RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS

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

RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS

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Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors and management
Rural Water District #4, Inc.
Bourbon County, Kansas

Adverse and Unmodified Opinions
We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District, #4, Inc., Bourbon 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 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of regulatory basis receipts and expenditures-actual (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. 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.

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

January 19, 2023
Fort Scott, Kansas

RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
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	$ 763,724.14	$ 937,345.77	$ 779,678.39	$ 921,391.52	$ 11,969.38	$ 933,360.90

Composition of Cash:	Cash in bank - operating checking account	$ 715,085.16
	Cash in bank - construction account	8,275.74
	Cash in bank - principal and interest reserve account	35,000.00
	Certificate of Deposit -	175,000.00
	Totals	$ 933,360.90

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

RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of Rural Water District, #4, Inc., Bourbon 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: Rural Water District, #4, Inc., Bourbon County, Kansas is a municipal corporation governed by an elected five-member board of directors. The District provides water to members of the District primarily in rural Bourbon County, Kansas. In previous years, the District purchased its water from the cities of Moran and Bronson, Kansas. The District completed an extensive capital project in 1998, which involved the building of a small lake and treatment plant for the purpose of treating raw water and selling water to its patrons as well as to other local governmental entities. The District began pumping and selling its own water in June 1998. All water sales are made to residents and two water suppliers in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Reporting Entity
This financial statement presents Rural Water District, #4, Inc., Bourbon 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 Rural Water District, #4, Inc., Bourbon 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory Basis of Accounting and Departure 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 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, a savings 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.

Income Taxes: Rural Water District, #4, Inc., Bourbon 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 except as follows:

- Bank balances at one financial institution were not adequately secured at year-end in apparent violation of K.S.A. 9-1402.

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. All deposits were legally secured at December 31, 2022.

At December 31, 2022 the District's carrying amount of deposits was $933,360.90 and the bank balance was $933,360.90. The bank balances were held primarily by one bank resulting in a concentration of credit risk. Of the bank balance, $258,275.74 was covered by federal depository insurance, and the remaining $636,437.25 was collateralized with securities totaling $636,437.25 held by the pledging financial institutions' agents in the District's name and $38,647.91 was unsecured.

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. Net new benefit unit deposits totaled $10,000.00 for the year, which was comprised of ten new benefit unit deposits totaling $10,000.00 and 3 rental benefit units totaling $1,650.00.

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; and natural disasters. The water district manages these risks of loss through various commercial 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 Vehicles	5 Years
Machinery	7 Years
Plant and Equipment	40 & 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
Land	$ 39,109.47	$ -	$ -	$ 39,109.47
Machinery & Construction	3,430,522.32	404,424.66	-	3,834,946.98
Engineering Fees	791,867.19	40,200.00	-	832,067.19
Legal & Title Work	156,294.46	820.00	-	157,114.46
Inspection Fees	95,356.43	-	-	95,356.43
Easement & Leases	547,826.27	1,009.28	-	548,835.55
Machinery & Equipment	204,016.12	-	-	204,016.12
Bond Underwriting Fee	71,934.76	-	-	71,934.76
Grant Administration Costs	13,000.00	-	-	13,000.00
	5,349,927.02	446,453.94	-	5,796,380.96
Office Equipment	8,343.06	-	-	8,343.06
	$ 5,358,270.08	$ 446,453.94	$ -	$ 5,804,724.02
Accumulated Depreciation	$ 2,545,718.78	$ 115,069.51	$ -	$ 2,660,788.29

7. LONG TERM OBLIGATIONS

Long-term obligations of the District are comprised of the following:

	December 31, 2022
Bonds Payable:	
Water-Utility System Revenue Bonds, Series 2016, payable in annual principal payments of $75,000 to $100,000, plus interest at 0.50% to 2.75%. The first payment of principal was due in September 2016, with final payment scheduled for 2025. The bonds are secured by a lien on all revenue from the water system.	$ 295,000.00

7. LONG TERM OBLIGATIONS (Continued)

	December 31, 2022
Notes Payable:	
Interim Line of Credit, note payable totaling $2,000,000 of which $65,000 has been drawn as of December 31, 2022. The note requires interest only payments at 4.35%until the project discussed in Footnote 12 is completed. The note matures in 2023.	501,000.00
	$ 796,000.00

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

Issue	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Notes Payable CNB	$ 65,000.00	$436,000.00	$ -	$ 501,000.00	$ 4,924.88
Revenue Bonds					
Water Utility Series 2016	$ 390,000.00	$ -	$ 95,000.00	$ 295,000.00	$ 9,535.52
Total Long Term Debt	$ 455,000.00	$436,000.00	$ 95,000.00	$ 796,000.00	$14,460.40

Current maturities of long-term debt and interest for the next five years for the bond payable are as follows:

December 31,	PRINCIPAL	INTEREST	TOTAL
2023	$ 95,000.00	$ 7,775.00	$ 102,775.00
2024	100,000.00	5,400.00	105,400.00
2025	100,000.00	2,750.00	102,750.00
	$ 295,000.00	$ 15,925.00	$ 310,925.00

8. CONTRACT PAYABLE

The District entered into an agreement with the Kansas Water Office (KWO) to purchase water rights and associated storage space at Xenia Lake. The KWO agreed to sell 46.24% of its interest in water rights and storage space to the District, increasing the Districts interests to 52.69%. The District agreed to pay the KWO $175,000, plus $19,376.30 annually plus interest at a variable interest rate for 15 years to pay for the remaining amount due of $290,644.45. Final payment is due in 2033. The current variable rate is .334%. Future contract payments using the current variable rate is as follows:

