

Michael D. Peroo CPA, PA

RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

Financial Statements for the
Year Ended December 31, 2023
And Independent Auditors' Report

RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-3
FINANCIAL STATEMENT:	
Summary Statement of Receipts, Expenditures and Unencumbered Cash	4
Notes to Financial Statement	5-7
REGULATORY REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule 1A – Schedule of Receipts and Expenditures – Water Utility Fund	8
Schedule 1B - Schedule of Receipts and Expenditures – Water Improvement Fund	9

MDP
Michael D. Peroo CPA, PA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 3, Butler County, Kansas (District), as of and for the year ended December 31, 2023 and the related notes to the financial statement.

Adverse and Unmodified Opinions

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, 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 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, 2023, 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 doubts 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 included 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 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 judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- exercise professional judgement 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 polices 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 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 the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Regulatory-Required 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 (Schedule 1) is presented for purposes of additional 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 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.

The District's basic financial statement for the year ended December 31, 2022 (not presented herein), was audited by other auditors whose report dated February 28, 2023, expressed an unmodified opinion on the basic financial statement. The 2022 basic financial statement and the other auditor's report 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 report of the other auditors dated February 28, 2023 stated that the individual fund schedules of regulatory basis receipts and expenditures - actual for the year ended December 31, 2022 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 used 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, and in their opinion, was 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.

Michael D. Peroo, CPA, PA

March 13, 2024

Olathe, Kansas

Michael D. Peroo, CPA

Michael D. Peroo, CPA

In Charge of and Actively Engaged

on this Audit

RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
REGULATORY BASIS
YEAR ENDING DECEMBER 31, 2023

Fund	Beginning Unemcumbered Cash Balance	Cash Receipts	Cash Expenditures	Ending Unemcumbered Cash Balance
Water Utility	$ 1,091,826	$ 551,510	$ 562,638	$ 1,080,698
Water Improvement	16,574	56,336	69,695	3,215
	$ 1,108,400	$ 607,846	$ 632,333	$ 1,083,913

Composition of Cash:	
Cash on Hand	$ 50
Checking Account	50,107
Savings Account	150,348
ICS	883,408
	$ 1,083,913

RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2023

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

   a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. Total benefit units at December 31, 2023 were 638.

   b. Basis of Accounting – Regulatory Basis of Accounting – The Kansas Municipal Audit and Accounting Guide (KMAAG) involves the recognition of cash, cash equivalents, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments on a regulatory basis for each, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory revenues and regulatory disbursements for the fiscal year. KMAAG does not recognize capital assets, long-term debt, receivables and payables or any other assets, liabilities or deferred inflows or outflows, other than mentioned above.

   The District accounts for the water utility as a governmental enterprise fund. The District accounts for revenues and expenditures on a regulatory basis. Revenues are recognized when cash is received and expenditures are recognized when cash is paid. The District does not record capital assets, long-term debt, payables, other assets, receivables or deferred inflows and outflows.

   c. Cash equivalents - For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.

   d. Accounts receivable – The District reads meters at the end of the each month. Invoices are sent out on the 1st of the following month, and are due by the 16th. Disconnect notices are sent when accounts are 90 days past due. The monthly rate is made up of a Base Rate plus a charge per 1,000 gallons used.

   The water rates at December 31, 2023 were as follows:

Base Rate	$	22.50
Cost per 1,000 gallons.	$	6.99

   e. Inventory – The District does not maintain an inventory and purchases items as needed; all supplies are expensed in the period purchased.

   f. Income taxes - The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

   g. Benefit Units – Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for $3,000.

   h. Aid in Construction – Aid in Construction represents contributions from the members for line extensions.

2. CASH AND INVESTMENTS

The following represents the District's cash accounts:

Community National Bank & Trust - Operating	$ 50,106
Community National Bank & Trust - Savings	150,348
Community National Bank & Trust - Sweep Account	883,408
	$ 1,083,862

The Insured Cash Sweep Account includes the following banks:

Banc of California	$ 248,878
Raymond James Bank	248,878
Western Alliance Bank	99,455
Other	37,319
Truist Bank	248,878
	$ 883,408

Under K.S.A. 12-1675, the District is limited to the type of investments; which include U.S. Treasuries, Certificates of Deposits, Money Market Accounts, etc. The above accounts are in compliance with K.S.A. 12-1675 and considered low risk.

