RURAL WATER DISTRICT NO. 2, WABAUNSEE COUNTY

Financial Statements With Independent Auditors' Report

For the Years Ended December 31, 2023 and 2022

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ADAMS BROWN
Strategic Allies and CPAs
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 2, Wabaunsee County
Wamego, Kansas

Opinion

We have audited the accompanying financial statements of the business-type activities of **Rural Water District No. 2, Wabaunsee County**, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of **Rural Water District No. 2, Wabaunsee County** as of December 31, 2023, and the respective changes in financial position and cash flows thereof for the year 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Rural Water District No. 2, Wabaunsee County**, 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 audit opinions.

Other Matter

The financial statements of **Rural Water District No. 2, Wabaunsee County** for the year ended December 31, 2022 were audited by VonFeldt, Bauer & VonFeldt, Chtd., who merged with AdamsBrown, LLC as of November 1, 2023, whose report dated September 15, 2023 expressed an unmodified opinion on those statements.

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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 statements.

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 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Adamsbrown, LLC

ADAMSBROWN, LLC
Certified Public Accountants
Larned, Kansas

December 11, 2024

The discussion and analysis of **Rural Water District No. 2, Wabaunsee County's** financial performance provides an overview of the District's financial activities for the years ended December 31, 2023 and 2022. Please read in conjunction with the District's financial statements which begin after this section.

Reporting of the District

Our analysis of the District begins on page 6. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net position, statements of revenues, expenses and change in net position and statements of cash flows report information about the District's activities that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net position and changes in it. The District's net position, the difference between assets and liabilities, is a way to measure the District's financial health and financial position. Increases and decreases in the District's net position are one indicator of whether financial health is improving or deteriorating.

FINANCIAL STATUS AND HIGHLIGHTS

Current Year Results

Operating revenues increased in 2023 as compared to 2022, which is attributed to an increase in the number of gallons sold with the addition of Paxico during 2022. Operating expenses also increased in 2023 as compared to 2022, which is attributed to the ongoing system wide residential meter replacement program. This program has led to a significant increase in water leak discoveries leading to an increase in repairs expenses.

Discussion of Basic Financial Statements

The District's only business-type fund is the proprietary fund, which is shown in this report. The financial statements provide detailed information which shows how money flows in and out of this fund and the balance left available for spending. This information helps to determine whether or not more or fewer financial resources can be spent in the near future to finance the District's activities.

The statements of net position reflect assets owned and liabilities owed at December 31, 2023 and 2022. The difference between total assets and total liabilities is referred to as net position.

The statements of revenues, expenses and change in net position reflect operating revenues, operating and maintenance expenses, interest income, interest expense and all other changes to net position for the years ended December 31, 2023 and 2022.

The statements of cash flows reflect cash provided by or used in operating activities, capital and related financing activities, and investing activities for the years ended December 31, 2023 and 2022. The statements also disclose cash paid for interest at December 31, 2023 and 2022.

Other Financial Matters

The District's purpose is to provide water to the users in the water district. Expenses include debt service and operating expenses. The financial position at the end of the year, based upon the District's established purpose, was primarily as planned.

Debt Administration

At year end, the Series 2016 revenue bonds had an outstanding amount of $457,000 and $630,000, respectively, for 2023 and 2022. The debt is more fully described in Note 9 of the audited financial statements.

Capital Assets

At the end of 2023 and 2022, the District had $3,359,242 and $3,043,711, respectively, invested in capital assets net of depreciation.

Figure 1 – Capital Assets

	2023	2022
Buildings, Standpipes, Telemetry	$ **747,435**	705,285
Company Vehicle	**21,783**	21,783
Land and Easements	**83,946**	83,946
Office Furniture and Equipment	**25,249**	26,278
Water System – Phase 1	**1,877,150**	1,877,150
Water System – Phase 2	**2,614,273**	2,516,459
Water System – Phase 3	**1,233,041**	1,217,620
Water System – Newbury Addition	**91,542**	91,542
Skid #3	**222,475**	222,475
Water System – Kaw Addition	**218,938**	218,938
Water System – Prairie South	**176,864**	176,864
Tank Project	**199,588**	199,588
Well #1 Project	**49,878**	49,878
Well #2 Project	**59,492**	59,492
Alma Loop Project	**314,965**	-
K99 Phase II	**57,859**	-
Accumulated Depreciation	**(4,635,236)**	(4,423,588)
Net Capital Assets	$ **3,359,242**	3,043,710

Comparative Financial Reports

The following figures present abbreviated comparative information in the District's statements of net position at December 31, 2023 and 2022 and summaries of activities for the years then ended.

