RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

Independent Auditor's Report and
Financial Statement with
Supplementary Information

For the Year Ended
December 31, 2022

RURAL WATER DISTRICT NO. 3
Butler County, Kansas

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3
Butler 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. 3, Butler County, Kansas, as of and for the year ended December 31, 2022 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. 3, Butler County, Kansas as of December 31, 2022, 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. 3, Butler County, Kansas as of December 31, 2022, 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 Opinion
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. 3, Butler 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 and budget-regulatory basis for each individual fund (Schedule 1 as listed in the table of contents) is presented for 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. 3, Butler County, Kansas as of and for the year ended December 31, 2021 (not presented herein), and have issued our report thereon dated March 10, 2022, which contained an unmodified opinion on the basic financial statement. The 2021 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 2021 actual column (2021 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures—actual and budget for the year ended December 31, 2022 (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 2021 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 2021 basic financial statement. The 2021 comparative information was subjected to the auditing procedures applied in the audit of the 2021 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 2021 basic financial statement or to the 2021 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 2021 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, 2021, on the basis of accounting described in Note 1.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

February 28, 2023
Chanute, Kansas

RURAL WATER DISTRICT NO. 3

Butler County, Kansas
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2022

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash December 31, 2022
Business Funds:						
Water Utility	$ 1,046,832.98	$ 502,783.66	$ 491,411.74	$ 1,058,204.90	$ 33,620.72	$ 1,091,825.62
Water Improvements	16,306.42	32,153.20	31,885.80	16,573.82	-	16,573.82
Total Reporting Entity	$ 1,063,139.40	$ 534,936.86	$ 523,297.54	$ 1,074,778.72	$ 33,620.72	$ 1,108,399.44

Composition of Cash:	
Change Fund	$ 50.00
Community National Bank:	
Checking Account	49,542.31
Savings Account	151,147.33
Sweep Account	907,659.80
Total Cash and Investments	$ 1,108,399.44

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

RURAL WATER DISTRICT NO. 3
Butler County, Kansas

Notes to Financial Statement
For the Year Ended December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity
Rural Water District No. 3, Butler County, Kansas (the District) was organized under Kansas law and provides water to rural Butler County in Kansas. Rural Water District No. 3, Butler County, Kansas, is a municipal corporation governed by an elected six-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. 3, Butler County, Kansas for the year of 2022:

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 Kansas Municipal Audit and Accounting Guide (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 municipality to use the regulatory basis of accounting.

Reimbursed Expenses
K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statement comparisons presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the Bookkeeper and are often difficult to identify the exact expenditure which they are reimbursing. In funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

Income Tax Status
Rural Water District No. 3, Butler County, Kansas is recognized by the Internal Revenue Service as a quasi-municipal corporation under K.S.A. 88a-616, and is exempt from Federal and Kansas income taxes. Accordingly, this financial statement does not present a provision for income taxes.

Budgetary Information
Rural water districts are not subject to Kansas statutes requiring a legally adopted budget.

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.

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.

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.

3. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2022, the District's carrying amount of deposits was $1,108,349.44 and the bank balance was $1,108,838.98. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $201,179.18 was covered by federal depository insurance and $907,659.80 was collateralized by a repurchase agreement.

4. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

5. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

All full-time employees are allotted two weeks of vacation after one year of service and three weeks after two years of service. Up to fifteen days may be rolled over to the new year. Any days not rolled over will be paid out at the end of year. At no time may more than 30 days be accumulated.

A liability should be accrued for compensated absences which meet the following criteria:

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 relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the District has estimated a liability for personal leave at December 31, 2022 to be $0.00.

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the District is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the Federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

6. ECONOMIC DEPENDENCY

Currently, the District purchases its water from Public Wholesale Water Supply District No. 8. To continue serving its patrons, the District is dependent upon Public Wholesale Water Supply District No. 8 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 Public Wholesale Water Supply District No. 8.

7. CONCENTRATION OF RISK

The District sells water to the City of Cassody, along with their rural customers. In 2022 the District sold 10.25 % of their sales to the City.

8. RELATED PARTY TRANSACTIONS

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

9. NUMBER OF CUSTOMERS SERVED

Customers served December 31, 2022	631
Customers served December 31, 2021	625

10. SUBSEQUENT EVENTS

The District evaluated events and transactions occurring subsequent to December 31, 2022. During this period, there were not subsequent events requiring recognition in the financial statement. Additionally, there were no non-recognized subsequent events requiring disclosure.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 3
Butler County, Kansas
WATER UTILITY FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for the Prior Year Ended December 31, 2021)

	Prior Year Actual	Current Year Actual
Receipts		
Operating Revenues		
Water Sales	$ 458,080.44	$ 489,935.55
Transfer Fees	1,137.51	300.00
Use of Money and Property		
Interest Income	12,398.47	10,359.46
Dividends	1,016.02	2,188.65
Other Receipts		
Insurance Proceeds	11,268.04	-
Operating Transfer From		
Water Improvements Fund	28,957.69	-
Total Receipts	512,858.17	502,783.66
Expenditures		
Utility Operations		
Operating Expenditures		
Personal Services	105,745.11	113,339.59
Contractual Services	145,452.16	130,725.96
Commodities	180,719.42	214,371.27
Capital Improvements	1,378.16	32,974.92
Total Expenditures	433,294.85	491,411.74
Receipts Over(Under) Expenditures	79,563.32	11,371.92
Unencumbered Cash, Beginning	967,269.66	1,046,832.98
Unencumbered Cash, Ending	$ 1,046,832.98	$ 1,058,204.90

RURAL WATER DISTRICT NO. 3
Butler County, Kansas
WATER IMPROVEMENTS FUND
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for the Prior Year Ended December 31, 2021)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Benefit Units Sold	$ 15,100.00	$ 24,000.00
Other Receipts		
Reimbursed Expense	1,200.00	8,153.20
Total Receipts	16,300.00	32,153.20
Expenditures		
Improvements		
Contracual Services	-	274.92
Capital Outlay	44,674.47	31,610.88
Operating Transfer to		
Water Utility Fund	28,957.69	-
Total Expenditures	73,632.16	31,885.80
Receipts Over(Under) Expenditures	(57,332.16)	267.40
Unencumbered Cash, Beginning	73,638.58	16,306.42
Unencumbered Cash, Ending	$ 16,306.42	$ 16,573.82

Jarred Gilmore Phillips

Board of Directors
Rural Water District No. 3
Butler County, Kansas

In planning and performing our audit of the financial statement of Rural Water District No. 3, Butler County, Kansas as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Rural Water District No. 3, Butler County, Kansas' 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. 3, Butler County, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 3, Butler 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 material weaknesses.

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, misstatements 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 misstatement of the District's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the District staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a District your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

Misreporting of Payroll

During our review of payroll during the audit, it was discovered that an employee was reimbursed for mowing work performed by his grandchildren for the District. While these payments weren't actually wages for the employee, it was paid out as part of his paycheck, giving the appearance that they were reimbursements for services provided by him to the District which in turn should have been reported on his W-2 and had taxes withheld from them. We suggest going forward that all checks are either issued to those who performed the work or a 1099 is issued to the individuals performing the service.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the District, 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
February 28, 2023