

RURAL WATER DISTRICT NUMBER 4

Osage County
Waverly, Kansas

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

October 31, 2021

RURAL WATER DISTRICT NUMBER 4
Osage County
Waverly, Kansas

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INDEPENDENT AUDITOR'S REPORT

To the Directors
Rural Water District #4
Osage County
Waverly, Ks

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rural Water District Number 4, Osage County, Waverly, Ks., (the District) as of and for the year ended October 31, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparations and fair presentation of the financial statement 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 entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

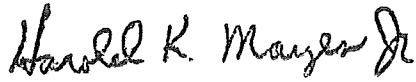
Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the business-type activities of Rural Water District Number 4, Osage County, Waverly, Ks. as of October 31, 2021 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rural Water District Number 4, Osage County, Waverly, Ks. has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's basic financial statements. Schedule 1 and 2 as listed in the table of contents are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements 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 statements itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, revenues and expenses compared to budgets are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Harold K. Mayes Jr." The signature is written in a cursive, flowing style.

Harold K. Mayes Jr. CPA
Agler & Gaeddert, Chartered
Ottawa, Ks.
May 12, 2022

Rural Water District Number 4
Osage County
Waverly, Kansas
STATEMENT OF NET POSITION
December 31,

ASSETS	
Current Assets	
	2021
Cash	\$ 60,805
Savings Account	19,511
Certificates of Deposit	278,797
Accounts Receivable	<u>24,852</u>
Total current assets	<u>383,965</u>
 Property, Plant & Equipment	
Land	8,146
Office Furniture & Equipment	8,143
Buildings	45,293
Towers	252,750
Wells, Lines, Meters	<u>2,492,681</u>
	2,807,013
Accumulated Depreciation	<u>(1,572,204)</u>
Total Property, Plant & Equipment	<u>1,234,809</u>
Total Assets	\$ <u><u>1,618,774</u></u>
 LIABILITIES & NET POSITION	
Current Liabilities	
Accounts Payable	\$ 852
Prepayments On Line Installations	3,723
Payroll Liabilities	<u>88</u>
Total Current Liabilities	<u>4,663</u>
 Net Position	
Invested in Capital Assets, Net of Related Debt	1,234,809
Unrestricted Net Position	<u>379,302</u>
Total Net Position	<u>1,614,111</u>
Total Liabilities & Net Position	\$ <u><u>1,618,774</u></u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 4
Osage County
Waverly, Kansas
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31,

Operating Revenues		2021
Water Sales	\$	140,654
Basic Service		100,251
Capital Improvement		9,186
Late Charges and Reconnect Fees		5,039
Other Water Sales		6,570
Total Revenues		<u>261,700</u>
Cost of Sales		
Cost of Water		56,765
Chemicals & Supplies		21,366
Water Protection & Other Fees		2,654
Total Cost of Sales		<u>80,785</u>
Gross Profit		<u>180,915</u>
Operating Expenses		
Wages & Payroll Taxes		54,008
Repairs & Maintenance		28,840
Vehicle Expenses		10,490
Utilities & Phone		14,857
Professional Services - Attorney & Accounting		6,530
Insurance		11,134
Supplies		1,783
Contract Labor		3,900
Small Equipment		5,570
Mileage Reimbursement		161
Office Supplies & Postage		3,943
Warranty Services		5,600
Dues & Memberships		516
Education/Training/Conference		480
Director Expenses		323
Box Rent/Bank Charges/Returned Checks		42
Other		119
Depreciation		76,377
Total Operating Expenses		<u>224,673</u>
Total Operating Income (Loss)		<u>(43,758)</u>
Non-Operating Revenues (Expenses)		
Rental Income		3,800
Interest Income		3,787
Total Non-Operating Income (Loss)		<u>7,587</u>
Other Revenues and (Expenses)		
Sales of Benefit Units		30,000
Net Income		<u>(6,171)</u>
Net Position, Beginning of Year		<u>1,620,282</u>
Net Position, End of Year	\$	<u><u>1,614,111</u></u>

The accompanying notes are an integral part of this statement.

