RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Regulatory Basis Financial Statement,
Independent Auditors' Report,
Regulatory-Required Supplementary Information,
And Federal Compliance Section,
For the Year Ended December 31, 2022

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

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Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors and management
Rural Water District #2, Inc.
Linn County, Kansas

Adverse and Unmodified Opinions
We have audited the accompanying summary statement of receipts, expenditures, and unencumbered cash, regulatory basis of Rural Water District, #2, Inc., Linn County, Kansas, as of and for the year ended December 31, 2022 and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the 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, 2022 or changes in financial positions 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, 2022 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 audit 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.

Management's Responsibility for the Financial Statements
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 to meet the financial reporting requirements of the State of Kansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement
Our objectives are to obtain reasonable assurance about whether the financial statement as a whole 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

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash, regulatory basis (basic financial statement) as a whole. The schedule of receipts and expenditures-actual, regulatory basis (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. 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 financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

The 2021 Actual column presented in the schedule of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2021 basic financial statement upon which we rendered an unmodified opinion dated February 10, 2022. The 2021 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link http://admin.ks.gov/offices/chief-financial-officer/municipal-services. Such 2021 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2021 basic financial statement. The 2021 comparative information was subjected to the auditing procedures applied in the audit of the 2021 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 2021 basic financial statement or to the 2021 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 2021 comparative information is fairly stated in all material respects in relation to the 2021 basic financial statement as a whole, on the basis of accounting described in Note 1.

Diehl, Banwart, Bolton, CPAs, PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2023

Fort Scott, Kansas

RURAL WATER DISTRICT #2, INc.
LINN COUNTY, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered cash Balances
Regulatory Basis
For the Year Ended December 31, 2022

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund:						
Water Utility	$527,920.04	$3,198,475.90	$2,609,164.60	$1,117,231.34	$55,944.10	$1,173,175.44

Cash in bank - operating checking account	$620,456.80
Cash in bank - other checking accounts	369,056.57
Certificates of Deposit	183,662.07
Totals	$1,173,175.44

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

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Notes to Financial Statement
For the Year Ended December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Rural Water District #2, Inc., Linn County, Kansas, has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: The Rural Water District #2, Inc., Linn County, Kansas, is located in the eastern part of Linn County, Kansas. The District is a municipal corporation governed by an elected seven-member council. The District purchases treated water from Public Wholesale Water Supply District #13 (PWWSD #13) and sells the water to over 800 rural customers. To continue serving its patrons, the District is dependent upon PWWSD #13 to provide adequate, reasonably priced water.

Reporting Entity
This financial statement presents the Rural Water District #2, Inc., Linn County, Kansas, (primary government). There are no related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation - Fund Accounting
A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following types of funds comprise the financial activities of the Rural Water District #2, Inc., Linn County, Kansas:

Business fund: funds financed in whole or part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory Basis of Accounting and Departures from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Budgetary Information
Kansas statutes do not require budgets for rural water districts.

Deposits and Investments
Deposits and investments include a money market checking account and certificates of deposit. Kansas statutes permit investment in checking accounts, savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences
The District does not provide sick or vacation benefits beyond the year earned, but pays employees for unused vacation days before year end.

Income Taxes: Rural Water District #2, Inc., of Linn County, Kansas, is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits
The District does not offer termination or post employment benefits.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes
This financial statement has been prepared in order to show compliance with the cash basis laws and Statutes of the State of Kansas. The District was in apparent compliance with the cash basis laws and Statutes of the State of Kansas.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statue 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, but has limited the investments to time deposits at the local bank.

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%. The District does not have any "peak periods" designated.

At December 31, 2022, the District's carrying amount of deposits was $1,173,175.44 and the bank balance was $1,216,618.01. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $500,000.00 was covered by federal depository and the remaining $716,618.01 was collateralized with securities totaling $1,198,210.35 held by the pledging financial institutions' agents in the District's name.

