RURAL WATER DISTRICT NO. 7
OSAGE COUNTY, KANSAS

Independent Auditor's Report
and Financial Statement with
Supplementary Information

For the Year Ended
December 31, 2025

RURAL WATER DISTRICT NO. 7
Osage County, Kansas

TABLE OF CONTENTS

	PAGE NUMBER
Independent Auditor's Report	1-3
Statement 1	
Summary Statement of Receipts, Expenditures, and Unencumbered Cash – Regulatory Basis	4
Notes to Financial Statement	5–9
SUPPLEMENTARY INFORAMTION:	
Schedule 1	
Schedule of Receipts and Expenditures – Actual – Regulatory Basis (With Comparative Actual Amounts for the Prior Year)	
Water Utility Fund	10

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 7
Osage 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 No. 7, Osage County, Kansas, as of and for the year ended December 31, 2025 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 Rural Water District No. 7, Osage County, Kansas as of December 31, 2025, or changes in financial position 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 Rural Water District No. 7, Osage County, Kansas as of December 31, 2025, 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 Rural Water District No. 7, Osage County, Kansas 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.

Responsibilities of Management for the Financial Statement
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; 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.

In preparing the financial statement, management is required to evaluate whether 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 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.

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 receipts and expenditures-actual-regulatory basis for each individual fund (Schedule 1 as listed in the table of contents) is presented for purposes of additional 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 accompanying supplementary 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 also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of Rural Water District No. 7, Osage County, Kansas as of and for the year ended December 31, 2024 (not presented herein), and have issued our report thereon dated February 28, 2025, which contained an unmodified opinion on the basic financial statement. The 2024 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 https://admin.ks.gov/offices/accounts-reports/local-government/municipal-services.
The 2024 actual column (2024 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures—actual for the year ended December 31, 2025 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such 2024 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 2024 basic financial statement. The 2024 comparative information was subjected to the auditing procedures applied in the audit of the 2024 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 2024 basic financial statement or to the 2024 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 2024 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, 2024, on the basis of accounting described in Note 1.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

March 2, 2026
Chanute, Kansas

RURAL WATER DISTRICT NO. 7

Osage County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash

Regulatory Basis

For the Year Ended December 31, 2025

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash December 31, 2025
Business Funds:						
Water Utility	$ 739,513.33	$ 705,228.57	$ 681,291.81	$ 763,450.09	$ 56,530.23	$ 819,980.32
Total Reporting Entity	$ 739,513.33	$ 705,228.57	$ 681,291.81	$ 763,450.09	$ 56,530.23	$ 819,980.32

Composition of Cash:	
Bank of Osage City	
Checking Account	$ 73,202.85
Savings Account	100,169.78
Certificates of Deposit	563,679.86
Kansas Department of Health and Environment	
Loan Reserve Account	82,927.83
Total Cash and Investments	$ 819,980.32

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

RURAL WATER DISTRICT NO. 7
Osage County, Kansas

Notes to Financial Statement
For the Year Ended December 31, 2025

1. SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity
Rural Water District No. 7, Osage County, Kansas (the District) was organized under Kansas law and provides water to rural Osage County in Kansas. Rural Water District No. 7, Osage County, Kansas, is a municipal corporation governed by an elected nine-member board.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the District. Related municipal entities are not required to be included in the District's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types
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, restrictions, or limitations.

The following types of funds comprise the financial activities of the Rural Water District No. 7, Osage County, Kansas for the year of 2025:

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

Basis of Accounting
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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)
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.

Reimbursed Expenses
The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives the reimbursement.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Kansas Statutes
Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas.

The District agrees to fix, establish, maintain and collect such rates, fees or charges for Water Utility service which will be sufficient to enable the District to have, in each fiscal year, Net Revenues in an amount that will not be less than 125% of the Debt Service Requirements required to be paid by the District during that fiscal year on their state revolving loan at the time outstanding. Net income is defined as gross income less operating expenses, but before any transfers, depreciation and capital expense. For the year ended December 31, 2025, the District had net revenues available for debt service of $117,385.44, which is 285.96%. The loan agreement defines net revenues available for debt service to be revenues, less ordinary and necessary expenses of operating the system, but not including charges for interest and principal paid on the loan, or charges for depreciation. Therefore, this amount consists of receipts over expenditures, less debt service expenditures and capital outlay. Capital outlay is not considered to be an ordinary expense.

3. 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 branch 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.

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.

3. 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. 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.

At December 31, 2025, the District's carrying amount of deposits was $737,052.49 and the bank balance was $738,294.45. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $424,614.59 was covered by Federal depository insurance and $313,679.86 was collateralized with securities held by the pledging financial institutions' agents in the District's name. An additional $82,927.83 was held in reserves by the State.

4. BENEFIT UNIT DEPOSITS

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to the rural water line. In 2025, there were five new benefit units added, with the new deposits totaling $30,000.00. These deposits are treated as receipts in the year received.

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; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

6. CONCENTRATION OF RISK

The District's customers are located in eastern Kansas. Risk of accounting loss exists from the possibility that numerous customers would no longer purchase water from the District. Impact of potential risk cannot be determined. The District is subject to the credit risk inherent in the rural water district business.

7. ECONOMIC DEPENDENCY

Currently, the District purchases its water from the City of Osage City, Kansas. To continue serving its patrons, the District is dependent upon the city to provide adequate, reasonably priced water. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the ability to purchase water from the City of Osage City, Kansas. Under the terms of a fifteen-year agreement between the entities, the District must annually pay for a minimum of 30,660,000 gallons of water. During 2025, the District purchased water in the amount of $321,818.16 from the City of Osage City, Kansas.