Figure 2 – Net Position

	2023	2022
Cash	$ **171,543**	338,578
Accounts Receivable – Trade	**15,611**	48,857
Accounts Receivable – Current Portion	**22,387**	22,387
Investments – Certificates of Deposit	**352,041**	420,176
Prepaid Expenses	**16,505**	-
Inventory	**30,137**	35,386
Accounts Receivable – Net of Current Portion	**194,247**	218,561
Capital Assets, Net	**3,359,242**	3,043,710
Total Assets	$ **4,161,713**	4,127,655

Accounts Payable - Trade	$	**11,205**	98,880
Accrued Expenses		**14,662**	9,683
Current Portion of Liabilities		**177,000**	173,000
Noncurrent Portion of Liabilities		**280,000**	457,000
Total Liabilities		**482,867**	738,563
Net Position		**3,678,846**	3,389,092
Total Liabilities and Net Position	$	**4,161,713**	4,127,655

Figure 3 – Revenues, Expenses and Change in Net Position

		2023	2022
Operating Revenues	$	**892,799**	788,838
Operating Expenses		**(610,979)**	(567,778)
Net Operating Income		**281,820**	221,060
Nonoperating Revenues (Expense)			
Loss on Disposition of Assets		**(28)**	-
Interest Income		**18,951**	3,925
Interest Expense		**(10,989)**	(14,272)
Net Nonoperating Revenues (Expense)		**7,934**	(10,347)
Change in Net Position		**289,754**	210,713
Net Position – Beginning of Year		**3,389,092**	3,178,379
Net Position – End of Year	$	**3,678,846**	3,389,092

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. The report is also designed to show the District's accountability for the money it receives.

Further questions concerning this report or the financial status of **Rural Water District No. 2, Wabaunsee County** should be directed to the District's chairman at 38521 Antelope Creek Rd., Wamego, Kansas 66547.

Jamy Reece for Jason Spellman, Chairman

Rural Water District No. 2, Wabaunsee County

RURAL WATER DISTRICT NO. 2, WABAUNSEE COUNTY
Statements of Net Position
December 31, 2023 and 2022

ASSETS

		2023	2022
Current Assets			
Cash	$	**171,543**	338,578
Accounts Receivable - Trade and Other		**15,611**	48,857
Accounts Receivable Prairie South Addition - Current Portion		**8,475**	8,475
Accounts Receivable Kaw Addition - Current Portion		**9,325**	9,325
Accounts Receivable Newburry Addition - Current Portion		**4,587**	4,587
Investments - Certificates of Deposit		**352,041**	420,176
Prepaid Expenses		**16,505**	-
Inventory		**30,137**	35,386
Total Current Assets		**608,224**	865,384
Noncurrent Assets			
Accounts Receivable Prairie South Addition - Net of Current Portion		**103,606**	112,680
Accounts Receivable Kaw Addition - Net of Current Portion		**66,782**	77,834
Accounts Receivable Newburry Addition - Net of Current Portion		**23,859**	28,047
Capital Assets			
Buildings, Standpipes, Telementary		**747,435**	705,285
Land		**83,946**	83,946
Office Furniture and Equipment		**25,249**	26,278
Skid #3		**222,475**	222,475
Tank Project		**199,588**	199,588
Vehicles		**21,783**	21,783
Water System - Newbury		**6,636,143**	6,207,943
Construction in Process - K-99 Phase II		**57,859**	-
Accumulated Depreciation		**(4,635,236)**	(4,423,588)
Net Capital Assets		**3,359,242**	3,043,710
Total Noncurrent Assets		**3,553,489**	3,262,271
Total Assets	$	**4,161,713**	4,127,655

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

RURAL WATER DISTRICT NO. 2, WABAUNSEE COUNTY
Statements of Net Position
December 31, 2023 and 2022

LIABILITIES AND NET POSITION		2023	2022
Current Liabilities Payable From Current Assets			
Accounts Payable - Trade	$	**11,205**	98,880
Interest Payable		**2,925**	4,032
Unearned Revenues		**8,734**	2,058
Payroll Liabilities		**3,003**	3,593
Current Portion of Bonds Payable		**177,000**	173,000
Total Current Liabilities Payable From Current Assets		**202,867**	281,563
Noncurrent Liabilities			
Bonds Payable, Net of Current Portion		**280,000**	457,000
Total Liabilities		**482,867**	738,563
Net Position			
Invested in Capital Assets, Net of Related Debt		**2,902,242**	2,413,710
Unrestricted		**776,604**	975,382
Total Net Position		**3,678,846**	3,389,092
Total Liabilities and Net Position	$	**4,161,713**	4,127,655

