Rural Water District No. 3, Mitchell County, Kansas

Financial Statements
As of October 31, 2024 and 2023
and For the Years 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. 3, Mitchell County, Kansas
2031 N. Independence Ave.
Beloit, KS 67420

February 5, 2025

Independent Auditor's Report

Opinion
We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 3, Mitchell County, Kansas (the District), as of and for the years ended October 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of October 31, 2024 and 2023, 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.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Auditing and Accounting Guide*. Our responsibilities under those standards are further described below in the *Auditor's Responsibilities for the Audit of the Financial Statements* 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 audit opinion.

Other Matters
Management has omitted 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 basis financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

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 the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's 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 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 statements.
- 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 1,279,856	$ 1,273,314
Accounts receivable	51,931	9,188
Total Current Assets	1,331,787	1,282,502
Noncurrent Assets		
Capital assets, net	1,165,787	1,309,539
Capital credits	48,396	44,619
Total Noncurrent Assets	1,214,183	1,354,158
Total Assets	$ 2,545,970	$ 2,636,660
Liabilities and Net Position		
Liabilities (each is current)		
Accounts payable	$ 47,134	$ 168,180
Accrued liabilities	2,612	1,922
Security deposits	12,347	11,747
Total Liabilities	62,093	181,849
Net Position		
Net investment in capital assets	1,165,787	1,203,455
Unrestricted	1,318,090	1,251,356
Total Net Position	2,483,877	2,454,811
Total Liabilities and Net Position	$ 2,545,970	$ 2,636,660

	2024	2023
Operating Revenues		
Water sales	$ 566,098	$ 591,941
Monthly minimums and surcharges	298,866	292,478
Total Operating Revenues	864,964	884,419
Operating Expenses		
Water purchases	389,199	352,905
Materials and supplies	91,303	55,916
Payroll	148,637	136,094
Contract Labor	58,087	23,248
Office expense and software	23,547	21,326
Professional fees	22,358	9,793
Depreciation	164,064	165,039
Employee benefits	60,932	60,005
Miscellaneous expense	14,378	15,292
Repairs and maintenance	7,174	9,432
Property taxes	4,772	4,861
Utilities	44,259	44,047
Insurance	33,722	33,852
Total Operating Expenses	1,062,432	931,810
Operating Loss	(197,468)	(47,391)
Nonoperating Revenue		
Interest income	31,749	4,810
Rent	980	3,080
Patronage dividends	14,017	5,199
Other income	1,131	8,322
Gain on sale of capital assets	24,500	-
Total Nonoperating Income	72,377	21,411
Net Loss Before Contributions	(125,091)	(25,980)
Capital Contributions		
Benefit units	16,800	9,600
Aid in construction	137,357	27,088
Total Capital Contributions	154,157	36,688
Total Changes in Net Position	29,066	10,708
Net Position – Beginning	2,454,811	2,444,103
Net Position – Ending	$ 2,483,877	$ 2,454,811

	2024	2023
Cash Flows from Operating Activities		
Cash received from customers	$ 819,044	$ 885,116
Cash paid to suppliers	(870,777)	(620,505)
Cash paid to employees	(147,947)	(135,417)
Net Cash Provided by (Used in) Operating Activities	(199,680)	129,194
Cash Flows from Investing Activities		
Interest income	31,749	4,810
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(20,312)	(137,534)
Cash received from sale of capital assets	24,500	-
Capital contributions	154,157	36,688
Other capital activities	16,128	16,601
Net Cash Provided by (Used in) Capital and Related Financing Activities	174,473	(84,245)
Net Increase in Cash and Cash Equivalents	6,542	49,759
Cash and Cash Equivalents – Beginning	1,273,314	1,223,555
Cash and Cash Equivalents – Ending	$ 1,279,856	$ 1,273,314
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (197,468)	$ (47,391)
Adjustments to reconcile operating net loss to net cash provided by (used in) operating activities		
Depreciation	164,064	165,039
Decrease in accounts receivable	(42,743)	(303)
Increase in capital credits	(3,777)	-
Increase (decrease) in accounts payable	(121,046)	10,172
Increase in accrued liabilities	690	677
Increase in security deposits	600	1,000
Net Cash Provided by (Used in) Operating Activities	$ (199,680)	$ 129,194
Supplemental Disclosure of Non-Cash Financing Activity		
Accounts payable for capital asset purchases	$ -	$ 106,084

Note 1: Summary of Significant Accounting Policies

Organization

Rural Water District No. 3, Mitchell County, Kansas (the District), was incorporated January 11, 1973 as a quasi-municipal corporation under Kansas Statute K.S.A. 82a-612 et seq., for the purpose of providing a water supply system for the benefit unit owners within the area of the District. The District is governed by a five-member board of directors. The following is a summary of the District's significant accounting policies.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District. The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation

Government-wide statements. The *statement of net position* and the *statement of revenues, expenses, and changes in net position* display information about the primary government, the District. These statements include the financial activities of the overall government business-type activities which are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The District reports the following proprietary (business-type enterprise) fund:

Water System Fund. This business-type enterprise fund accounts for the operation and maintenance of the water system of the District. All activities and balances of the entity are accounted for in this fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include capital contributions, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 they are needed.