Rural Water District Number 4
Osage County
Waverly, Kansas
STATEMENT OF CASH FLOWS
For the Years Ended December 31,

Cash flows from operating activities	2021
Cash Received From Customers	\$ 270,037
Cash Paid For Water	(80,785)
Cash Paid to Suppliers	(97,329)
Cash Paid to Employees (Including Payroll Taxes & Benefits)	<u>(53,928)</u>
Net Cash Provided By (Used In) Operating Activities	<u>37,996</u>
 Cash flows provided by (used in) financing activities	
Water benefit units proceeds	<u>30,000</u>
Net cash provided by (used in) financing activities	<u>30,000</u>
 Cash flows provided by (used in) investing activities:	
Purchases of property and equipment (net of reimbursements)	(73,800)
Rental Income	3,800
Interest Income	<u>3,787</u>
Net cash provided by (used in) investing activities	<u>(66,213)</u>
Net increase (decrease) in cash and cash equivalents	1,783
Cash and cash equivalents, beginning of year	<u>78,533</u>
Cash and cash equivalents, end of year	\$ <u><u>80,316</u></u>
 Cash Balances	
Cash Operations	\$ 60,805
Savings	<u>19,511</u>
	\$ <u><u>80,316</u></u>
 Reconciliations of operating income to net cash provided by (used in) operating activities	
Operating income	\$ (43,758)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	76,377
Changes in assets and liabilities not current affecting cash:	
(Increase) Decrease in accounts receivable	8,337
Increase (Decrease) in account payable	(3,041)
Increase (Decrease) in other payables	<u>81</u>
	\$ <u><u>37,996</u></u>

The accompanying notes are an integral part of this financial statement.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting principles consistently applied in the preparation of the accompanying financial statements are noted as follows.

1. Financial Reporting Entity

The scope of the entity for financial reporting purposes is defined as those funds for which the Rural Water District Number 4 (here in referred to as the District) is considered to be financially accountable. The District's financial statements include all of its operations. The District is a separately administered organization. The District has no component units. The District is a quasi-municipality governed by an elected five-member board.

2. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The government-wide financial statements include the statement of net position. This statement reports financial information for the District as a whole. Individual funds are not displayed but the statements distinguish between governmental activities generally supported by taxes and general revenues (of which the District does not have any), from the business-types activities, generally financed in whole or in part with fees charged to external customers. The District is a special-purpose government engaged in a single governmental program (delivery of water to customers in the Coffey and Osage Counties area).

The statement of revenues, expenses and changes in net position reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities, expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services that report fees, fines and forfeitures, and other charges to users of the District's services; (2) members deposits water meters. All other revenues and expenses not properly included with program revenues or meter deposits will be reported as other revenues and expenses.

The District has just one fund to present in the basic financial statements that accounts for water sales and service to customers of the District. This fund is reported as an enterprise fund.

3. Measurement focus and Financial Statement Presentation

The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when relate cash flows take place. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Reimbursements are reported as reductions to expenses or capital assets.

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the District. Operating revenues are charges to customers for sales or services. Operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Non-operating revenues and expenses consist of gain (loss) on sales of assets, realized and unrealized gains and losses on investments, and investment income. Other revenues and expenses consist primarily of benefit units sold or refunded.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Budgets are adopted for internal use only and are not required to be published or approved by outside agencies. All budgets are prepared using the accrual basis of accounting.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

NOTE A. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

4. Fund Types and Major Funds

Governmental funds: The District has no governmental funds.

Business-type funds: The District has one major enterprise fund. The Water fund accounts for the operating activities of the District's water utilities services.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are short term, highly liquid investments having original maturities of three months or less, not restricted for contingencies.

6. Accounts Receivable

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

7. Property, Plant and Equipment

Property, plant and equipment are reported at cost. Major improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable assets are charged to expenses as incurred. Historically, the District has received reimbursements from customers (i.e. line extensions) which are accounted for as reductions of costs.

Depreciation is provided on the straight-line basis over the estimated useful life of the assets as follows:

Well Sites	40 years
Office Building & Equipment	3 to 40 years
Distribution System	10 - 40 years

The District capitalization policy is items with a cost of \$5,000 or more are capitalized.

