RURAL WATER DISTRICT #3
CHEROKEE COUNTY, KANSAS

Regulatory Basis Financial Statement,
Independent Auditors' Report, and
Regulatory-Required Supplementary Information
For the Year Ended
December 31, 2023

RURAL WATER DISTRICT #3
CHEROKEE COUNTY, KANSAS

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Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors and management
Rural Water District #3
Cherokee 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 #3, Inc., Cherokee 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 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 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 - regulatory basis (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, 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.

Prior Year Comparative Numbers

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the District as of and for the year ended December 31, 2022 (not presented herein), and have issued our report thereon dated March 29, 2023, which contained an unmodified opinion on the basic financial statement. The 2022 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 2022 actual column (2022 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures—actual and budget for the year ended December 31, 2023 (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 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. 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.

Diehl, Banwart, Bolton, CPAs, PA

DIEHL, BANWART, BOLTON, CPAs PA

March 6, 2024
Fort Scott, Kansas

RURAL WATER DISTRICT #3, INC.
CHEROKEE COUNTY, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2023

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:						
Water Utility	$ 626,735.42	$ 948,446.74	$ 1,016,920.53	$ 558,261.63	$ 52,210.26	$ 610,471.89

Composition of Cash:

Cash in bank - Operating checking account	
Unrestricted	$ 477,430.13
Debt Service Reserve	46,120.00
Cash in bank - Money market account	13,734.52
Cash in bank - Bond account:	
Debt Service Reserve	73,187.24
Totals	$ 610,471.89

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

RURAL WATER DISTRICT #3
CHEROKEE COUNTY, KANSAS

Notes to Financial Statement
For the Year Ended December 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of Rural Water District #3, Inc., Cherokee County, Kansas has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: Rural Water District #3, Inc., Cherokee County, Kansas is a municipal corporation governed by an elected five-member board of directors. The District pumps treated water from wells and purchases water to blend with the treated water. The District provides water to members of the District primarily in rural Cherokee County, Kansas.

All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Mergers
The District merged with Old 66 Water Company on January 16, 2014. Old 66 Water Company paid the District for its eight meters and Old 66 Water Company also paid all legal fees associated with the merger.

The District merged with Cherokee County Rural Water District #6 (RWD #6) on July 1, 2014. RWD #6 serviced 117 meters and purchased all the water they distributed. RWD #6 turned over all assets to the District, and the District will take over RWD #6's water purchase contracts with Bone Creek Public Wholesale Water Supply District #11 and Spring River Public Wholesale Water Supply District #19.

Financial Reporting Entity
This financial statement presents Rural Water District #3, Inc., Cherokee County, Kansas (primary government). There are no related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation and Basis of Accounting
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, restriction, or limitations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

Regulatory Basis Fund Types
The following types of funds comprise the financial activities of Rural Water District #3, Inc., Cherokee County, Kansas:

> 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.

Budgetary Information
Kansas statutes do not require budgets for rural water districts.

Deposits and Investments
Deposits and investments include an interest bearing checking account and certificates of deposit. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences
The District does not provide sick or vacation benefits beyond the year earned.

Income Taxes
Rural Water District #3, Inc., Cherokee County, Kansas is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits
The District does not offer termination or post employment benefits.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Provisions

This financial statement has been prepared in order to show compliance with the cash basis laws and statutes of the state of Kansas. The District was in apparent compliance with the cash basis laws and statutes of the state of Kansas.

Compliance With Bond Rate Covenants

The District's Water System Improvement Revenue Bonds, Series 2020, contain the following covenants:

a. There shall be transferred to the principal and interest account a prorata portion of the amount necessary to pay the next scheduled debt service payment. In addition a contingency reserve balance of $72,500.00 shall be maintained.

As of December 31, 2023, the required and actual reserve balances were as follows:

	REQUIRED	ACTUAL
Principal and Interest	$ 47,116.67	$ 46,120.00
Contingency Reserve	72,500.00	73,187.24

b. The District is to keep unused proceeds from the issued bonds in an Improvements account. Monies in the Improvement account shall be used for the sole purpose of paying the cost of improvements, in accordance with the plans and specifications prepared by the consultant engineer, heretofore approved by the Board of Directors of the District and on file in its offices, including any alterations in or amendments to said plans and specifications approved by the Board of Directors of the District.

c. The District shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. Net revenues must be at least 125% of the year's debt service requirement. For the year ended December 31, 2023, net revenue totaled $138,68.38, or 122.15% of the current year's debt service requirement of $141,900.00.

d. The District served approximately 997 units on December 31, 2022 and 1,005 units on December 31, 2023.

e. The system is covered by the following insurance policies:

Commercial Property
EMC Insurance Companies – #2A2-30-87-24
Expires: 02/10/24
$2,500 deductible per occurrence on all covered loss except 10% on earthquake
$3,119,726 Blanket Limit
90% Coinsurance

2. COMPLIANCE WITH BOND COVENANTS (Continued)

	VALUES
Building/Main Pump House	
Including Pumps, Soft Starts, Equipment, & Controls	Replacement Cost
	Limitation on Coverage For Roof Surfacing
Property in the Open – Chain Link Fence	Replacement Cost
Property in the Open – 2008 Kholer 100 KW Generator in Metal Casing	Replacement Cost
Building Filtration & Retention Building/Controls & Equipment	Replacement Cost
	Limitation on Coverage For Roof Surfacing
Standpipes (2)	Replacement Cost
Telemetry Equipment (3)	Replacement Cost
Water Tower	Replacement Cost

General Liability

EMC Insurance Companies – #2D2-30-87-24	
Expires: 02/10/24	
Each Occurrence Limit	1,000,000
Damage to Premises Rented to You Limit (any one premises)	300,000
Medical Expense Limit (any one person)	5,000
Personal and Advertising Injury Limit (any one person or organization)	1,000,000
General Aggregate Limit	2,000,000
Products / Completed Operations Aggregate Limit	2,000,000

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, but has limited the investments to time deposits at local banks.

