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CLIENT Rural Water District No. 4

PROJECT *Financial Statements*

PERIOD *December 31, 2021*

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RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 4
Sedgwick County, Kansas

Opinion

We have audited the accompanying financial statements of Rural Water District No. 4, Sedgwick County, Kansas, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No.4, Sedgwick County, Kansas as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. 4, Sedgwick County, Kansas and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 4, Sedgwick County, Kansas' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 4, Sedgwick County, Kansas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 4, Sedgwick County, Kansas' 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 audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. Schedule I – Schedule of Insurance is presented for purposes of additional analysis and is not a required part of the 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 statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements as a whole.

Morrow & Co., LLC
Wichita, Kansas

April 26, 2022

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
ASSETS		
Cash - Undesignated	$ 256,614	$ 103,246
Cash - Designated	800,004	700,003
Certificates of Deposit (3 Months or Less)	52,493	52,374
Total Cash and Cash Equivalents	1,109,111	855,623
Certificates of Deposit (Over 3 Months)	479,325	478,224
Accounts Receivable	46,714	43,217
Interest Receivable	311	311
Prepaid Taxes	2,305	1,845
Property, Plant and Equipment (net)	1,080,155	1,131,732
TOTAL ASSETS	2,717,921	2,510,952

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable	$ 27,709	$ 24,326
Benefit Unit Deposits	10,800	5,400
Deferred Lease Revenue	5,154	5,154
Total Liabilities	43,663	34,880
NET ASSETS		
Net Assets Without Donor Restrictions	2,674,258	2,476,072
Net Assets With Donor Restrictions	-	-
Total Net Assets	2,674,258	2,476,072
TOTAL LIABILITIES AND NET ASSETS	2,717,921	2,510,952

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
REVENUES		
Water Sales	$ 535,523	$ 538,369
Sale of Benefit Units	29,700	21,600
Installation of Benefit Units	17,858	8,914
Interest Income	2,435	7,750
Tower Lease	7,465	7,465
Total Revenues	592,981	584,098
EXPENSES		
PROGRAM SERVICES		
Repair & Maintenance	90,604	194,822
Benefit Units Expense	9,250	6,475
Contract Labor & Meter Reading	550	2,025
Utilities	15,579	16,656
Chlorine	635	533
Lead & Copper Test	1,419	647
Depreciation	73,699	71,832
Total Program Services	191,736	292,990
SUPPORTING ACTIVITIES		
Salaries	54,907	54,907
Payroll Taxes	4,235	4,258
Director Fees	4,805	4,661
Monthly Retainer, Storage Rental & Wireless Service	21,617	21,617
Insurance & Bond	8,594	5,586
Legal	29,791	25,323
Audit	5,875	5,150
Engineering	9,800	10,462
Mileage Allowance	3,600	2,371
Clean Drinking Water Fee	1,395	1,633
KRWA	841	1,076
One Call	43,078	2,714
Office Supplies & Printing	2,755	8,879
Postage	4,750	4,691
Rent	20	120
Depreciation	2,980	4,372
Miscellaneous	4,016	3,458
Total Support Activities	203,059	161,278
Total Expenses	394,795	454,268
Increase in Net Assets Without Donor Restrictions	198,186	129,830

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Benefit Unit Certificates	Retained Earnings	Total Net Assets Without Donor Restrictions
BALANCE, DECEMBER 31, 2019	$ 965,675	$ 1,380,567	$ 2,346,242
CHANGE IN NET ASSETS	21,600	108,230	129,830
BALANCE, DECEMBER 31, 2020	987,275	1,488,797	2,476,072
CHANGE IN NET ASSETS	29,700	168,486	198,186
BALANCE, DECEMBER 31, 2021	1,016,975	1,657,283	2,674,258

The Accompanying Notes are an Integral Part of the Financial Statements.