8. Income Tax

The District is not subject to federal or state income taxes as a quasi-governmental unit.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Revenues

Operating revenues and expenses included the sale of water and the expenses associated with pumping and cleaning the water. Non-operating revenues and expenses consist of investment income and sales of assets.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

NOTE A. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

11. Deferred Outflows and Inflows of Resources

The District does not have any deferred outflows or inflows to report at the current time.

12. Restricted and Unrestricted Resources

The District's policy is to first expend restricted resources should the expenditure qualify for the restricted purpose before expending unrestricted funds.

NOTE B - ASSETS, LIABILITIES AND NET POSITION

1. Cash 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 bank to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk - State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The District has no investments other than money markets.

Custodial credit risk – deposits: Custodial credit risk is the risk that in the event of a bank failure, the District 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%. There were no designated "peak periods" during the year. All bank deposits were legally secured at October 31, 2021.

At December 31, 2021, the carrying amount of the District's cash was \$359,113 and the bank balance was \$357,625. The bank balance was held by three banks, which reduces concentration of credit risk. The difference between carrying amount and bank balance is outstanding checks and deposits. Of the bank balance, \$357,625 was covered by federal depository insurance.

Investments - K.S.A. 12-1675 authorizes 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.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the District's investments will decrease as a result of an increase in interest rates. In accordance with Kansas Statute 12-1675, the District limits its investments to maturities with less than two years.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

NOTE B. - ASSETS, LIABILITIES AND NET POSITION - continued

1. Cash and Investments - continued

Credit Risk

Credit risk is the risk that the counterparty will not fulfill its obligations. The District does not have any investments that would be subjected to credit risk.

2. Accounts Receivable

Accounts receivable	2021
Currently due from customers	\$ 22,729
Past due from customers	2,122
	<u>\$ 24,851</u>

3. Capital Assets are detailed as follows:

	2021			
Capital assets	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 8,146	\$ 0	\$ 0	\$ 8,146
Office Furniture & Equipment	8,143	0	0	8,143
Buildings	45,293	0	0	45,293
Towers	252,750	0	0	252,750
Wells, Lines , Meters	<u>2,418,881</u>	<u>73,800</u>	<u>0</u>	<u>2,492,681</u>
Totals at cost	2,733,213	73,800	0	2,807,013
Accumulated depreciation:	<u>1,495,827</u>	<u>76,377</u>	<u>0</u>	<u>1,572,204</u>
Net Fixed Assets	<u>\$ 1,237,386</u>	<u>\$ (2,577)</u>	<u>\$ 0</u>	<u>\$ 1,234,809</u>

There were no impairment of capital assets as described above as of October 31, 2021

4. Compensated Absences

The District does not have a formal policy for the accruing vacation or sick leave.

The District does not have any employee benefits.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

NOTE C. - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The District adopts an internal budget for the support and maintenance of the District.

2. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended October 31, 2021.

NOTE D. - OTHER INFORMATION

1. Contracts and Concentrations

The District has a 40-year agreement with the Public Wholesale Water Supply District No. 12 (PWWSO 12) to purchase water in quantities as may be required by the District not to exceed 1,200,000 gallons per month. The District is required to purchase a minimum amount of 600,000 gallons of water per month. The District purchased 10,659,000 gallons for the year ended October 31, 2021. For the year ended October 31, 2021 the District purchases per month exceeded the 600,000 gallons minimum. Thus the District was not required to pay any amount for being under the 600,000 gallons minimum. The rate paid by the District for October 31, 2021 was \$5 per 1,000 gallons for a total of \$53,295.

2. Leases

The District has a lease agreement whereby the District leases a well site. The lease shall remain in full force and effect as long as the premises are used for the production of water from any water wells. In consideration, the District (lessee) guarantees payment of \$1.08 per 1,000 gallons pumped, with the minimum annual amount being 3,000,000 gallons. The District agrees to pay the lessor for any gallons pumped over the minimum at a rate set by both the lessee and the lessor. In 2021, the District pumped 3,212,963 gallons, from the Kistner Well Field. The Kistner's were charged a total of \$6,268 for water usage, which was included in water sales. Since the District exceeded the minimum number of gallons, no payment is due to Kistner for the current year end.