8. CONTRACT PAYABLE (Continued)

December 31,	PRINCIPAL	INTEREST	TOTAL
2023	$ 19,376.30	$ 345.57	$ 19,721.87
2024	19,376.30	314.15	19,690.45
2025	19,376.30	282.74	19,659.04
2026	19,376.30	251.32	19,627.62
2027	19,376.30	219.91	19,596.21
2028	19,376.30	188.49	19,564.79
2029	19,376.30	157.08	19,533.38
2030	19,376.30	125.66	19,501.96
2031	19,376.30	94.25	19,470.55
2032	19,376.30	62.83	19,439.13
2033	19,376.30	31.42	19,407.72
	$ 213,139.30	$ 2,073.42	$ 215,212.72

9. COMPLIANCE WITH BOND COVENANTS

The District's Water System Revenue Bonds, Series 2016, contain the following covenants:

a. There shall be transferred to the principal and interest account a prorata portion of the amount necessary to pay the next scheduled debt service payment. In addition a contingency reserve balance of $91,000.00 shall be maintained.

b. The District shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. Net revenues must be at least 120% of the year's debt service requirement. For the year ended December 31, 2022, net revenues totaled $297,335.33, or 289% of the next year's debt service requirement of $102,775.00.

c. The District served approximately 578 units on January 1, 2022 and 580 units on December 31, 2022.

As of December 31, 2022, the required and actual reserve balances were as follows:

	REQUIRED	ACTUAL
Principal and Interest	$ 33,954.63	$ 35,000.00
Contingency Reserve	91,000.00	91,000.00

10. ECONOMIC DEPENDENCY

Water sales to the City of Bronson, Kansas and Consolidated Rural Water District #2 of Bourbon County, totaled $101,582.77 or approximately 35% of total water sales for the year ended December 31, 2022.

11. LONG-TERM COMMITTMENTS

On December 20, 2000, the District entered into a 10 year water sales contract with Bourbon Co. Consolidated RWD #2. Bourbon Co. Consolidated RWD #2 is contractually obligated to purchase 50,000 gallons of water each month or 600,000 gallons of water annually from the District. Although this contract has expired, the District and Bourbon Co. Consolidated RWD #2 continue to operate under this contract and are currently working on a new contract.

On February 3, 1993, the District entered into a 40 year water sales contract with the City of Bronson, Kansas. The City of Bronson, Kansas is contractually obligated to purchase no more than 21,000,000 gallons of water each month from the District. On December 22, 1995, the contract was amended to provide that the City agrees to purchase 100% of its water from the District, and the term of the contract was changed from 40 years to a five year period with seven five year options or extensions under the terms thereof. On October 30, 2012, the contract was amended again to change the term back to 40 years.

12. WATER PLANT PROJECT

The District has signed an agreement with the USDA Rural Development to borrow $2,234,000 to fund Water plant improvements. The plant improvements will require a local contribution of $488,000, resulting in a total projected project cost of $$2,722,000. The note will require annual payments of principal and interest at 1.125% and will mature 40 years after funding. The project is scheduled to begin in 2022 and be completed in two years.

The District has signed an agreement with a local bank to borrow $2,000,000 as interim financing for the project. The note is for two years and requires quarterly interest payments at 4.35%. The principal will be paid at maturity with the proceeds of the USDA Rural Development Note. The project is anticipated to be completed in 2023.

13. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2022 through January 19, 2023, the date of the financial statement. During this period, except as disclosed in Note 12, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT #4, INC.
BOURBON COUNTY, KANSAS
WATER UTILITY FUND
Schedule of Receipts and Expenditures - Actual - Regulatory Basis
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for the Year Ended December 31, 2021)

	2021 Actual	2022 Actual
Receipts		
Operating Receipts		
Metered water sales	$ 273,915.15	$ 271,792.81
Service fees	118,465.18	118,862.55
Penalties	3,599.98	4,269.34
Nonoperating Receipts		
Interest income	4,532.35	4,191.09
Proceeds from note payable	65,000.00	436,000.00
Insurance claims received	-	81,083.79
Miscellaneous income	5,421.53	9,496.19
Benefit unit deposits	12,000.00	11,650.00
Total Receipts	482,934.19	937,345.77
Expenditures		
Operating Expenditures		
Salaries	54,765.80	55,070.70
Payroll taxes	4,744.38	4,254.90
Operating supplies	53,326.26	56,309.62
Repairs and maintenance	47,876.36	44,716.94
Utilities and telephone	22,808.42	18,154.15
Office supplies	8,646.42	8,011.42
Insurance	8,000.00	8,867.00
Legal and accounting	-	3,165.00
Miscellaneous expense	7,502.22	5,461.04
Nonoperating Expenditures		
Debt Service		
Principal paid	90,000.00	95,000.00
Interest paid	12,671.83	14,460.40
Contract payable to State	20,269.86	19,753.28
Capital Outlays	155,009.28	446,453.94
Total Expenditures	485,620.83	779,678.39
Receipts Over (Under) Expenditures	(2,686.64)	157,667.38
Unencumbered Cash, Beginning	766,410.78	763,724.14
Unencumbered Cash, Ending	$ 763,724.14	$ 921,391.52