RURAL WATER DISTRICT NO. 3

Rooks County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2023

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
For the Year Ended December 31, 2023

BOARD OF DIRECTORS

Don Benoit – Chairman

Norma Braun – Vice-Chairman

Roger Comeau – Secretary/Treasurer

Jimmy Jackson

James Ochampaugh

Darren Rubottom

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
For the Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3
2335 Highway 183
Plainville, KS 67663

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2023 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 the Rural Water District No. 3, Rooks County, Kansas as of December 31, 2023, 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 financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Rural Water District No. 3, Rooks County, Kansas as of December 31, 2023, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of *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 Audit of the Financial Statement section of the report. We are required to be independent of the Rural Water District No. 3, Rooks County, Kansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements 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 the Rural Water District No. 3, Rooks 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.

Responsibility 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 Rural Water District No. 3, Rooks County, Kansas'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 if 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 Rural Water District No. 3, Rooks County, Kansas'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt the Rural Water District No. 3, Rooks County, Kansas'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 individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and are 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*. The schedule of changes in capital assets (Schedule 2 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement. 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 information is fairly stated in all material respects in relation to the basic financial statement taken 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 the Rural Water District No. 3, Rooks County, Kansas as of and for the year ended December 31, 2022 (not presented herein), and have issued our report thereon dated August 9, 2023, 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 http://www.admin.ks.gov/offices/accounts-reports/local-government/municipal-services. The 2022 actual column (2022 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures 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 2022 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 2022 basic financial statement. The 2022 comparative information was subjected to the auditing procedures applied in the audit of the 2022 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records use to prepare the 2022 basic financial statement or to the 2022 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 2022 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, 2022, on the basis of accounting described in Note 1.

Mapes & Miller LLP

Certified Public Accountants

September 11, 2024
Stockton, Kansas

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis
For The Year Ended December 31, 2023

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund:							
Water Utility Fund	$ 777,424	$ -	$ 573,884	$ 527,392	$ 823,916	$ 88,780	$ 912,696

COMPOSITION OF CASH:	
Solutions North Bank	
Stockton, Kansas	
Checking Account	$ 682,339
Money Market Account	99,996
Money Market Account	3,258
Total Solutions North Bank	785,593
Astra Bank	
Plainville, Kansas	
Certificates of Deposit	127,103
Total Reporting Entity	$ 912,696

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

RURAL WATER DISTRICT NO.3
Rooks County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended December 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The district was incorporated on September 21, 1976. Rural Water District No. 3 was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes. The purpose of the district is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the district, and to others as authorized by the by-laws.

Regulatory Basis Fund Types

The following regulatory basis fund types comprise the financial activities of the district for the year of 2023:

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.).

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.

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.

2. RESTRICTED UNENCUMBERED CASH

Under the terms of a loan resolution security agreement between the District and USDA Farmers Home Administration the following business fund cash is restricted for specific purposes:

	2023	2022
Unencumbered Cash Restricted for Reserve	$118,745	$118,745
Unencumbered Cash Available for Operations	705,171	658,679
Total Unencumbered Cash	$823,916	$777,424

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 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, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured as of December 31, 2023.

On December 31, 2023, the District's carrying amount of deposits was $912,696 and the bank balance was $915,674. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $377,103 was covered by federal depository insurance; $538,571 was collateralized with securities held by the pledging financial institutions' agents in the district's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. LOAN AND RESERVE REQUIREMENTS

As shown in Note12, on July 14, 2009 and April 17, 2012 the District entered into promissory note agreements with USDA Farmers Home Administration to borrow $1,153,000 and $942,000, respectively for the cost of construction of a water supply system and improvements. These agreements are secured by a real estate mortgage of the water system assets and operations.

Provisions of the loan agreements make the following requirements:

As required by the July 14, 2009 agreement each month the district shall transfer $495 into a Reserve Account until such account accumulated to $59,400. As shown in Note 2, this requirement has been met.

As required by the April 17, 2012 agreement each month the district shall transfer $495 into a Reserve Account until such account accumulated to $59,345. As shown in Note 2, this requirement has been met.

5. COMPLIANCE WITH KANSAS STATUTES

No statute violations noted in 2023.

6. COMPENSATED ABSENCES

The district provides two weeks of vacation and two weeks sick leave per year to the Operations Manager. No accrued benefits are paid upon termination.