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	$ 198,186	$ 129,830
Items not Requiring (Providing) Cash		
Depreciation	76,679	76,204
Changes in:		
Accounts Receivable	(3,497)	253
Interest Receivable and Prepaid Taxes	(460)	5,722
Accounts Payable, Accrued Expenses, Deposits and Deferrals	8,783	(13,747)
NET CASH PROVIDED BY OPERATING ACTIVITIES	279,691	198,262
CASH FLOWS FROM INVESTING ACTIVITIES		
(Reinvestment in) Withdrawal from Certificates of Deposit	(1,101)	(5,467)
Purchase of Property, Plant and Equipment	(25,102)	(72,892)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(26,203)	(78,359)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	253,488	119,903
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	855,623	735,720
CASH AND CASH EQUIVALENTS, END OF YEAR	1,109,111	855,623

The Accompanying Notes are an Integral Part of the Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Rural Water District No. 4, Sedgwick County, Kansas (District), is a Kansas quasi-municipal non-profit entity organized for the purpose of providing an adequate water supply to landowners within the District. The District extends unsecured credit to its customers. Total customers at December 31, 2021 and 2020, were 656 and 646, respectively.

Basis of Accounting

The District's financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), which require the District to report information regarding its financial position and activities according to the following net asset classifications.

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the District. These net assets may be used at the discretion of the District's management and the board of directors.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the District or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The District did not have any net assets with donor restrictions during the years ended December 31, 2021 and 2020.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. During the prior year, the board designated an amount of funds to be set aside for future projects. The amount is board designated and is not considered to be net assets with donor restrictions.

Accounts Receivable

The District utilizes the direct write-off method for bad debts. Accounts receivable are written off when deemed uncollectible. Accordingly, no allowance for bad debts has been recorded.

Accounts are billed the first week of the month for the previous month's usage. Accounts over 60 days past due are called or sent a 10 day notice requesting full payment. If the water is shut off, the full payment plus $100 must be made before the meter is turned back on. The District's forfeiture policy is under review with their attorney because of updates from the State of Kansas.

Property, Plant and Equipment

Expenditures for property, plant and equipment are recorded at cost and depreciated over the estimated useful life of each asset (3-40 years). Repairs and maintenance are charged to expense as incurred. Annual depreciation is primarily computed using the straight-line method.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Water sales are recorded using the accrual method. Other income includes monies received for line extensions and road bores, etc. It is the policy of the District to include these receipts in income. The related costs for the line extensions, repairs, etc., are recognized in expense as incurred. The sale of water benefit units are recorded as income as they are sold.

Sales are recorded and presented net of any applicable taxes.

Benefit Unit Certificates

The sales price of benefit units is considered a contribution to the District, and accordingly, is included in support and revenues but segregated from retained earnings.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting activities. Such allocations are determined by management on an equitable basis.

The only expense which is allocated between program services and supporting services is depreciation, which is allocated by where the asset was used.

Estimates

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

New Accounting Pronouncement

Leases

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). The ASU requires lessees to recognize a right-of-use asset and related lease liability for most leases, with a limited exception for short-term leases. The new lease guidance will be effective for the Organization's year ending December 31, 2022, and is to be applied using a modified retrospective transition method. The Organization does not expect for the pronouncement to have a material effect on its financial statements as they have no lease obligations.

2. AVAILABILITY AND LIQUIDITY

The following represents Rural Water District No. 4, Sedgwick County, Kansas's financial assets at December 31, 2021 and 2020:

	2021	2020
Cash and Cash Equivalents	$ 1,109,111	$ 855,623
Certificates of Deposit	479,325	478,224
Total Financial Assets	1,588,436	1,333,847
Less Amounts not Available to be Used in One Year	-	-
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	1,588,436	1,333,847

Rural Water District No. 4, Sedgwick County, Kansas's goal is generally to maintain financial assets to meet operating expenses on a monthly basis. The District receives a constant cash flow from monthly water billings paid by those who receive water from the District. As part of its liquidity plan, excess cash is invested in certificates of deposit. There are no known liquidity problems.