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

RURAL WATER DISTRICT NO. 2, WABAUNSEE COUNTY
Statements of Revenues, Expenses and Change in Net Position
For the Years Ended December 31, 2023 and 2022

		2023	2022
Operating Revenues			
Sale of Water	$	**618,245**	593,085
Member Contributions		**51,600**	154,420
Reimbursements		**42,179**	39,947
Federal Aid - ARPA		**180,000**	-
Miscellaneous Income		**775**	1,386
Total Operating Revenues		**892,799**	788,838
Operating Expenses			
Salaries		**143,390**	141,754
Payroll Taxes		**11,142**	10,540
Health Insurance		**6,980**	7,305
Retirement		**2,515**	2,442
Mileage		**3,217**	2,339
Legal and Accounting		**7,512**	6,110
Bank Charges and Fees		**37**	37
Engineering		**2,226**	4,036
Testing		**3,030**	641
Insurance		**7,661**	16,547
Depreciation		**216,048**	201,154
Office Supplies		**2,450**	3,921
Printing and Postage		**6,389**	6,552
Maintenance and Repairs		**69,390**	34,268
Supplies		**12,136**	13,353
Travel, Conference, Memberships		**7,774**	3,905
Telephone		**3,023**	4,121
Electric		**84,133**	78,042
Vehicle Expense		**7,145**	4,080
Sales Tax		**15,063**	13,009
Reimbursed Expenses		**2,634**	8,121
Miscellaneous		**(2,916)**	5,501
Total Operating Expenses		**610,979**	567,778
Net Operating Income		**281,820**	221,060
Nonoperating Revenues (Expense)			
Interest Income		**18,951**	3,925
Interest Expense		**(10,989)**	(14,272)
Loss on Disposition of Assets		**(28)**	-
Net Nonoperating Revenues (Expense)		**7,934**	(10,347)
Change in Net Position		**289,754**	210,713
Net Position - Beginning of Year		**3,389,092**	3,178,379
Net Position - End of Year	$	**3,678,846**	3,389,092

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

RURAL WATER DISTRICT NO. 2, WABAUNSEE COUNTY
Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

		2023	2022
Cash Flows From Operating Activities			
Cash Received From Customers	$	**957,035**	770,569
Cash Paid to Suppliers		**(339,330)**	(133,521)
Cash Paid to Employees		**(155,122)**	(151,783)
Net Cash Provided by Operating Activities		**462,583**	485,265
Cash Flows From Capital and Related Financing Activities			
Purchase and Construction of Capital Assets		**(531,580)**	(166,696)
Loss on Disposition of Assets		**(28)**	-
Interest Paid		**(12,096)**	(15,360)
Principal Paid on Bond		**(173,000)**	(170,000)
Net Cash Used by Capital and Related Financing Activities		**(716,704)**	(352,056)
Cash Flows From Investing Activities			
Interest Received		**18,951**	3,925
Net Increase (Decrease) in Cash		**(235,170)**	137,134
Cash - Beginning of Year		**758,754**	621,620
Cash - End of Year	$	**523,584**	758,754
Composition of Cash			
Cash	$	**171,543**	338,578
Certificates of Deposit		**352,041**	420,176
Cash - End of Year	$	**523,584**	758,754
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities			
Net Operating Income	$	**281,820**	221,060
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities			
Depreciation		**216,048**	201,154
(Increase) Decrease in			
Accounts Receivable		**57,560**	(19,173)
Prepaid Expenses		**(16,505)**	-
Inventory		**5,249**	(8,132)
Increase (Decrease) in			
Accounts Payable		**(87,675)**	88,941
Unearned Revenues		**6,676**	904
Payroll Taxes Payable		**(590)**	511
Net Cash Provided by Operating Activities	$	**462,583**	485,265

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of **Rural Water District No. 2, Wabaunsee County** is presented to assist in understanding the District's financial statements. The financial statements and notes to the financial statements are representations of the District's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Financial Reporting Entity

Rural Water District No. 2, Wabaunsee County (District), located in Wamego, Kansas, is organized as a quasi-municipal corporation under Kansas statutes K.S.A. 82a-612, for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District, and is not subject to federal or Kansas income tax. There are no component units or oversight units.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Accounting, Financial Statement Presentation, and Measurement Focus

For financial reporting purposes, the District is engaged only in business-type activities. Accordingly, the District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the District are included in the statement of net position. The statement of revenues, expenses and change in net position presents increases and decreases in total net position. Under the accrual basis of accounting revenues are recorded when earned, and expenses are recorded when a liability is incurred. Revenues are recognized as soon as they are both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected by the end of the year. Expenditures are recorded when the related liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accounting records of the District are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District applies all statements issued by the Government Accounting Standards Board (GASB). The District uses a single proprietary fund to account for and report its financial activities, which is limited to *business-type* activities – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which for the District is water distribution. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District had only one proprietary fund through December 31, 2023 and 2022.

