RURAL WATER DISTRICT NO. 1

Smith County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2024

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

RURAL WATER DISTRICT NO. 1
For the Year Ended December 31, 2024

BOARD OF DIRECTORS

Ralph Stepp – Chairman

Alan Hill – Vice-Chairman

Gary Gerstenkorn – Secretary

Dave Hommon - Treasurer

Gary Woods

RURAL WATER DISTRICT NO. 1
Smith County, Kansas
For the Year Ended December 31, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
P.O. Box 68
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Adverse and Qualified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 1, Smith County, Kansas as of and for the year ended December 31, 2024, 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 Qualified 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. 1, Smith County, Kansas as of December 31, 2024, or changes in financial position and cash flows thereof for the year then ended.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the Basis for Adverse and Qualified Opinions section of our report, 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. 1, Smith County, Kansas as of December 31, 2024, 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 Qualified 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 Rural Water District No. 1, Smith 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 qualified 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. 1, Smith 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.

Matter Giving Rise to Qualified Opinion on Regulatory Basis of Accounting

We were unable to obtain sufficient appropriate evidence regarding collections, billing and gallons of water sold. As a result the possible effects of undetected misstatements could 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. 1, Smith 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 there 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. 1, Smith 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. 1, Smith 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 schedules of regulatory basis receipts and expenditures (Schedules 1 as listed in the table of contents) are 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*. 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.

Mapes & Miller LLP

Certified Public Accountants

July 20, 2026
Stockton, Kansas

RURAL WATER DISTRICT NO. 1
Smith County, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis
For The Year Ended December 31, 2024

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	$ 3,311	$ -	$ 1,454,189	$ 1,356,019	$ 101,481	$ 233,335	$ 334,816
Bond and Interest Fund							
Debt Service Fund	123,824	-	56,519	8,067	172,276	-	172,276
Total Reporting Entity	$ 127,135	$ -	$ 1,510,708	$ 1,364,086	$ 273,757	$ 233,335	$ 507,092

COMPOSITION OF CASH:	
Guaranty State Bank & Trust	
Beloit, Kansas	
Checking Account	$ 156,155
Checking Account - Reserve	172,276
Money Market Account	26,867
Certificates of Deposit	151,794
Total Reporting Entity	$ 507,092

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

RURAL WATER DISTRICT NO.1
Smith County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended December 31, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The district was incorporated on December 28, 1993. Rural Water District No. 1 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 2024:

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.).

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.

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. RISK MANAGEMENT

Rural Water District No. 1 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.

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 to 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, 2024.

On December 31, 2024, the District's carrying amount of deposits was $507,092 and the bank balance was $507,197. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance; $257,197 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 Note 8, on November 21, 2022, the district entered into a loan agreement with the Kansas Department of Health and Environment to borrow $1,756,901 for the cost of construction of a water supply system and improvements. This agreement is secured by a real estate mortgage of the water system assets and operations.

Provisions of the loan agreements make the following requirements:

Create a debt service account to set aside and credit monthly a pro rata amount necessary to meet each payment date the payment of all interest and principal of the loan.

A loan reserve account shall be established and funded with proceeds of the loan and maintained by the Kansas Department of Health and Environment. The amount set aside in the reserve account as of December 31, 2024, was $144,471. Interest earned by the reserve account shall be credited to each succeeding loan payment.

5. COMPLIANCE WITH KANSAS STATUTES

K.S.A. 9-1401 states that depositories for the district must by designated and recorded in the board minutes whenever the governing body changes.

No other statute violations noted in 2024.

6. INTERFUND TRANSFER

From	To	Amount
Water Utility Fund	Debt Service Fund	$ 55,000

7. 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.

8. LONG-TERM DEBT

Changes in long-term liabilities for the District for the year ended Decmber 31, 2024, 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:									
KDHE Loan Agreement	2.230%	11/21/22	1,756,901	08/01/44	$ 106,334	$ 1,338,377	$ -	$ 1,444,711	$ 8,917

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

	2025	2026	2027	2028	2029	2030-2034	2035-2039
PRINCIPAL							
Loan Agreements	$ 70,579	$ 72,162	$ 73,780	$ 75,434	$ 77,126	$ 412,361	$ 460,717
INTEREST							
Loan Agreements	38,788	37,205	35,587	33,932	32,241	134,472	86,117
Total Principal & Interest	$ 109,367	$ 109,367	$ 109,367	$ 109,366	$ 109,367	$ 546,833	$ 546,834

	2040-2044	Total
PRINCIPAL		
Loan Agreements	$ 514,742	$ 1,756,901
INTEREST		
Loan Agreements	32,091	430,433
Total Principal & Interest	$ 546,833	$ 2,187,334

RURAL WATER DISTRICT NO. 1

REGULATORY-REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2024

RURAL WATER DISTRICT NO. 1
Smith County, Kansas
BUSINESS FUND **Schedule 1-1**
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For The Year Ended December 31, 2024

WATER UTILITY FUND

Receipts:		
Operating Receipts		
Water Sales	$	116,823
Monthly Meter Fees		107,065
Late Charges and Other Revenue		6,080
Total Operating Receipts		229,968
Non-Operating Income		
Interest Income		6,531
Member Investments		14,000
KDHE Loan Proceeds		1,203,690
Total Non-Operating Receipts		1,224,221
Total Receipts		1,454,189
Expenditures:		
Contract Labor		23,385
Taxes		53
Audit, Legal and Engineer		10,478
Bank Charges		10
Contributions		100
Lab Fees		906
Utilities		13,269
Operating Supplies		16,770
Repairs and Maintenance		74,649
Telephone		469
Rent Expense		1,050
Office Supplies		10,824
Insurance		8,536
Gas, Fuel and Oil		4,532
Licenses, Dues and Subscriptions		5,345
Meeting Expense		263
Miscellaneous		1,019
Capital Projects Expense		1,129,361
Operating Transfer:		
Debt Service Fund		55,000
Total Expenditures		1,356,019
Receipts Over (Under) Expenditures		98,170
Unencumbered Cash, Beginning		3,311
Unencumbered Cash, Ending	$	101,481

RURAL WATER DISTRICT NO. 1
Smith County, Kansas
BOND AND INTEREST FUND **Schedule 1- 2**
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For The Year Ended December 31, 2024

DEBT SERVICE FUND

Receipts:		
Operating Transfer:		
Water Utility Fund	$	55,000
Interest Income		1,519
Total Receipts		56,519
Expenditures:		
Interest Expense		8,067
Receipts Over (Under) Expenditures		48,452
Unencumbered Cash, Beginning		123,824
Unencumbered Cash, Ending	$	172,276