Rural Water District No. 2
Washington County, Kansas

Financial Statement
As of December 31, 2025
and For the Year Then Ended

With Report by Independent Auditors

KIENTZ & PENICK
CPAs, LLC

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KIENTZ & PENICK
CPAs, LLC

To the Board of Directors of
Rural Water District No. 2 Washington County, Kansas
202 5th St.
Linn, KS 66953

March 25, 2026

Independent Auditor's Report

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, No. 2, Washington County, Kansas (the District), as of and for the year ended December 31, 2025 and the related notes to the financial statement (collectively "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 accordance 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 or cash flows thereof for the year then ended.

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 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* (KMAAG). 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 described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of KMAAG, 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 regulatory basis of accounting described in Note 1 and the 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 the financial statement in accordance with KMAAG as described in Note 1 to meet the financial reporting requirements of the State of Kansas; 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

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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.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 generally accepted auditing standards 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, including omissions, 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 statements.

In performing an audit in accordance with generally accepted auditing standards, 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 summary statement of receipts, expenditures and unencumbered cash - regulatory basis (basic financial statement) as a whole. Schedule 1 – Regulatory Basis Receipts and Expenditures – Actual is presented for additional 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 as a whole, on the basis of accounting described in Note 1.

We 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, 2024 (not presented herein), and have issued our report thereon dated February 19, 2025, which contained an unmodified opinion on the basic financial statement in accordance with the regulatory basis of accounting. 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/oar/municipal-services. The 2024 actual column (2024 comparative information) presented in the individual fund schedule of regulatory basis

receipts and expenditures for the year ended December 31, 2025 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2024 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Type Fund						
Water Utility Fund	$ 1,036,132	$ 405,835	$ 325,763	$ 1,116,204	$ 43,436	$ 1,159,640

Composition of Ending Cash Balance	
Checking accounts	$ 315,762
Savings account	843,878
	$ 1,159,640

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

Rural Water District No. 2, Washington County, Kansas (the District) was incorporated and organized under K.S.A. 82a-613 et seq. to provide water to rural Washington County. The District is a Kansas municipality and is exempt from federal and state income taxes.

The District is a quasi-municipal corporation governed by an elected seven-member board of directors and provides water to over 300 members of rural Washington County, Kansas. All water sales are made to residents in the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Regulatory Basis Fund Type

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e., water fund, electric fund, etc.).

Regulatory Basis of Accounting

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of U.S. GAAP and allowing the District to instead use the regulatory basis of accounting as prescribed and published in the Kansas Municipal Audit and Accounting Guide (KMAAG).

This 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 for each fund. The regulatory basis also involves 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. This basis of accounting 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.

Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund type used by the District. The internally developed budget is for management use only and is not required by Kansas statute. Expenditures are controlled through internal spending limits monitored by the board of directors.

Deposits and Investments

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

Note 2: 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 deposits 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.

Note 2: Deposits and Investments (Continued)

Concentration of Credit Risk

Kansas 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%. The District does not have any "peak periods" designated.

On December 31, 2025, the District's carrying amounts of deposits was $1,159,640 and the bank balance was $1,161,145, the difference is outstanding checks. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $500,000 was covered by federal depository insurance, the remaining $661,145 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Note 3: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies. The District did not experience losses related to these risks during the year ended December 31, 2025.

Note 4: Benefit Units

Members of the District are required to pay a fee for a benefit unit prior to connecting to the District's lines. The cost of a new benefit unit during the year ending December 31, 2025 was $2,400.

Note 5: Capital Projects

Washington Line Expansion

During 2024, the District approved the installation of a new 4" waterline to better serve customers on the edge of the District. The District was approved for a loan through the Kansas Public Water Supply Loan Fund, administered by the Kansas Department of Health and Environment (KDHE), in the amount of $544,166 to assist in funding this project. Additionally, during 2025, the District applied for and was approved for a grant from the Kansas Water Office (KWO) in the amount of $64,000 to fund the remaining portion of this project. As of December 31, 2025, this project was in the engineering phase and the District expects to begin the project in 2026. As of December 31, 2025, there have been no draws on the KDHE Loan, therefore there is no long-term debt table presented. As of December 31, 2025, the District has received reimbursements from the KWO grant totaling $815.

Southern Line Improvements

During 2025, a capital project was approved to make improvements to a section of the District experiencing low water pressure. The total cost of the project is expected to be $78,098 and is expected to be completed in 2026. This project is being funded by cash reserves.

	Project Authorization	Expenditures From Inception to December 31, 2025
Washington Line Expansion	$ 608,166	$ 43,086
Southern Line Improvements	78,098	-

Note 6: Subsequent Events

The District has evaluated subsequent events through March 25, 2026, which is the date at which the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

	2025	2024
Receipts		
Water sales	$ 369,965	$ 383,761
Benefit units	7,100	9,120
Interest income	16,513	8,427
Other income	11,442	34,187
Grant income	815	-
Total Receipts	405,835	435,495
Expenditures		
Payroll	90,407	89,458
Equipment and supplies	34,979	18,463
Repairs and maintenance	53,400	57,042
Office and administration	6,527	6,158
Director's expense	5,531	6,314
Miscellaneous	849	2,163
Insurance	19,071	25,680
Mileage	13,060	13,265
Capital outlay	39,715	2,671
Professional services	19,805	8,455
Water protection and quality	5,035	5,794
Software and support	7,846	6,463
Utilities	29,538	31,321
Total Expenditures	325,763	273,247
Receipts Over Expenditures	80,072	162,248
Unencumbered Cash Balance – Beginning	1,036,132	873,884
Unencumbered Cash Balance – Ending	$ 1,116,204	$ 1,036,132