3. DEPOSITS

The District's deposits, consisting of checking, money market funds, and certificates of deposit were substantially covered by federal depository insurance and/or collateral held by third-party banks in the District's name. The District's banks have pledged the following securities as collateral for the unsecured amount:

ID #	Security Description	Maturity	Par Amount	Dec. 31, 2021 Market Value
3133D3W50	FHLMC Pool #QK0668	3/1/2041	$ 184,760	$ 186,976
31418ALT3	FNMA Pool #MA1237	11/1/2032	467,985	490,310
31418BFY7	FNMA Pool #MA1982	8/1/2034	173,908	185,123
3136AH3C2	FNMA Remic 2014-3 AB	10/25/2032	70,357	72,132
3136AHE22	FNMA Remic 2013-130 GA	9/25/2033	51,044	52,662
3137BL5R5	FHLMC Remic 4500 HA	11/15/2042	67,692	68,675
3137F63U9	FHLMC Remic 5039 JL	11/25/2050	186,138	176,838
3137FXSP4	FHLMC Remic 5085 BH	3/25/2041	278,773	275,963
	Total		1,480,657	1,508,679

At December 31, 2021 and 2020, the District's bank balances were covered as follows:

	2021	2020
Insured Amount - FDIC	$ 250,000	$ 250,000
Collateralized Uninsured Amount	1,338,436	1,083,847

4. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2021 and 2020, the District had fixed asset balances as follows:

	Life Range In Years	2021	2020
Land and Easements	N/A	$ 32,593	$ 32,593
Water Distribution System	7-40	3,046,126	3,024,115
Water Supply System	10	55,053	55,053
Water Storage System	10-40	226,476	226,476
Controls	10	31,665	31,665
Office Equipment	3-5	38,486	35,395
		3,430,399	3,405,297
Less Accumulated Depreciation		2,350,244	2,273,565
		1,080,155	1,131,732

5. NET ASSETS

The District has established a Reserve Fund to address emergencies which may occur in the future. Each year the District puts $100,001 into this fund.

Net assets without donor restrictions for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Undesignated	$ 1,874,254	$ 1,776,069
Designated	800,004	700,003
	2,674,258	2,476,072

6. TAX-EXEMPT STATUS

Rural Water District No. 4, Sedgwick County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability or expense.

While the District is not required to file tax returns, the activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

7. RISKS & UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries including the U.S. On March 11, 2020, The World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 12, 2020, a State of Disaster Emergency was proclaimed for the State of Kansas. On March 28, 2020, the Governor of Kansas issued a stay at home order which has been partially suspended as of the date of these financial statements. There has been no significant impact to our operations as a result of these events. Future potential impacts may include disruptions to operations, but the potential for any disruptions is unknown at this time.

8. SUBSEQUENT EVENTS

Subsequent events were evaluated for disclosure through April 26, 2022, the date these financial statements are available to be issued, and no events requiring disclosure were identified.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS
SCHEDULE I - SCHEDULE OF INSURANCE
DECEMBER 31, 2021

Employer's Mutual Casualty Company

Coverage	Expiration	Terms	Liability Limits	Annual Premium
General Liability	3/1/2022	General Aggregate	$1,000,000	$ 8,410
		Products	1,000,000	
		Personal Injury	500,000	
		Per Occurrence	500,000	
		Damage to Rented Premises	300,000	
		Medical-Per Person	5,000	
Automobile Liability		Combined Single	500,000	
Worker's Compensation		Accident	500,000	
		Disease-Policy	500,000	
		Disease-Employee	500,000	
Property		Blanket Limit	1,033,650	
Linebacker		Aggregate	1,000,000	
		Per Occurrence	500,000	
Crime		Per Occurrence	10,000	
EDP (Data Processing)		Per Occurence	4,480	
Cybersolutions		Computer Attack	100,000	
		Response Limit	50,000	

See Independent Auditors' Report.