

RURAL WATER DISTRICT NO. 2 DICKINSON COUNTY, KANSAS

Abilene, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2019 and 2018

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
TABLE OF CONTENTS

	Page
Independent Auditor's Report	<hr/> 1 - 2
Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Fund Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 13



June 5, 2020

Board of Directors
Rural Water District No. 2, Dickinson County, Kansas
Abilene, Kansas

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Dickinson County, Kansas (the District) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the applicable provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

June 5, 2020
Rural Water District No. 2, Dickinson County, Kansas
(continued)

Other Matter

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, who considers it to be an essential part of 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.

Vannoy & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

STATEMENTS OF NET POSITION

December 31,

	2019	2018
ASSETS		
Current Assets		
Checking accounts	\$ 13,987	\$ 16,264
Money market accounts	457,641	440,186
Total cash and cash equivalents	<u>\$ 471,628</u>	<u>\$ 456,450</u>
Accounts receivable - Net	53,592	53,115
Inventory	34,904	21,635
Total Current Assets	<u>\$ 560,124</u>	<u>\$ 531,200</u>
Non-Current Assets		
Capital assets	\$ 6,223,033	\$ 6,129,934
Less: Accumulated depreciation	(3,461,643)	(3,293,525)
Capital Assets - Net	<u>\$ 2,761,390</u>	<u>\$ 2,836,409</u>
Certificate of deposit - Bond Reserve	33,486	33,120
Loan reserve - KDHE	103,772	103,772
Total Non-Current Assets	<u>\$ 2,898,648</u>	<u>\$ 2,973,301</u>
TOTAL ASSETS	<u><u>\$ 3,458,772</u></u>	<u><u>\$ 3,504,501</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 9,781	\$ -
Payroll taxes payable	3,589	5,362
Accrued interest payable	8,427	8,833
Other accrued expenses	526	502
Compensated absences	10,046	8,656
Current portion of bond payable	15,000	15,000
Current portion of loan payable	44,987	43,914
Total Current Liabilities	<u>\$ 92,356</u>	<u>\$ 82,267</u>
Non-Current Liabilities		
Bond payable - Series E 2012 (net of bond discount) - Net of current portion	\$ 287,962	\$ 302,505
Kansas public water supply loan - Net of current portion	823,115	868,102
Total Non-Current Liabilities	<u>\$ 1,111,077</u>	<u>\$ 1,170,607</u>
Total Liabilities	<u>\$ 1,203,433</u>	<u>\$ 1,252,874</u>
Net Position		
Net investment in capital assets	\$ 1,650,313	\$ 1,665,802
Restricted for bond reserve	32,426	32,426
Restricted for loan reserve	103,772	103,772
Unrestricted	468,828	449,627
Total Net Position	<u>\$ 2,255,339</u>	<u>\$ 2,251,627</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,458,772</u></u>	<u><u>\$ 3,504,501</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Monthly minimum	\$ 366,338	\$ 367,780
Water reserves	266,717	291,373
Total Operating Revenues	<u>\$ 633,055</u>	<u>\$ 659,153</u>
OPERATING EXPENSES		
Salaries and wages	\$ 175,609	\$ 171,560
Payroll taxes	13,434	13,267
Employee benefits	6,351	10,683
Repairs and maintenance	80,705	98,831
Utilities	25,889	27,124
Water purchased	95,880	95,547
Office expense	9,848	11,684
Depreciation	172,907	174,429
Rent and lease expense	1,274	1,288
Insurance	18,690	17,377
Lab expense	2,149	1,343
Clean water fee	1,271	1,486
Misc expense	979	1,365
Professional fees	10,186	8,700
Training	2,472	1,865
Total Operating Expenses	<u>\$ 617,644</u>	<u>\$ 636,549</u>
OPERATING INCOME (LOSS)	<u>\$ 15,411</u>	<u>\$ 22,604</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest income	\$ 4,899	\$ 3,884
Other income	10,427	16,621
Gain/(Loss) on disposal of assets	(350)	-
Interest expense	(29,939)	(32,512)
Other expense	(188)	(191)
Debt service fee	(1,548)	(2,574)
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>\$ (16,699)</u>	<u>\$ (14,772)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ (1,288)	\$ 7,832
CONTRIBUTIONS		
Capital contributions	5,000	10,000
CHANGE IN NET POSITION	\$ 3,712	\$ 17,832
BEGINNING - NET POSITION	<u>2,251,627</u>	<u>2,233,795</u>
ENDING - NET POSITION	<u><u>\$ 2,255,339</u></u>	<u><u>\$ 2,251,627</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 632,578	\$ 656,978
Cash paid to suppliers	(272,999)	(289,436)
Cash paid to employees	(175,992)	(165,543)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 183,587</u>	<u>\$ 201,999</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>\$ 4,898</u>	<u>\$ 3,884</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	\$ (97,887)	\$ (11,929)
Gain (Loss) on disposal of equipment	(350)	-
Principal paid on long-term debt	(58,457)	(101,706)
Other capital activities	10,240	16,430
Change in reserves	(366)	(132)
Interest and services fees paid on long-term debt	(31,487)	(35,086)
Capital contributions	5,000	10,000
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (173,307)</u>	<u>\$ (122,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 15,178	\$ 83,460
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>456,450</u>	<u>372,990</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 471,628</u></u>	<u><u>\$ 456,450</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating net income	\$ 15,411	\$ 22,604
Adjustments to reconcile operating net income (loss) to net cash provided by (used in) operating activities		
Depreciation	172,906	174,428
Decrease (increase) in accounts receivable	(477)	(2,175)
Decrease (increase) in inventory	(13,269)	4,540
Increase (decrease) in accounts payable	9,781	(2,957)
Increase (decrease) in payroll tax payable	(1,773)	(294)
Increase (decrease) in accrued interest	(406)	(396)
Increase (decrease) in compensated absences	1,390	6,311
Increase (decrease) in accrued expense	24	(62)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 183,587</u></u>	<u><u>\$ 201,999</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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 areas of the District. The following is a summary of the District's significant accounting policies.