Cash and Cash Equivalents

The District considers all bank deposit accounts, money market accounts and certificates of deposit classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are customer water bills that have been invoiced but remain unpaid. All receivables are due within one year. Receivables are reported net of an allowance for uncollectible accounts. The District provides an allowance for doubtful accounts based upon review of outstanding receivables, historical collection information and existing economic conditions. The allowance for uncollectible accounts was $0 for the years ended October 31, 2024 and 2023.

Capital Assets, Net

Capital assets purchased for $1,000 or more are capitalized at cost. The estimated useful lives of the assets range from 5 to 50 years. Capital assets purchased or built are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method over the following estimated useful lives: Water System and Equipment – 7 to 50 years; Buildings – 10 to 30 years; and Building Improvements – 10 to 20 years.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets– This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets"

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Income Taxes

The District is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Contributions

Benefit Units

Benefit units are rights that entitle the holder to water service from the District. For the years ended October 31, 2024 and 2023, benefit units were sold for $1,200, which covers the cost of a meter installation only. Members with previously installed meters that require reactivation are charged $600.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Contributions (Continued)

Aid in Construction

Aid in construction represents contributions from the members for line extensions or additional work to install a meter that is not covered by the benefit unit fee.

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.

Subsequent Events

The District has evaluated subsequent events through February 5, 2025 which is the date the financial statements were available to be issued.

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 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

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.

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 the District. Kansas statutes require the District's deposit 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%.

October 31, 2024

On October 31, 2024, the District's carrying amount of deposits was $1,279,856 and the bank balance was $1,273,159. The bank balance was held by three banks. Of the bank balance, $488,804 was covered by federal depository insurance and $905,893 was collateralized by the fair value of securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Note 2: Deposits and Investments (Continued)

October 31, 2023

On October 31, 2023, the District's carrying amount of deposits was $1,273,314 and the bank balance was $1,269,912. The bank balance was held by three banks. Of the bank balance, $682,652 was covered by federal depository insurance and $587,260 was collateralized by the fair value of securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Note 3: Capital Assets

Capital asset activity for the year ended October 31, 2024 was as follows:

	Balance on October 31, 2023	Additions	Retirements	Balance on October 31, 2024
Nondepreciable Capital Assets				
Land and easements	$ 71,632	$ -	$ -	$ 71,632
Depreciable Capital Assets				
Water system and equipment	4,779,890	20,312	-	4,800,202
Building	159,161	-	-	159,161
Building improvements	101,880	-	-	101,880
Vehicles	166,760	-	(34,000)	132,760
Total Depreciable Capital Assets	5,207,691	20,312	(34,000)	5,194,003
Cost Basis of Capital Assets	5,279,323	20,312	(34,000)	5,265,635
Less: Accumulated Depreciation	3,969,784	164,064	(34,000)	4,099,848
Capital Assets, Net	$ 1,309,539	$ (143,752)	$ -	$ 1,165,787

Capital asset activity for the year ended October 31, 2023 was as follows:

	Balance on October 31, 2022	Additions	Retirements	Balance on October 31, 2023
Nondepreciable Capital Assets				
Land and easements	$ 71,632	$ -	$ -	$ 71,632
Depreciable Capital Assets				
Water system and equipment	4,593,037	186,853	-	4,779,890
Building	159,161	-	-	159,161
Building improvements	101,880	-	-	101,880
Vehicles	109,995	56,765	-	166,760
Total Depreciable Capital Assets	4,964,073	243,618	-	5,207,691
Cost Basis of Capital Assets	5,035,705	243,618	-	5,279,323
Less: Accumulated Depreciation	3,804,745	165,039	-	3,969,784
Capital Assets, Net	$ 1,230,960	$ 78,579	$ -	$ 1,309,539

Note 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; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage through Fouts Insurance Agency, Inc. and Citizens State Agency in Beloit, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

Note 5: Retirement Plan

In June 2013, the District approved establishing a SIMPLE IRA retirement plan for employees. The District contributes 3% of the employee's salary to the plan. If employment is terminated, the SIMPLE IRA remains the property of the employee. For the years ended October 31, 2024 and 2023, the District contributed $3,854 and $3,654 to the retirement plan. The plan is administered by First National Bank and Trust.

Note 6: Compensated Absences Policy

The District approved a formal vacation leave policy. The policy does not address employees' carry over or payment at termination/retirement of unused vacation time. The District does not have a formal sick leave policy. Therefore, the value of compensated absences as of October 31, 2024 and 2023 is not reflected in the financial statements.

Note 7: Water Purchase Contract

In June of 2020, the District entered into a contract with the City of Beloit, Kansas (the City) to purchase water. The purchase price for the water shall be $3.10 per 1,000 gallons. The contract allows the City's governing body to increase its rate due to increases in costs of production, governmental rules and regulations, or requirements of stricter drinking water standards. The term of the contract shall be for a five-year period ending May 31, 2025. The contract will renew for subsequent one-year periods unless either party notifies the other, in writing, at least six months prior to the end of the original term. The District currently purchases all of its water from the City.

Note 8: Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Kansas Director of Accounts and Reports and interpretation by the County Attorney for Mitchell County, Kansas and legal representatives of the District. Management is not aware of any statutory violations during the years ended October 31, 2024 and 2023.