7. RISK MANAGEMENT

Rural Water District No. 3 is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The district continues to carry commercial insurance coverage to cover these risks. The district has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

8. SUBSEQUENT EVENTS

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

9. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended Decmber 31, 2023, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Loan Agreements:									
USDA Rural Development	4.125%	07/14/09	1,153,000	07/14/49	$ 947,622	$ -	$ 20,236	$ 927,386	$ 38,708
USDA Rural Development	2.750%	04/17/12	942,000	04/17/52	781,281	-	17,628	763,653	21,264
Total Loan Agreements					$ 1,728,903	$ -	$ 37,864	$ 1,691,039	$ 59,972

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2024	2025	2026	2027	2028	2029-2033	2034-2038
PRINCIPAL							
Loan Agreements	$ 39,203	$ 40,595	$ 42,037	$ 43,532	$ 45,083	$ 250,768	$ 299,155
INTEREST							
Loan Agreements	58,633	57,241	55,799	54,304	52,753	238,412	190,025
Total Principal & Interest	$ 97,836	$ 97,836	$ 97,836	$ 97,836	$ 97,836	$ 489,180	$ 489,180

	2039-2043	2044-2048	2049-2052	Total
PRINCIPAL				
Loan Agreements	$ 357,287	$ 427,200	$ 146,179	$ 1,691,039
INTEREST				
Loan Agreements	131,893	61,980	5,936	906,976
Total Principal & Interest	$ 489,180	$ 489,180	$ 152,115	$ 2,598,015

RURAL WATER DISTRICT NO. 3

REGULATORY-REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas
BUSINESS FUND **Schedule 1**
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For The Year Ended December 31, 2023
(With Comparative Actual Total for the Prior Year Ended December 31, 2022)

WATER UTILITY FUND

	2023	2022
Receipts:		
Operating Receipts		
Water Sales	$ 392,126	$ 347,012
Monthly Meter Fees	145,160	142,296
Late Charges and Other Revenue	17,526	11,803
Other Income	918	5,072
Total Operating Receipts	555,730	506,183
Non-Operating Income		
Interest Income	8,154	2,021
Member Investments	10,000	5,000
Total Non-Operating Receipts	18,154	7,021
Total Receipts	573,884	513,204
Expenditures:		
Operator/Manager Salary	81,947	76,133
Secretary/Bookkeeper Salary	32,961	30,839
Director's Fees	9,403	9,444
Payroll Taxes	9,215	8,687
Contract Labor	50	-
Property Taxes	264	500
Auditing and Accounting	5,379	5,174
Bad Debts	1,627	610
Bank Charges	8	40
Lab Fees	638	1,472
Utilities	31,927	33,455
Operating Supplies, Maintenance and Repairs	73,346	60,121
Telephone and Internet	2,980	2,797
Postage	1,165	1,298
Office Supplies	2,588	900
Insurance	12,945	16,286
Vehicle Expense	14,556	16,329
Licenses, Dues and Subscriptions	1,036	1,920
Meeting Expense	4,110	3,119
Miscellaneous	914	1,569
USDA Interest Expense	59,972	61,266
USDA Loan Principal Payments	37,864	36,570
Capital Asset Purchases	142,497	5,665
Total Expenditures	527,392	374,194
Receipts Over (Under) Expenditures	46,492	139,010
Unencumbered Cash, Beginning	777,424	638,414
Unencumbered Cash, Ending	$ 823,916	$ 777,424

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023

RURAL WATER DISTRICT NO. 3
Rooks County, Kansas

Schedule 2

SCHEDULE OF CHANGES IN CAPITAL ASSETS
For the Year Ended December 31, 2023

	Capital Assets 1/1/2023	Additions	Deductions	Capital Assets 12/31/2023
Pumps, Treatment Equipment and Facilities	$ 521,670	$ 76,764	$ 252,758	$ 345,676
Wells	61,448	-	-	61,448
Transmission Lines and Storage Facilities	5,103,192	35,734	12,500	5,126,426
Easements	74,256	-	-	74,256
Office Equipment and Furniture	13,902	-	-	13,902
Vehicles	71,129	30,000	47,616	53,513
Buildings	658,864	-	-	658,864
Total Capital Assets	6,504,461	142,498	312,874	6,334,085
Less: Accumulated Depreciation	3,758,464	117,113	292,240	3,583,337
Net Capital Assets	$ 2,745,997			$ 2,750,748

Capital assets are recorded above at cost and are being depreciated over their estimated useful lives by use of the straight-line method. The following table reflects depreciation expense for 2023:

	Estimated Useful Life	
Equipment and Tools	10 years	$ -
Pumps, Treatment Equipment and Facilities	2-10 years	10,696
Wells	30-40 years	640
Transmission Lines and Storage Facilities	5-40 years	80,331
Office Equipment and Furniture	5-10 years	2,131
Vehicles	5 years	7,468
Buildings	7-39 years	15,847
Total Depreciation		$ 117,113