MCPHERSON RURAL WATER DISTRICT NO. 1

FINANCIAL STATEMENT

FOR THE YEAR ENDED
DECEMBER 31, 2025



LOYD GROUP, LLC

Certified Public Accountants

MCPHERSON COUNTY RWD #1

For the Year Ended December 31, 2025

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McPherson Rural Water District No. 1
Gypsum, Kansas 67448

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the McPherson Rural Water District No. 1, Kansas (District), a Municipal Financial Reporting Entity, 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 the District 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 the District 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 the District 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 summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts, expenditures-actual and budget (Schedules 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 it 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 McPherson Rural Water District No. 1, Kansas as of and for the year ended December 31, 2024 (not presented herein), and have issued their report thereon dated March 7, 2025, which contained an unmodified opinion on the basic financial statement. The 2024 basic financial statement and their 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/accountsreports/local-government/municipal-services. The 2024 actual column (2024 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures—actual and budget for the year ended December 31, 2025 (Schedule 2 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.

Loyd Group, LLC

Loyd Group, LLC
Galva, KS
July 15, 2026

MCPHERSON RURAL WATER DISTRICT NO. 1

STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
Regulatory Basis
For the Year Ended December 31, 2025

	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	$ 116,128	$ 487,826	$ 544,487	$ 59,467	$ -	$ 59,467
Total Financial Reporting Entity	$ 116,128	$ 487,826	$ 544,487	$ 59,467	$ -	$ 59,467

COMPOSITION OF CASH:	
Checking Account - Citizens State Bank	$ 19,467
CD - Citizens State Bank	40,000
Total Financial Reporting Entity	$ 59,467

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

MCPHERSON RURAL WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Municipal Financial Reporting Entity

The McPherson Rural Water District No. 1 (the "District") is a municipality governed by an appointed five-member board. The regulatory basis financial statement presents the District (the municipality) with no related municipal entities.

(b) Regulatory Basis Fund Types

General Fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund - used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund - used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Capital Project Fund - used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

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.).

Trust Fund - funds used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, scholarship funds, etc.).

Agency Fund - funds used to report assets held by the municipal reporting entity in a purely custodial capacity (i.e. payroll clearing fund, county treasurer tax collection accounts, etc.).

(c) 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.

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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

The District met as a Board one time during the year. KSA 12-5611(g) states that regular meetings of the board shall be held at least once each quarter.

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. Deposits were legally secured at December 31, 2025.

At December 31, 2025, the District's carrying amount of deposits was $59,467 and the bank balance was $167,276. Of the bank balance, $250,000 was covered by federal depository insurance.

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. CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with expenditures (excluding principal and interest, legal fees, etc.) from inception are as follows:

	Project Authorization	Expenditures to Date
Improvement project	$ 2,754,310	$ 1,819,575

5. LONG-TERM DEBT

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

Issue	Interest Rate	Date of Issue	Amount of issue	Maturity Date	Balance Beginning of Year	Additions	Reductions of Principal	Balance end of Year	Interest Paid
KPWSLF Project No. 3072	1.34%	08-15-13	$ 1,602,931	08-15-44	$ 727,010	$ -	$ 30,800	$ 696,210	$ 10,827
KPWSLF Project No. 3153	2.13%	04-20-23	500,000	Unknown	6,497	427,636	317,287	116,846	334
KPWSLF Project No. 3258	2.38%	08-07-24	900,000	Unknown	-	-	-	-	-
Totals			$ 3,002,931		$ 733,507	$ 427,636	$ 348,087	$ 813,056	$ 11,161

The District held a temporary loan with KDHE to draw on while completing their water project. This loan has been fully drawn. $500,000 has been forgiven, $30,800 of principal payments were paid in 2025, and the rest is expected to be paid off through semi-annual payments through 2044. No amortization schedule has been issued as of end of year.

The District held a temporary loan with KDHE to draw on while completing their water project, $465,265 has been drawn as of the end of the year. $348,419 has been forgiven and the rest is expected to be forgiven.

The District held a temporary loan with KDHE to draw on while completing their water project, nothing has been drawn on the loan. It is expected to be forgiven.

5. LONG-TERM DEBT (CONT.)

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

	Year						
	2026	2027	2028	2029	2030	2031 to 2035	Total
PRINCIPAL:							
KPWSLF Project No. 3072	See above paragraph related to future repayment.						
KPWSLF Project No. 3153	See above paragraph related to future repayment.						
KPWSLF Project No. 3258	See above paragraph related to future repayment.						

The above loans are still being drawn down. The final amortization schedules for repayment will be generated at the completion of projects. Therefore, there is not a current repayment schedule presented.

9. CLAIMS AND JUDGMENTS

The District participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of the date of this report, grant expenditures have not been audited, but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

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. The District has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2024 to 2025 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations the District is exposed to various claims, legal action and complaints. It is of the opinion of the District's management that any current matters are not anticipated to have a material impact on the District.

10. SUBSEQUENT EVENTS

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

MCPHERSON COUNTY RWD #1

REGULATORY-REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2025

MCPHERSON RURAL WATER DISTRICT NO. 1

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis
For the Year Ended December 31, 2025
(With Comparative Actual Totals for the Prior Year Ended December 31, 2024)

	2024 Actual	2025 Actual
Receipts:		
Sales	$ 59,354	$ 54,271
Service charges	632	804
Water sales	288	262
Interest	663	1,650
Rent income	1,440	1,440
Miscellaneous	1,574	1,763
County grant	24,000	-
Loan proceeds	1,049,089	427,636
Total Receipts	1,137,040	487,826
Expenditures:		
Personal services	23,028	24,012
Contractual services	10,154	6,360
Commodities	28,162	26,162
Capital outlay	1,016,431	437,447
Miscellaneous	824	783
Interest expense	1,760	10,363
Principal expense	-	30,800
Other insurance	6,142	8,560
Total Expenditures	1,086,501	544,487
Receipts Over (Under) Expenditures	50,539	(56,661)
Unencumbered Cash, Beginning	65,589	116,128
Unencumbered Cash, Ending	$ 116,128	$ 59,467