Rural Water District No. 2, Dickinson County, Kansas

Financial Statements
As of December 31, 2025 and 2024
and For the Years 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, Dickinson County, Kansas
804 S. Buckeye
Abilene, KS 67410

May 26, 2026

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Dickinson County (the District), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2025 and 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Auditing and Accounting Guide*. Our responsibilities under those standards are further described below in the *Auditor's Responsibilities for the Audit of the Financial Statements* 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

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 statements, 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 statements.
- 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 statements.
- 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.

Kientz & Penick CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

	2025	2024
Assets		
Current Assets		
Cash and cash equivalents	$ 781,723	$ 834,037
Accounts receivable	53,336	60,052
Inventory	42,801	52,305
Total Current Assets	877,860	946,394
Noncurrent Assets		
Capital assets, net	2,497,456	2,444,819
Certificate of deposit restricted for bond reserve	36,095	35,730
Cash equivalent restricted for loan reserve	103,772	103,772
Total Noncurrent Assets	2,637,323	2,584,321
Total Assets	$ 3,515,183	$ 3,530,715
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 1,930	$ -
Accrued liabilities	14,056	15,670
Current portion of bond and loan payables	67,003	65,762
Total Current Liabilities	82,989	81,432
Noncurrent Liabilities		
Bond payable, net of bond discount	200,701	215,245
Loan payable	529,131	581,134
Total Noncurrent Liabilities	729,832	796,379
Total Liabilities	812,821	877,811
Net Position		
Net investment in capital assets	1,700,621	1,582,678
Restricted – bond reserve	36,095	35,730
Restricted – loan reserve	103,772	103,772
Unrestricted	861,874	930,724
Total Net Position	2,702,362	2,652,904
Total Liabilities and Net Position	$ 3,515,183	$ 3,530,715

	2025	2024
Operating Revenues		
Water sales	$ 327,389	$ 354,717
Monthly minimums	391,873	388,348
Total Operating Revenues	719,262	743,065
Operating Expenses		
Salaries	193,751	185,503
Payroll taxes	14,822	14,269
Employee benefits	3,874	3,710
Repairs and maintenance	104,832	78,971
Utilities	36,565	35,463
Water purchased	116,244	121,803
Office expense	28,895	33,436
Depreciation	160,449	170,043
Insurance	38,058	37,628
Lab expense	2,250	1,981
Clean water fee	1,659	1,695
Miscellaneous expense	3,704	2,543
Professional fees	11,718	14,318
Training	4,415	4,053
Total Operating Expenses	721,236	705,416
Net Operating Income (Expense)	(1,974)	37,649
Nonoperating Revenue (Expense)		
Interest income	23,927	25,737
Other charges	18,334	22,241
Gain on disposal of assets	6,411	-
Interest expense	(17,433)	(18,384)
Debt service fee	(2,167)	(2,342)
Other expense	(232)	(1,549)
Total Nonoperating Income	28,840	25,703
Net Income Before Contributions	26,866	63,352
Capital Contributions		
Benefit unit sales	22,592	35,000
Change in Net Position	49,458	98,352
Net Position – Beginning	2,652,904	2,554,552
Net Position – Ending	$ 2,702,362	$ 2,652,904

	2025	2024
Cash Flows from Operating Activities		
Cash received from customers	$ 725,978	$ 743,551
Cash paid to suppliers	(338,520)	(441,685)
Cash paid to employees	(212,447)	(203,482)
Net Cash Provided by Operating Activities	175,011	98,384
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(213,190)	(93,753)
Proceeds from sale of capital assets	6,515	-
Payments on long term debt	(65,762)	(64,550)
Other capital activities	18,102	20,692
Change in reserves	(365)	(253)
Interest and service fees paid on bond and loan payables	(19,144)	(20,269)
Capital contributions	22,592	35,000
Net Cash Used in Capital and Related Financing Activities	(251,252)	(123,133)
Cash Flows from Investing Activities		
Interest income	23,927	25,737
Net Change in Cash and Cash Equivalents	(52,314)	988
Cash and Cash Equivalents – Beginning	834,037	833,049
Cash and Cash Equivalents – Ending	$ 781,723	$ 834,037
Reconciliation of Net Operating Income (Expense) to Net Cash Provided by Operating Activities		
Net operating income (expense)	$ (1,974)	$ 37,649
Adjustments to Reconcile Net Operating Income (Expense) to Net Cash Provided by Operating Activities		
Depreciation	160,449	170,043
Decrease (increase) in accounts receivable	6,716	486
Decrease (increase) in inventory	9,504	(8,760)
Increase (decrease) in accounts payable	1,930	(101,302)
Increase (decrease) in accrued liabilities	(1,614)	268
Net Cash Provided by Operating Activities	$ 175,011	$ 98,384