3. Grants

	Coffey County	Farmers Home Administration	Total
Balance, Beginning of Year	\$ 486,235	\$ 116,000	\$ 602,235
Additions	0	0	0
Reductions	0	0	0
Balance end of Year	<u>\$ 486,235</u>	<u>\$ 116,000</u>	<u>\$ 602,235</u>

4. Risk Management

The District is exposed to various risks of loss related to torts' theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. During the last three years, claim settlements have not exceeded insurance coverage.

Rural Water District Number 4
Osage County
Waverly, Kansas
NOTES TO FINANCIAL STATEMENTS
October 31, 2021

5. Related Party

The board members of the District purchase water from the District. The District has an employee that also provides contracting services. During the year ended October 31, 2021 the District paid \$35,935 for services.

6. Net Position

Net position in proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through State statute. As of October 31, 2021, the District did not have any restricted net positions.

7. Subsequent events

Management has evaluated events through May 12, 2022 and has determined there are no significant events that require disclosure.

SUPPLEMENTARY INFORMATION

Rural Water District Number 4

Osage County

Waverly, Kansas

SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET

For the Year Ended December 31, 2021

			<u>Schedule 1</u>
			Variance
			Favorable
			(Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
Operating Revenues			
Water Sales	\$ 148,950	\$ 140,654	\$ (8,296)
Basic Service	108,000	100,251	(7,749)
Capital Improvement	10,080	9,186	(894)
Late Charges and Reconnect Fees	4,275	5,039	764
Other Water Sales	0	6,570	6,570
Total Operating Income	<u>271,305</u>	<u>261,700</u>	<u>(9,605)</u>
Cost of Sales			
Cost of Water	54,804	56,765	(1,961)
Chemicals & Supplies	12,600	21,366	(8,766)
Water Protection & Other Fees	3,100	2,654	446
Total Cost of Sales	<u>70,504</u>	<u>80,785</u>	<u>(10,281)</u>
Gross profit	<u>200,801</u>	<u>180,915</u>	<u>(19,886)</u>
Operating Expenses			
Wages & Payroll Taxes	62,616	54,008	8,608
Repairs & Maintenance	45,000	28,840	16,160
Vehicle Expenses	10,200	10,490	(290)
Utilities & Phone	12,100	14,857	(2,757)
Professional Services - Attorney & Accounting	2,483	6,530	(4,047)
Insurance	12,600	11,134	1,466
Supplies	0	1,783	(1,783)
Contract Labor	4,050	3,900	150
Small Equipment	0	5,570	(5,570)
Mileage Reimbursement	1,800	161	1,639
Office Supplies & Postage	4,744	3,943	801
Warranty Services	4,650	5,600	(950)
Dues & Memberships	490	516	(26)
Education/Training/Conference	1,400	480	920
Director Expenses	840	323	517
Box Rent/Bank Charges/Returned Checks	315	42	273
Other	315	119	196
Depreciation	46,311	76,377	(30,066)
Total Operating Expenses	<u>209,914</u>	<u>224,673</u>	<u>(14,759)</u>
Total Operating Income (Loss)	\$ <u>(9,113)</u>	\$ <u>(43,758)</u>	\$ <u>(34,645)</u>
Non-Operating Revenues (Expenses)			
Rental Income	4,100	3,800	300
Interest Income	7,893	3,787	(4,106)
Total Non-Operating Income (Loss)	<u>11,993</u>	<u>7,587</u>	<u>(3,806)</u>
Other Revenues and (Expenses)			
Sales of benefit units	0	30,000	30,000
Net Income	\$ <u>2,880</u>	\$ <u>(6,171)</u>	\$ <u>(8,451)</u>

See Independent Auditor's Report.

Rural Water District Number 4
Osage County
Waverly, Kansas
SCHEDULE OF STATISTICAL INFORMATION
For the Year Ended December 31, 2021

	<u>Schedule 2</u>
Gallons Sold	15,637,000
Gallons Used In Clearing Lines Etc	1,224,000
Gallons Lost	2,958,000
Gallons Purchased/Produced	19,819,000
Water Loss Percentage	14.93%
Number of Units	340
Average Monthly Customer's Water Bill	\$ 64
Average Monthly Costs & Expenses Per Customer	\$ 55
Average Monthly Gallons Used Per Customer	3,833

See Independent Auditor's Report.