Basis of Presentation and Accounting

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is accounted for using the economic resources measurement focus and the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the Water District.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts and certificates of deposits classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties. At December 31, 2019 and 2018, cash and cash equivalents consisted of demand and money market accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 \$500 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: buildings – 40 years, water system infrastructure – 40 - 50 years, and equipment – 5 to 20 years.

Inventory

Inventory is stated at cost and consists of supplies to set water meters and items over \$100 when purchased.

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Non-Current Assets

Non-current assets primarily include construction in process, capital assets, and reserve for bonds and loans. The amounts placed in the reserve often exceed the amount legally required to be restricted as they may include interest earned and other monies designated by the Board to be set aside to meet future obligations.

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

Taxes

The District is exempt from federal and state income and property taxes.

Note 2: Depository Security

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. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2019 and 2018.

December 31, 2019

At December 31, 2019, the District's carrying amount of deposits was \$505,114 and the bank balance was \$506,636. The bank balance was held by one bank. Of the bank balance, \$250,000 was covered by federal depository insurance and \$230,953 was collateralized with securities held by the pledging financial institution's agents in the District's name. The remaining \$25,683 is unsecured. 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, 2018

At December 31, 2018, the District's carrying amount of deposits was \$489,570 and the bank balance was \$491,164. The bank balance was held by two banks. Of the bank balance, \$283,120 was covered by federal depository insurance and \$208,044 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.