Note 1: Summary of Significant Accounting Policies

Organization

The Rural Water District No. 2, Dickinson County, Kansas (the District), was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal corporation under Kansas Statute K.S.A. 82a-612 et seq., for the purpose of providing a water supply system for the landowners within the area of the District. The District is governed by a seven-member board of directors. The following is a summary of the District's significant accounting policies.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District. The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation

Government-wide statements. The *statements of net position* and the *statements of revenues, expenses, and changes in net position* display information about the primary government, the District. These statements show that the financial activities of the overall government business-type activities are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The District reports the following proprietary (business-type enterprise) fund:

Water Fund - This business-type enterprise fund accounts for the operation and maintenance of the water system of the District. All activities and balances of the entity are accounted for in this fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include special assessments, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

Cash and Cash Equivalents

The District considers all highly liquid deposits with original maturities of twelve months or less to be cash and cash equivalents. This includes investments in money market and checking accounts.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts due from customers for water use. All receivables are current and, therefore, due within one year.

Allowance for Doubtful Accounts

The District bills customers monthly. Invoices not paid by the 16th day of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. Most customers pay before they are disconnected and there have been no amounts written off in the past three years. Management has evaluated all receivables and determined that the allowance for doubtful accounts should be $0 as of December 31, 2025 and 2024.

Inventory

Inventory is valued at the lower of cost or market and consists of pipe, valves, meters and other items needed to repair or add water lines. Cost is determined using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of $1,000 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: water distribution system – 40 to 50 years, buildings – 20 to 40 years, machinery and equipment – 5 to 20 years, vehicles – 5 to 7 years, office equipment – 5 to 10 years.

Net Position

Net position is comprised of the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

Income Taxes

The District is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Contributions

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operating revenue is recognized for the capital contribution that was originally recorded.

Budgetary Information

Kansas statutes provide an exemption such that the District is not legally required to adopt a budget for the fund types used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

Subsequent Events

Management has evaluated subsequent events through May 26, 2026 which is the date the financial statements were available to be issued.

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 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.

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 the District. Kansas 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%.

December 31, 2025

On December 31, 2025, the District's carrying amount of deposits was $817,818 and the bank balance was $819,416. The bank balance was held by four banks. Of the bank balance, $636,812 was covered by federal depository insurance and $182,604 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

December 31, 2024

On December 31, 2024, the District's carrying amount of deposits was $869,767 and the bank balance was $869,767. The bank balance was held by four banks. Of the bank balance, $611,892 was covered by federal depository insurance and $257,875 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2025 was as follows:

	Balance on December 31, 2024	Additions	Retirements	Balance on December 31, 2025
Nondepreciable Capital Assets				
Construction in progress	$ -	$ -	$ -	$ -
Depreciable Capital Assets				
Water distribution system	6,174,200	85,514	-	6,259,714
Buildings	255,993	-	-	255,993
Machinery and equipment	129,796	75,168	11,440	193,524
Vehicles	118,935	52,508	-	171,443
Office equipment	28,231	-	-	28,231
Total Depreciable Capital Assets	6,707,155	213,190	11,440	6,908,905
Accumulated depreciation	(4,262,336)	(160,449)	(11,336)	(4,411,449)
Total Depreciable Capital Assets, Net	2,444,819	52,741	104	2,497,456
Capital Assets, Net	$ 2,444,819	$ 52,741	$ 104	$ 2,497,456

Capital asset activity for the year ended December 31, 2024 was as follows:

