731	12,208	-	4,334,939
Building	77,506	-	-	77,506
Total capital assets	4,484,275	12,208	-	4,496,483
Less accumulated depreciation	[2,815,642]	[116,635]	-	[2,932,277]
Total capital assets, net of accumulated depreciation	$ 1,668,633	$[104,427]	$ -	$ 1,564,206

Depreciation expense was $109,189 and $116,635, respectively for the years ended December 31, 2021 and 2020.

Note 3. OTHER INFORMATION

A. Commitments and Contingencies Litigation

The District's management and legal counsel anticipate that the potential claims against the District not covered by insurance, if any, would not materially affect the financial position of the District.

B. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded the commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

C. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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. Management is not aware of any violations of Kansas statutes during the years ended December 31, 2021 and 2020.

D. Related Party Transaction

In 2021 and 2020, the District paid $125,457 and $133,715, respectively, to a contractor who is related to a board member. The payments were for services provided as the certified water operator for the District.

E. Subsequent Events

Subsequent events for management's review have been evaluated through February 9, 2022, the date the financial statements were available to be issued.

RURAL WATER DISTRICT NO. 1 JEFFERSON COUNTY

SCHEDULE OF STATISTICAL INFORMATION
For the Years Ending December 31, 2021 and 2020

	2021	2020
Gallons of water sold	63,859,480	63,976,290
Gallons purchased and produced	81,649,800	79,112,460
Water loss percentage	21.79%	19.13%
Number of benefit units	984	982
Average monthly water usage per customer	5,408	5,429
Average monthly water sales per benefit unit (calculated from water sales)	$ 41.89	$ 39.65
Average monthly costs per benefit unit (calculated from operating expenses)	$ 31.21	$ 34.33