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Capital Assets - Not Being Depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Capital Assets - Being Depreciated				
Water system and equipment	\$ 4,451,936	\$ 91,755	\$ -	\$ 4,543,691
Abilene Treatment Plant	924,194	-	-	924,194
Navarre project	263,975	-	-	263,975
Westar project	56,170	-	-	56,170
Building	235,808	-	-	235,808
Machinery and equipment	79,330	580	-	79,910
Vehicles	94,079	-	(3,025)	91,054
Office equipment	24,442	5,330	(1,541)	28,231
Total Depreciable Capital Assets	<u>\$ 6,129,934</u>	<u>\$ 97,665</u>	<u>\$ (4,566)</u>	<u>\$ 6,223,033</u>
TOTAL CAPITAL ASSETS	<u>\$ 6,129,934</u>	<u>\$ 97,665</u>	<u>\$ (4,566)</u>	<u>\$ 6,223,033</u>
Less: Accumulated Depreciation				
Water system and equipment	\$ 2,479,128	\$ 110,885	\$ -	\$ 2,590,013
Abilene Treatment Plant	372,758	18,484	-	391,242
Navarre project	274,535	1,123	-	275,658
Westar project	58,416	6,134	-	64,550
Building	25,938	11,318	-	37,256
Machinery and equipment	17,264	5,280	-	22,544
Vehicles	54,614	16,666	(3,595)	67,685
Office equipment	10,872	3,016	(1,193)	12,695
Total Less: Accumulated Depreciation	<u>\$ 3,293,525</u>	<u>\$ 172,906</u>	<u>\$ (4,788)</u>	<u>\$ 3,461,643</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 2,836,409</u>	<u>\$ (75,241)</u>	<u>\$ 222</u>	<u>\$ 2,761,390</u>
Total Cost of Capital Assets	\$ 6,129,934	\$ 97,665	\$ (4,566)	\$ 6,223,033
Less: Accumulated depreciation	<u>(3,293,525)</u>	<u>(172,906)</u>	<u>4,788</u>	<u>(3,461,643)</u>
CAPITAL ASSETS - NET	<u>\$ 2,836,409</u>	<u>\$ (75,241)</u>	<u>\$ 222</u>	<u>\$ 2,761,390</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Capital Assets - Not Being Depreciated				
Construction in progress	\$ 745	\$ -	\$ (745)	\$ -
Capital Assets - Being Depreciated				
Water system and equipment	\$ 4,439,261	\$ 12,675	\$ -	\$ 4,451,936
Abilene Treatment Plant	924,194	-	-	924,194
Navarre project	263,975	-	-	263,975
Westar project	56,170	-	-	56,170
Building	235,808	-	-	235,808
Machinery and equipment	79,330	-	-	79,330
Vehicles	94,079	-	-	94,079
Office equipment	24,442	-	-	24,442
Total Depreciable Capital Assets	<u>\$ 6,117,259</u>	<u>\$ 12,675</u>	<u>\$ -</u>	<u>\$ 6,129,934</u>
TOTAL CAPITAL ASSETS	<u>\$ 6,118,004</u>	<u>\$ 12,675</u>	<u>\$ (745)</u>	<u>\$ 6,129,934</u>
Less: Accumulated Depreciation				
Water system and equipment	\$ 2,368,741	\$ 110,387	\$ -	\$ 2,479,128
Abilene Treatment Plant	354,274	18,484	-	372,758
Navarre project	269,255	5,280	-	274,535
Westar project	57,293	1,123	-	58,416
Building	19,729	6,209	-	25,938
Machinery and equipment	5,739	11,525	-	17,264
Vehicles	35,709	18,905	-	54,614
Office equipment	8,356	2,516	-	10,872
Total Less: Accumulated Depreciation	<u>\$ 3,119,096</u>	<u>\$ 174,429</u>	<u>\$ -</u>	<u>\$ 3,293,525</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 2,998,163</u>	<u>\$ (161,754)</u>	<u>\$ -</u>	<u>\$ 2,836,409</u>
Total Cost of Capital Assets	\$ 6,118,004	\$ 12,675	\$ (745)	\$ 6,129,934
Less: Accumulated depreciation	(3,119,096)	(174,429)	-	(3,293,525)
CAPITAL ASSETS - NET	<u>\$ 2,998,908</u>	<u>\$ (161,754)</u>	<u>\$ (745)</u>	<u>\$ 2,836,409</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 4: Long-Term Debt

	Beginning Balance	Issued	Retired	Ending Balance
State Water Supply Loan	\$ 912,015	\$ -	\$ 43,913	\$ 868,102
Water Revenue Bonds	325,000	-	15,000	310,000
Total	\$ 1,237,015	\$ -	\$ 58,913	\$ 1,178,102

Long-term debt consists of the following at December 31, 2019 and 2018:

	2019	2018
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 maturing in 2035.	\$ 310,000	\$ 325,000

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.