	Balance on December 31, 2023	Additions	Retirements	Balance on December 31, 2024
Nondepreciable Capital Assets				
Construction in progress	$ 183,932	$ -	$ 183,932	$ -
Depreciable Capital Assets				
Water distribution system	5,899,545	274,655	-	6,174,200
Buildings	255,993	-	-	255,993
Machinery and equipment	134,851	3,030	8,085	129,796
Vehicles	118,935	-	-	118,935
Office equipment	28,231	-	-	28,231
Total Depreciable Capital Assets	6,437,555	277,685	8,085	6,707,155
Accumulated depreciation	(4,100,378)	(170,043)	(8,085)	(4,262,336)
Total Depreciable Capital Assets, Net	2,337,177	107,642	-	2,444,819
Capital Assets, Net	$ 2,521,109	$ 107,642	$ 183,932	$ 2,444,819

Note 4: Long-Term Debt

The following is a schedule of long-term debt activity for the year ended December 31, 2025

	Beginning Balance	Additions	Retirements	Ending Balance
Water Revenue Bonds	$ 235,000	$ -	$ 15,000	$ 220,000
Kansas Water Supply Loan	631,896	-	50,762	581,134
Total Long-Term Debt	$ 866,896	$ -	$ 65,762	$ 801,134

The following is a schedule of long-term debt activity for the year ended December 31, 2024

	Beginning Balance	Additions	Retirements	Ending Balance
Water Revenue Bonds	$ 250,000	$ -	$ 15,000	$ 235,000
Kansas Water Supply Loan	681,446	-	49,550	631,896
Total Long-Term Debt	$ 931,446	$ -	$ 64,550	$ 866,896

Long-term debt consists of the following on December 31, 2025 and 2024:

	2025	2024
Water Revenue Bonds. On June 15, 2012, the District issued $420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and mature in 2035.	$ 220,000	$ 235,000
Kansas Water Supply Loan. On December 21, 2011, the District entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) for a Kansas Public Water Supply Loan not to exceed $1,100,742, for the purpose of furnishing a public water supply project. Funding of the loan was provided by the Environmental Protection Agency through a Capitalization Grant for Drinking Water State Revolving Fund. Interest on the loan is 2.43% per annum. The first amendment to the loan agreement was effective September 16, 2014 and established the future payment schedule of the loan. The second amendment to the loan agreement was effective September 2, 2015 and decreased the original loan amount by $63,018 bringing the new loan balance to $1,037,724 and established a revised future payment schedule. Interest payments are due semi-annually on February 1 and August 1 and principal payments are due starting on February 1, 2016 and maturing in 2035.	581,134	631,896
Total Long-Term Debt	801,134	866,896
Less: Current portion of long-term debt	(67,003)	(65,762)
Less: Unamortized bond discount	(4,299)	(4,755)
Long-Term Debt, Net of Current Portion and Discount	$ 729,832	$ 796,379

Note 4: Long-Term Debt (Continued)

Future maturities of long-term debt are as follows:

Due in Year(s)	Principal	Interest	Service Fee	Total
2026	$ 67,003	$ 20,339	$ 1,989	$ 89,331
2027	73,274	18,801	1,806	93,881
2028	74,577	16,986	1,618	93,181
2029	75,911	15,144	1,426	92,481
2030	77,278	13,274	1,229	91,781
2031-2035	433,091	35,462	3,019	471,572
Total	$ 801,134	$ 120,006	$ 11,087	$ 932,227

The Series 2012 bonds were issued for $420,000, which included a $10,500 discount. This discount is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was $457 of bond amortization expense for each of the years ending December 31, 2025 and 2024.

Note 5: Debt Service Ratio

The water revenue bond issue covenants require the District to maintain a debt service ratio of at least 1.25. The following represents the debt service ratio calculation for the years ending December 31,:

	2025	2024
Change in net position	$ 49,458	$ 98,352
Interest expense	17,433	18,384
Depreciation	160,449	170,043
Capital contributions	(22,592)	(35,000)
Total Revenue Available for Debt Service	$ 204,748	$ 251,779
Debt service payments	$ 87,136	$ 87,421
Debt service ratio	2.35	2.88

under 1.00 Bad.