8. LONG-TERM DEBT

Changes in long-term debt for the District for the year ended December 31, 2025, were as follows:

Issue	Interest Rates	Date of Issue	Original Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Revolving Loan									
Kansas Public Water Supply 2652	2.74%	8/9/2013	$ 829,278.28	2/1/2035	$ 372,359.88	$ -	$ 31,057.80	$ 341,302.08	$ 9,991.36
Total Contractual Indebtedness					$ 372,359.88	$ -	$ 31,057.80	$ 341,302.08	$ 9,991.36

	2026	2027	2028	2029	2030	2031 - 2035	Total
Principal							
Revolving Loan							
Kansas Public Water Supply 2652	$ 31,914.61	$ 32,795.06	$ 33,699.80	$ 34,629.50	$ 35,584.85	$ 172,678.26	$ 341,302.08
Total Prinicipal Payments	31,914.61	32,795.06	33,699.80	34,629.50	35,584.85	172,678.26	341,302.08
Interest							
Revolving Loan							
Kansas Public Water Supply 2652	9,134.55	8,254.10	7,349.36	6,419.66	5,464.31	12,042.96	48,664.94
Total Interest Payments	9,134.55	8,254.10	7,349.36	6,419.66	5,464.31	12,042.96	48,664.94
Total Payments	$ 41,049.16	$ 41,049.16	$ 41,049.16	$ 41,049.16	$ 41,049.16	$ 184,721.22	$ 389,967.02

9. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

There is no written, formal policy for vacation and sick leave. However, all employees are awarded one week of vacation each year.

The District determines a liability for compensated absences when the following conditions are met:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation related to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and is material to the financial statements.

In accordance with the above criteria, the District has estimated a liability for vacation pay in the amount of $0.00.

10. RELATED PARTY TRANSACTIONS

All board members of the District are benefit unit owners and customers.

11. SUBSEQUENT EVENTS

The District evaluated events and transactions occurring subsequent to year end, and there were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure in the financial statement.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 7
Osage County, Kansas
Water Utility Fund
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Amounts for the Prior Year Ended December 31, 2024)

	Prior Year Actual	Current Year Actual
Receipts		
Water Sales	$ 637,622.35	$ 630,896.80
Late Charges	10,138.00	9,400.00
Rentals	2,960.00	2,960.00
Benefit Units	36,000.00	30,000.00
Interest Income	25,993.32	24,236.66
Reimbursements	2,300.00	-
Miscellaneous	14,604.88	7,735.11
Total Receipts	729,618.55	705,228.57
Expenditures		
Personal Services		
Salaries and Payroll Tax	94,532.36	116,839.44
Contractual		
Rent	399.23	417.40
Office - Utilities & Telephone	21,798.78	22,680.88
Lab Tests	815.00	1,690.00
Other Taxes	1,135.68	1,183.98
Legal and Professional	8,794.07	12,618.00
Repairs and Maintenance	39,858.37	48,860.34
Insurance	16,610.26	17,314.51
Computer Software	2,682.12	4,991.99
Dues, Subscriptions, and Meetings	1,807.68	1,995.54
Postage	3,607.14	3,660.81
Miscellaneous	5,674.70	1,640.80
Commodities		
Water Purchased	356,985.28	321,818.16
Office Supplies	8,062.32	8,789.13
Materials and Equipment	64,750.87	23,342.15
Capital Outlay	27,855.13	52,399.52
Debt Service		
Principal	52,188.30	31,057.80
Interest	11,138.68	9,991.36
Total Expenditures	718,695.97	681,291.81
Receipts Over (Under) Expenditures	10,922.58	23,936.76
Unencumbered Cash, Beginning	728,590.75	739,513.33
Unencumbered Cash, Ending	$ 739,513.33	$ 763,450.09

Jarred Gilmore Phillips

Board of Directors
Rural Water District No. 7
Osage County, Kansas

In planning and performing our audit of the financial statement of Rural Water District No. 7, Osage County, Kansas as of and for the year ended December 31, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered Rural Water District No. 7, Osage County, Kansas' system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 7, Osage County, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 7, Osage County, Kansas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatements of the District's financial statement will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

Preparation of Financial Statement

Professional standards require management to accept responsibility for the preparation and fair presentation of the financial statement, including related note disclosures. The District engages the auditor to assist in drafting the financial statement in accordance with the Kansas Municipal Audit and Accounting Guide. The District does not have personnel with specialized training in governmental financial reporting necessary to independently prepare the complete financial statement and related disclosures. Accordingly, management relies on the auditor for preparation of the financial statement. While this condition is common among smaller governmental entities and does not reflect on management's integrity or oversight, it represents a deficiency in internal control over financial reporting because the preparation of the financial statement is not performed by individuals independent of the audit process.

Management has reviewed and approved the financial statement and has accepted responsibility for them. We encourage management and the Board to continue their oversight of the financial reporting process and to remain informed of reporting requirements.

Segregation of Duties

Due to the limited number of personnel, complete segregation of duties is not achievable. As a result, certain internal control functions are necessarily performed by the same individual. Under auditing standards generally accepted in the United States, this condition represents a significant deficiency in internal control, as it increases the risk that errors or irregularities could occur and not be detected on a timely basis.

This comment is provided as a reminder to the Board of Directors of its fiduciary oversight responsibilities, rather than as a recommendation for corrective action. Management and the Board are aware of this limitation and have determined that the costs associated with additional staffing or restructuring would outweigh the related benefits at this time.

Accordingly, the Board should continue to exercise diligent financial oversight, including active involvement in the review of financial information and monitoring of fiscal activities, to mitigate the risks inherent in this condition.

This communication is intended solely for the information and use of management, the Board of Directors, and others within Rural Water District No. 7, Osage County, Kansas, and is not intended to be and should not be used by anyone other than these specified parties.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

Chanute, Kansas
March 2, 2026