	868,102	912,016
TOTAL LONG-TERM DEBT	\$ 1,178,102	\$ 1,237,016
Less: Current portion of long-term debt	(59,987)	(58,914)
Less: Unamortized bond discount	(7,038)	(7,495)
NET LONG-TERM DEBT	\$ 1,111,077	\$ 1,170,607

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Note 4: Long-Term Debt (Continued)

Year Ended December 31, 2019	Principal	Interest	Service Fee	Total
2020	\$ 59,987	\$ 28,669	\$ 2,999	\$ 91,655
2021	61,087	27,428	2,841	91,356
2022	62,214	26,088	2,679	90,981
2023	63,368	24,725	2,512	90,605
2024	64,550	23,338	2,342	90,230
2025 - 2029	356,527	93,120	9,006	458,653
2030 - 2034	405,739	46,045	4,078	455,862
2035	104,630	2,690	170	107,490
Total	\$ 1,178,102	\$ 272,103	\$ 26,627	\$ 1,476,832

Year Ended December 31, 2018	Principal	Interest	Service Fee	Total
2019	\$ 58,914	\$ 29,431	\$ 3,154	\$ 91,499
2020	59,987	28,669	2,999	91,655
2021	61,087	27,428	2,841	91,356
2022	62,214	26,088	2,679	90,981
2023	63,368	24,725	2,512	90,605
2024 - 2028	340,166	101,314	9,922	451,402
2029 - 2033	393,562	56,129	5,112	454,803
2034 - 2035	197,718	7,751	562	206,031
Total	\$ 1,237,016	\$ 301,535	\$ 29,781	\$ 1,568,332

Total interest incurred and expensed in 2019 and 2018 was \$29,939 and \$32,512, respectively.

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 and recorded as a contra-liability. There was \$457 of bond amortization expense for the years ending December 31, 2019 and 2018.

Note 5: Debt Service Ratio

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the years ending December 31:

	2019	2018
Change in net position	\$ 3,712	\$ 17,832
Interest expense	29,939	32,512
Depreciation	172,907	174,429
Less: Capital contributions	(5,000)	(10,000)
Total Revenue Available for Debt Service	\$ 201,558	\$ 214,773
Debt service payments	\$ 89,302	\$ 88,555
Debt service ratio	2.26	2.43

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS
Abilene, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Notes to Financial Statements

Note 6: Retirement Plan

The district provides annuities for its eligible full-time employees. The District contributes 3% of the employee's salary to their annuity. If employment is terminated, the annuity remains the property of the employee. In 2019 and 2018, the District contributed \$4,961 and \$4,372 respectively to the retirement plan. The annuities are with the Lord Abbott Company.

Note 7: Litigation

There were no legal actions involving the District as of December 31, 2019 and through the date of this report that require disclosure.

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 the 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.

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). 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, 2019 and 2018, the value of accrued vacation was \$10,046 and \$8,656 respectively.

Note 9: Risk Management

Dickinson County Rural Water District No. 2 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. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

Note 10: Related Parties

All the members of the Board of Directors and one employee are water district customers. Other than payment for water and approved salaries and wages, no material transactions occurred in 2019 or 2018 between the District and the Directors and employees. All were current for the year ended December 31, 2019 on their water payments.

Note 11: Subsequent Events

Management has evaluated subsequent events through June 5, 2020, which is the date the financial statements were available for issuance.