Under K.S.A. 9-1401, the District is required to use depositories within the county 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.

K.S.A. 9-1402, requires banks to pledge securities for deposits in excess of FDIC coverage.

As allowed by K.S.A. 9-1407, Community National Bank & Trust utilizes an Insured Cash Sweep (ICS) network which is a reciprocol deposit program by which a portion of the District's funds are transferred to accounts placed, in the District's name, at other participating federally insured institutions. In this way the balance at any one institution does not go above the limit of FDIC coverage, thereby assuring that the District's deposits are fully insured, and the bank is not required to pledge securities as stated in K.S.A. 9-1402.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the District's investments will decrease as a result of an increase in interest rates. In accordance with Kansas Statute 12-1675, the District limits its investments to maturities of two years or less.

Credit Risk

Credit risk is the risk that the counterparty will not fulfill its obligations, or in the event of a bank failure, the District's deposits may not be returned to it. In accordance with Kansas Statute's 9-1402 and 9-1407, the District limits the amount of deposits in any one institution so as to maintain FDIC insurance on all the District's deposits.

3. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Butler County in Kansas. The District grants credit to those customers and requires no collateral. The District sells water to the City of Cassoday.

4. SUBSEQUENT EVENTS

In preparing the financial statements, and in accordance with ASC 855, Subsequent Events, the District has evaluated events and transactions for potential recognition or disclosure through March 13, 2024 the date the financial statements were available to be issued. There are no events or transactions that require adjustments to or disclosure in these financial statements, except that the District began KPERS retirement plan beginning in 2024.

5. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended December 31, 2023.

6. RELATED PARTY

The board members of the District purchase water from the District.

7. RISK MANAGEMENT

The District has various risks including injury to employees, liability, etc. The District insures these risks through insurance policies.

8. CAPITAL OUTLAY

The District did not have any Capital Projects in 2023.

The District had Capital Outlays of $51,097 on new meters and upgrading to the Neptune system.

9. WATER CONTRACTS

The District entered into a water contract with the City of Cassoday on September 7th, 1989. The District agrees to sell 10,512,000 gallons of water over a twelve month period. The District's rates are based on the actual cost of water from Public Wholesale Water District No. 8 and a overhead rate. The rate at December 31, 2023 was $6.33. The District sold 4,748,000 gallons to the City in 2023.

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RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

Schedule 1A

SCHEDULE OF RECEIPTS AND EXPENDITURES - WATER UTILITY FUND
YEAR ENDING DECEMBER 31, 2023

WATER SALES	$	526,740
OPERATING EXPENSES:		
Water purchases		275,294
Personnel costs		136,140
Insurance		14,573
Utilities		11,964
Repairs, maintenance and supplies		29,586
Capital outlay		51,097
Office supplies and postage		14,864
Professional fees		4,950
Travel and vehicle		706
Dues		591
Water taxes and fees		1,873
Total operating expenses		541,638
INCOME FROM OPERATIONS		(14,898)
NONOPERATING INCOME AND EXPENSES:		
Transfer to Improvement Fund		(21,000)
Interest income		19,566
Late charges		5,089
Transfer fees		115
Total nonoperating income		3,770
CHANGE IN CASH		(11,128)
UNENCUMBERED CASH BALANCE, BEGINNING		1,091,826
UNENCUMBERED CASH BALANCE, ENDING	$	1,080,698

RURAL WATER DISTRICT NO. 3
BUTLER COUNTY, KANSAS

Schedule 1B

SCHEDULE OF RECEIPTS AND EXPENDITURES - WATER IMPROVEMENT FUND
YEAR ENDING DECEMBER 31, 2023

RECEIPTS		
Benefit units sold	$	27,000
Transfer from utility fund		21,000
Reimbursed expenses		8,336
		56,336
EXPENDITURES		
Contractual services		608
Capital outlay		69,087
		69,695
Receipts Under Expenditures		(13,359)
UNENCUMBERED CASH BALANCE, BEGINNING		16,574
UNENCUMBERED CASH BALANCE, ENDING	$	3,215