Note 6: Risk Management

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. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. The District did not experience losses related to these risks during the years ended December 31, 2025 and 2024.

Note 7: Retirement Plan

The District provides a Savings Investment Match Plan for Employees (SIMPLE IRA) to eligible employees who earn over $5,000 during the year. The District contributes 2% of the employee's annual salary to their SIMPLE IRA. Employer contributions to the plan totaled $3,874 and $3,710 for the years ended December 31, 2025 and 2024, respectively.

Note 8: Compensated Absences Policy

Sick Leave: The District provides sick leave for their eligible full-time employees at a rate of two days per month. These days may be carried forward to future years up to a maximum of 90 days. If employment is terminated, the sick leave is lost. However, an employee with a 90-day accumulation can elect upon retirement to use sick leave to retire one month early with pay.

Note 8: Compensated Absences Policy (Continued)

Vacation Leave: Upon completion of one year of continuous employment, a regular full-time employee earns vacation days as follows: After one year, five days are earned; after two years, ten days are earned; and, after three years, ten days plus one day for each year of employment after the third year. Employees cannot earn more than three weeks of vacation (15 days per year), in a single year. A maximum of one-half of earned vacation can be carried over to the following calendar year. Employees are paid all earned vacation upon termination of employment. At December 31, 2025 and 2024, the value of accrued vacation was $3,175 and $4,536, respectively and this amount has been reported on the statements of net position as part of accrued liabilities.

Kientz & Penick, CPAs, LLC
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Manhattan, KS 66505

May 26, 2026

This representation letter is provided in connection with your audits of the financial statements of Rural Water District No. 2, Dickinson County, Kansas (the District), which comprise the statements of net position as of December 31, 2025 and 2024, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements (collectively "the financial statements"), for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. Except where otherwise stated below, immaterial matters less than $9,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 21, 2025, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. The methods, significant assumptions, and data used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in accordance with U.S. GAAP.

6. There are no known related-party relationships or transactions that need to be accounted for or disclosed in accordance with U.S. GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

8. We are not aware of any actual or possible litigation, claims, or assessments that are required to be accounted for or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted an attorney concerning litigation, claims, or assessments.

9. We are not aware of any guarantees, whether written or oral, under which the District is contingently liable.

Information Provided

10. We have provided you with:
    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audits.
    c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the District or summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, regulators, or others.

15. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.

Government-Specific

16. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

17. We have taken timely and appropriate steps to remedy identified and suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that you have reported to us.

18. We have identified to you any previous audits, attestation engagements, and other studies related to the objectives of the audits and whether related recommendations have been implemented.

19. We have identified to you any investigations or legal proceedings that have been initiated with respect to the periods under audit.

20. The District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.

21. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

22. We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements.

23. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in

the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

24. As part of your audits, you assisted with preparation of the financial statements. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements.

25. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

26. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

27. We are not aware of any component units, majority equity interests in legally separate organizations, or joint ventures with an equity interest which should be included in the financial statements.

28. We are not aware of any fiduciary activities required by GASBS No. 84, as amended, which should be included in the District's financial statements.

29. The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.

30. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

31. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

32. Investments, derivative instrument transactions, and land and other real estate held by endowments, as applicable, are properly valued.

33. Provisions for uncollectible receivables have been properly identified and recorded.

34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

35. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

37. Deposits and investment securities are properly classified as to risk and are properly disclosed.

38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

39. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

Further Emphasis and Affirmation of Our Responsibility for Non-Attest Services
With respect to your assistance in the preparation of the financial statements we have performed the following:

a. Made all management decisions and performed all management functions.
b. Assigned a competent individual to oversee the services.
c. Evaluated the adequacy of the services performed.
d. Evaluated and accepted responsibility for the result of the service performed; and
e. Established and maintained internal controls, including monitoring ongoing activities.
f. Reviewed and approved journal entries, if any, proposed by you during the audits.
g. Reviewed and approved the account grouping report proposed by you during the audits.
h. Reviewed and approved a draft of the financial statements.

Mindy Thorson
Mindy Thorson (May 26, 2026 14:10:25 CDT)

Mindy Thorson
District Manager
Rural Water District No. 2
Dickinson County