Rural Water District No. 4, Saline County, Kansas

Financial Statement
As of December 31, 2023
and For the Year Then Ended

With Report by Independent Auditors

KIENTZ & PENICK
CPAs, LLC

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KIENTZ & PENICK
CPAs, LLC

To the Board of Directors of
Rural Water District No. 4 Saline County, Kansas
4744 W. Pleasant Hill Rd.
Salina, KS 67401

April 22, 2024

Independent Auditor's Report

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, No. 4, Saline County, Kansas (the District), as of and for the year ended December 31, 2023 and the related notes to the financial statement (collectively "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 Opinion section of our report, the accompanying financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2023, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the 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, 2023, 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* (KMAAG). 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 described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of KMAAG, 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 regulatory basis of accounting described in Note 1 and the accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibility of Management for the Financial Statement
Management is responsible for the preparation and fair presentation of the financial statement in accordance with KMAAG 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

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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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash - regulatory basis (basic financial statement) as a whole. Schedule 1 – Regulatory Basis Receipts and Expenditures – Actual is presented for additional analysis and is not a required part of the basic financial statement. 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.

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the District as of and for the year ended December 31, 2022 (not presented herein), and have issued our report thereon dated April 1, 2023, which contained an unmodified opinion on the basic

financial statement in accordance with the regulatory basis of accounting. The 2022 basic financial statement and their 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 https://admin.ks.gov/offices/oar/municipal-services. The 2022 actual column (2022 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2023 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2022 basic financial statement. Such 2022 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 2022 basic financial statement. The 2022 comparative information was subjected to the auditing procedures applied in the audit of the 2022 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 2022 basic financial statement or to the 2022 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 2022 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2022, on the basis of accounting described in Note 1.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2023

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Type Fund						
Water Utility Fund	$ 500,353	$ 208,535	$ 196,135	$ 512,753	$ 792	$ 513,545

Composition of Ending Cash Balance	
Checking	$ 84,744
Savings Accounts	604
Certificates of Deposit	374,088
KDHE Loan Reserve	54,109
	$ 513,545

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

Rural Water District No. 4, Saline County, Kansas (the District) was incorporated and organized on under K.S.A. 82a-613 et. seq. to provide water to rural Saline County. The District is a Kansas municipality and is exempt from federal and state income taxes as well as sales taxes.

The District is a quasi-municipal corporation governed by an elected seven-member council and provides water to over 300 members of rural Saline County, Kansas. All water sales are made to residents in the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Regulatory Basis Fund Type

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

Regulatory Basis of Accounting

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of U.S. GAAP and allowing the District to instead use the regulatory basis of accounting as prescribed and published in the Kansas Municipal Audit and Accounting Guide (KMAAG).

This 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 for each fund. The regulatory basis also involves 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. This basis of accounting 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.

Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund type used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

Deposits and Investments

Deposits and investments include an operating checking account, certificates of deposit, savings account and Kansas Department of Health and Environment (KDHE) loan reserve account. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's 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 deposits 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

Kansas 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.

Note 2: Deposits and Investments (Continued)

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. Kansas 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.

On December 31, 2023, the District's carrying amounts of deposits was $459,436 and the bank balance was $466,797. The bank balance was held by four banks. The entirety of the balance at each financial institution was covered by federal depository insurance.

Debt reserve – At December 31, 2023, the District had $54,109 advanced from the KDHE loan that was placed into a reserve account held by KDHE. The District will receive a credit on the reserve account during each billing cycle. The reserve account will be used to pay the final obligation payments.

Note 3: Stewardship, Compliance and Accountability

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2023.

Note 4: Long-Term Debt

The District has a loan agreement with the Kansas Department of Health and Environment's Kansas Public Water Supply Loan Fund. The agreement enabled the District to borrow $541,086 for the construction of a new water tower. The loan was issued with an interest rate of 2.51% and will be repaid over 20 years.

Changes in long-term debt for the District for the year ended December 31, 2023 were as follows:

	Beginning	Additions	Deletions	Ending	Interest & Fees Paid
KDHE Water Supply Loan	$ 497,367	$ -	$ 22,166	$ 475,201	$ 12,346

Future maturities of principal and interest are as follows:

	Principal	Interest	Service Fee	Total
Due in 2024	$ 22,726	$ 1,643	$ 10,142	$ 34,511
Due in 2025	23,300	9,648	1,563	34,511
Due in 2026	23,889	9,142	1,481	34,512
Due in 2027	24,492	8,623	1,397	34,512
Due in 2028	25,111	8,090	1,311	34,512
Due in 2029 to 2033	135,393	31,984	5,183	172,560
Due in 2034 to 2038	153,378	16,508	2,675	172,561
Due in 2039 to 2040	66,912	1,818	294	69,024
	$ 475,201	$ 87,456	$ 24,046	$ 586,703

Net revenues of the District have been pledged as security for the KDHE loan. The District is required to have net receipts, as defined in the loan agreement, each year of at least 125% of that year's principal and interest payment requirements. As of December 31, 2023, the District was in compliance with this debt covenant, with a debt service ratio of 246%.

Note 5: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies. The District did not experience losses related to these risks during the years ended December 31, 2023

Note 6: Benefit Units

Members of the District are required to pay a fee for each benefit unit prior to connecting to the District's lines. As of December 31, 2023, new benefit units cost $5,000.

Note 7: Subsequent Events

The District has evaluated subsequent events through April 22, 2024, which is the date at which the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

	2023	2022
Receipts		
Water sales	$ 183,418	$ 181,096
Benefit units	10,000	13,000
Interest income	11,754	2,741
Other income	3,363	3,086
Total Receipts	208,535	199,923
Expenditures		
Payroll	20,918	21,737
Mileage	3,752	4,379
Repairs and maintenance	11,531	13,989
Utilities	17,221	16,444
Insurance	10,058	9,092
Office expense	2,465	2,723
Contract wages	33,658	36,290
Capital outlay	47,860	7,677
Water protection and sampling fees	1,459	1,426
Miscellaneous	3,611	3,768
Chemical and supplies	2,547	6,135
Rent	1,200	1,200
Professional services	6,664	5,723
Debt service	33,191	34,447
Total Expenditures	196,135	165,030
Receipts Over Expenditures	12,400	34,893
Unencumbered Cash Balance – Beginning	500,353	465,460
Unencumbered Cash Balance – Ending	$ 512,753	$ 500,353