4. BENEFIT UNIT DEPOSITS

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. The deposits sometimes includes charges to pay for the installation and connection to the water main. New benefit units totaling $184,006.00 were added during the year.

5. RISK MANAGEMENT

The water 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; employees' health and life; and natural disasters. The water district manages these risks of loss through various insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Office Equipment and Automobiles	5 Years
Machinery	7 Years
Plant and Equipment	15 to 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletion	Ending Balance
Materials & Construction	$ 2,881,274.92	$ 1,966,124.09	$ -	$ 4,847,399.01
Office Building	127,329.81	-	-	127,329.81
Plant Equipment	74,030.77	-	-	74,030.77
Engineering Fees	213,187.05	-	-	213,187.05
Inspection Fees	33,637.09	-	-	33,637.09
Easements	7,020.05	-	-	7,020.05
Automobile	-	-	-	-
Office Equipment	28,456.78	-	-	28,456.78
Legal & Title	30,820.50	-	-	30,820.50
	$ 3,395,756.97	$ 1,966,124.09	$ -	$ 5,361,881.06
Accumulated Depreciation	$ (2,255,408.06)	$ (71,304.86)	$ -	$ (2,326,712.92)

7. ECONOMIC DEPENDENCY

The District purchases water for resale to District members from PWWSD #13. Water purchased totaled $362,734.12.

8. NOTES PAYABLES

The District has an interim line of credit note with a local financial institution to finance the USDA project to install new lines and add customers as discussed in Note 11 "Subsequent Events." The note is for $2,101,000 at 1.25% interest and will eventually be paid off with the USDA loan when the project is completed. The balance at December 31, 2022 was $1,918.098.93. No interest was paid during the year. Accrued interest payable at December 31, 2022 totaled $17,759.55.

8. NOTES PAYABLES (Continued)

Changes in long-term liabilities for the District for the year ended December 31, 2022, were as follows:

Note	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Labette Bank					
USDA Interim Fianancing	$ 59,582.84	$ 1,858,516.09	$ -	$ 1,918,098.93	$ -
Total	$ 59,582.84	$ 1,858,516.09	$ -	$ 1,918,098.93	$ -

9. LONG-TERM OBLIGATIONS

The District entered into a 40 year water purchase contract with PWWSD #13 on July 19, 2005. Litigation with PWWSD #13 was settled during 2016. The District is now obligated to purchase at least 55.2 million gallons of water from PWWSD #13 each year.

10. RETIREMENT PLAN

The District matches 50 percent of employees' contributions, up to three percent of the employees' salary, to employees' individual retirement accounts (IRA) with Oppenheimer Financial. The Plan covers full and part time employees who open an IRA with Oppenheimer Financial. The District's contributions for 2021 totaled $1,829.58.

11. CAPITAL PROJECT

The District has been awarded a USDA Rural Development Loan of $1,516,000 to assist in installing lines and pumps to add numerous customers to the District. The total cost of the project is estimated to be $1,676,000. The loan will be at 1.125% interest with a maturity in 40 years.

The District was awarded an additional USDA Rural development loan of $74,000 for additional work on the project along with a grant for $360,000. The loan will be at 1.375% interest with a 40 year maturity.

The project has began and is expected to be completed in early 2023.

Budget	
USDA Loans	$ 1,590,000.00
USDA Grant	360,000.00
Local Funds	160,000.00
	$ 2,110,000.00
Actual Expenditures	$ 2,117,123.92

11. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2022 through February 7, 2023, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement.