3. DEPOSITS AND INVESTMENTS (Continued)

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 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%. The District does not have any "peak periods" designated. All deposits were legally secured at December 31, 2023.

At December 31, 2023, the District's carrying amount of deposits was $610,471.89 and the bank balance was $613,556.45. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $336,921.76 was covered by federal depository insurance and the remaining $276,634.69 was covered by securities held by the pledging financial institution's agents in the District's name totaling $409,650.27.

4. RISK MANAGEMENT

The water 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; employees' health and life; and natural disasters. The water district manages these risks of loss by carrying various commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

5. BENEFIT UNIT DEPOSITS

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. Benefit unit deposits totaled $27,500.00 for the year.

6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Vehicles	5 and 6 Years
Equipment	7 Years
Meters and Pumps	10 and 20 Years
Plant and Equipment	40 Years
Underwriting Fees	15 Years

6. FIXED ASSETS (Continued)

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Fixed Assets				
Water Distribution System	$ 4,103,542.74	$ 93,622.17	$ -	$ 4,197,164.91
RWD #6	278,121.36	-	-	278,121.36
Total	$ 4,381,664.10	$ 93,622.17	$ -	$ 4,475,286.27
Accumulated Depreciation				
Water Distribution System	$ 2,485,204.33	$ 96,556.51	$ -	$ 2,581,760.84
RWD #6	278,121.36	-	-	278,121.36
Total	$ 2,763,325.69	$ 96,556.51	$ -	$ 2,859,882.20

	Beginning Balance	Additions	Amortization	Ending Balance
Bond Costs, Net of Amortization	$ 40,317.75	$ -	$ 17,639.02	$ 22,678.73

7. LONG-TERM DEBT

The District has outstanding the following long-term obligations at December 31, 2023:

	PRINCIPAL
Water System Improvement Revenue Bonds, Series 2020, payable in annual installments ranging from $95,000.00 to $110,000.00 plus interest at 1.0% to 2.1% with final maturity in August 2027. The bonds are dated June 20, 2020.	$ 430,000.00

Details about the District's long-term obligations, changes in long term debt, and current maturities for the next five years and thereafter are as follows:

Issue	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Expense
Water System Improvement Bonds, Series 2020	$ 530,000.00	$ -	$ 100,000.00	$ 430,000.00	$ 13,520.00

7. LONG-TERM DEBT (Continued)

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

DUE	PRINCIPAL	INTEREST	TOTAL
2024	$ 105,000.00	$ 4,040.00	$ 109,040.00
2025	105,000.00	6,400.00	111,400.00
2026	110,000.00	4,510.00	114,510.00
2027	110,000.00	2,310.00	112,310.00
	$ 430,000.00	$ 17,260.00	$ 447,260.00

8. OTHER LONG-TERM OBLIGATIONS

The District signed a 40 year water purchase contract with Spring River Public Wholesale Water Supply District #19 on 11/30/2011. The District began purchasing water from Spring River Public Wholesale Water Supply District #19 during 2014. The District is under contract to purchase a minimum of 48,000,000 gallons a year at $6.00 per 1,000 gallons. By contract, minimum expense to the District is $288,000 per year.

The District assumed RWD #6's water purchase contracts during 2014 as follows:

The District is under contract to purchase a minimum of 600,000 gallons of water a month at $5.00 per 1,000 gallons from Bone Creek Public Wholesale Water Supply District #11. By contract, minimum expense to the District is $30,600 per year.

The District is under contract to purchase a minimum of 300,000 gallons of water per month at $6.00 per 1,000 gallons from Spring River Public Wholesale Water Supply District #19. By contract, minimum expense to the District is $21,600 per year.

9. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2023 through March 6, 2024, the date of the financial statement. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT #3, INC.
CHEROKEE COUNTY, KANSAS
WATER UTILITY FUND

Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2023
(With Comparative Actual Amounts for the Year Ended December 31, 2022)

	Prior Year Actual	Actual
Receipts		
Operating Receipts		
Metered water sales	$ 849,641.68	$ 908,833.23
Nonoperating Receipts		
Benefit Unit deposits	21,996.00	27,500.00
Miscellaneous income	5,975.87	8,647.77
Gain on Sale of Asset	-	2,500.00
Interest income	147.07	965.74
Total Receipts	877,760.62	948,446.74
Expenditures		
Operating Expenditures		
Water Purchased	359,682.74	363,077.72
Salaries	137,486.30	202,998.19
Contract Labor	142.50	-
Retirement Fund	-	3,257.20
Repairs and Supplies	75,471.00	87,362.74
Equipment and Repairs	25,179.91	23,446.74
Utilities and Telephone	40,531.66	39,038.20
Insurance and Bonds	36,593.00	38,753.00
Miscellaneous Expense	6,795.95	8,357.07
Taxes	15,219.21	20,698.09
Office Supplies	9,265.68	14,122.13
Professional Fees	3,875.00	4,090.00
Laboratory Fees	3,557.55	3,302.28
Leak Detection	1,675.00	1,275.00
Nonoperating Expenditures		
Debt Service		
Principal paid	100,000.00	100,000.00
Interest paid	10,680.00	13,520.00
Capital Outlays	12,690.00	93,622.17
Total Expenditures	838,845.50	1,016,920.53
Receipts Over (Under) Expenditures	38,915.12	(68,473.79)
Unencumbered Cash, Beginning	587,820.30	626,735.42
Unencumbered Cash, Ending	$ 626,735.42	$ 558,261.63