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT #2, INc.
LINN COUNTY, KANSAS
WATER UTILITY FUND
Schedule of Regulatory Basis Receipts and Expenditures - Actual
For the Year Ended December 31, 2022
With Comparative Actual Amounts for the Year Ended December 31, 2021

	2021 Actual	2022 Actual
Cash Receipts		
Operating Receipts		
Metered water sales	$ 725,752.77	$ 819,155.63
Penalties	16,114.76	20,145.96
Nonoperating Receipts		
Interest income	1,156.36	1,243.53
Miscellaneous income	21,951.26	17,181.08
Proceeds from notes payable	59,582.84	1,858,516.09
Grant receipts	-	298,227.61
Benefit Unit deposits	160,987.08	184,006.00
Total Cash Receipts	985,545.07	3,198,475.90
Expenditures		
Operating Expenditures		
Water Purchased	359,675.56	362,734.12
Repairs and maintenance	10,440.09	4,073.16
Operating expenses	156,114.24	219,653.10
Utilities and telephone	6,281.60	5,541.71
Office supplies	10,199.16	12,356.72
Insurance	7,898.36	10,049.00
Salaries	73,089.94	60,985.85
Payroll taxes	7,358.36	5,323.28
Employee benefits	2,192.69	1,829.58
Dues and subscriptions	7,310.45	6,773.80
Professional fees	11,642.50	3,675.00
Mileage and travel	3,064.33	-
Miscellaneous expense	4,561.43	12,295.95
Nonoperating Expenditures		
Equipment sold	(42,970.00)	(62,250.76)
Principal paid on notes	30,783.83	-
Interest paid on notes	1,634.08	-
Capital Outlay additions	119,637.70	1,966,124.09
Total Expenditures	768,914.32	2,609,164.60
Receipts Over (Under) Expenditures	216,630.75	589,311.30
Unencumbered Cash, Beginning	311,289.29	527,920.04
Unencumbered Cash, Ending	$ 527,920.04	$ 1,117,231.34

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

FEDERAL COMPLIANCE SECTION

RURAL WATER DISTRICT #2, INc.
LINN COUNTY, KANSAS
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT EXPENDED
United States Department of Agriculture-Rural Development		
Direct Programs		
Water and Waste Disposal Systems for Rural Communities Grant		
Grant		$ 360,000.00
Loan - Interim Financing		1,531,417.16
Total	10.760	1,891,417.16
TOTALS		$ 1,891,417.16

Notes to the Schedule of Expenditures of Federal Awards (SEFA):

(1) Receipts consist of money actually received during the year ended December 31, 2022.

(2) This grant was actually paid in the prior year. The balance of the grant was received in 2022.

(3) SEFA Expenditures are recorded on the modified accrual basis of accounting, which records expenses when the goods or services are paid, plus accounts payable. Expenditures for these programs agree with the District's regulatory basis financial statements. +

(4) Indirect costs were charged to the federal programs in accordance with the agreements with the grantors. The de minimis cost rate was not used

(5) There were no subrecipients of Federal awards.

Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Rural Water District #2, Inc.
Linn County, Kansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Rural Water District #2, Inc., Linn County, Kansas's (District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Diehl, Banwart, Bolton, CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2023
Fort Scott, Kansas

Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Rural Water District #2, Inc.
Linn County, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Rural Water District #2, Inc. as of the year ended December 31, 2022, and have issued our report thereon dated February 7, 2023.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statement, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Diehl, Banwart, Bolton, CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

February 7, 2023
Fort Scott, Kansas

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended December 31, 2022

SECTION I: SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:

The auditors' report was adverse for departures from accounting principles generally accepted in the United State of America due to the preparation of the financial statements in accordance with the Kansas regulatory basis of accounting. An unmodified opinion on the regulatory basis of accounting financial statement of the government was issued.

Internal control over financial reporting:

- Material weakness identified? ___ Yes _X_ No
- Significant deficiency identified? ___ Yes _X_ None reported
- Noncompliance material to financial statements noted? ___ Yes _X_ No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness identified? ___ Yes _X_ No
- Significant deficiency identified? ___ Yes _X_ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of the Uniform Guidance? ___ Yes _X_ No

Identification of major programs:

CFDA Numbers	Name of Federal Program
10.760	Water and Waste Disposal Systems

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? ___ Yes _X_ No

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended December 31, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No material findings or questioned costs required to be disclosed under the Uniform Guidance.

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended December 31, 2022

No audit findings relative to the federal award programs.