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

Budget
The District is not subject to the legal annual operating budget requirements, but is controlled by the use of an internal budget established by the governing body. As the District is not subject to these requirements, comparison to budget has not been included in the financial statements.

Cash and Cash Equivalents
For the purpose of the statements of cash flows, the District considers cash and cash equivalents to be all unrestricted, highly liquid deposits with original maturities of twelve months or less, which consists of the District's checking account and certificates of deposit.

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 bank or branch 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 investments 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.

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 K.S.A. 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 use "peak periods". All deposits were legally secured at December 31, 2023 and 2022.

At December 31, 2023 and 2022, the District's carrying amounts of deposits were $171,543 and $338,578 respectively, and the bank balances were $393,033 and $353,439, respectively, the difference being outstanding checks and deposits. The bank balances at December 31, 2023 and 2022 were held by one bank. Of the 2023 bank balance, $250,000 was covered by federal depository insurance and $143,033 was collateralized with securities held by the pledging financial institutions' agents in the District's name. Of the 2022 bank balance, $250,000 was covered by federal depository insurance and $103,439 was collateralized with securities held by the pledging financial institutions' agents in the District's name

Custodial Credit Risk - Investments
For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. At December 31, 2023 and 2022, the District held certificates of deposit totaling $352,041 and $420,176, respectively, bear interest at rates ranging from 0.74% to 5.10% and have remaining maturities ranging from six months to one year, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. The certificate of deposit balances at December 31, 2023 and 2022 were held by two banks and the entire balances were covered by federal depository insurance.

Accounts Receivable
Accounts receivable represents deposits made by customers during the following January plus estimated amounts due on delinquent accounts. The water district takes a reading of customer's water meters on the first day of each month and bills the customer by the fifth day of the month. Customers then remit payment for prior month's water usage to the District no later than the 16th day of the month. Late charges, debt service fees and other fees are included in the sale of water. Meter amounts are verified by the District staff annually. If customer accounts become a month or more overdue, customers are issued a final notice and have to appear at hearing at the next board meeting. If payment is not received in full including 10% interest by that board meeting, water supply is shut off. Accounts receivable over 45 days totaled $0 for December 31, 2023 and 2022. There is no allowance for doubtful accounts used because the District deems all accounts receivable collectible. For the years ended December 31, 2023 and 2022 management considered all accounts fully collectible.

Accounts Receivable - KAW Project
In 2013, the District entered into an agreement with 9 residents that currently lived outside of the District's water system. The agreement stated the District would pay the upfront costs to annex these residents into the District and the residents will pay the District back for a portion of the costs. The District engaged Bartlett and West to bid the project. The total cost of the project was bid at $192,256 with the residents responsible for $165,781 of the total cost. This balance will be paid by the residents in monthly costs over 20 years. There is no interest being collected on this receivable. Because the residents agreed to pay as a group, the District feels that there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

The minimum amount due in future years as of December 31st for the Kaw Project is as follows:

Year Ended December 31,		Amount Due
2024	$	9,325
2025		9,325
2026		9,325
2027		9,325
2028		9,325
Thereafter		29,482
Totals	$	**76,107**

Accounts Receivable – Prairie South Project
In 2016, the District entered into an agreement with 13 residents that currently lived outside of the District's water system. The agreement stated District would pay the upfront costs of the project to annex the residents into the District and the residents will pay the District back for the costs. The District engaged Bartlett and West to bid the contract at a total cost of $169,498. The residents are responsible for the entire project cost. This balance will be paid by the residents in monthly installments over 20 years. There is no interest being collected on the receivable. Because the residents of the new addition agreed to pay as a group, the District feels there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

The minimum amount due in future years as of December 31st for the Prairie South Project is as follows:

Year Ended December 31,		Amount Due
2024	$	8,475
2025		8,475
2026		8,475
2027		8,475
2028		8,475
Thereafter		69,706
Totals	$	**$112,081**

Accounts Receivable – Newbury Project
In 2010, the District entered into an agreement with 22 residents that currently live outside of the District's water system. The agreement stated that the District would pay the upfront costs to annex the residents into the District and the residents will pay the District back for the costs. The District engaged Bartlett and West to bid the contract at a total cost of $133,800. The residents are responsible for the entire project cost. This balance will be paid by the residents in monthly installments over 20 years. There is no interest being collected on the receivable. Because the residents of the new addition agreed to pay as a group, the District feels there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

The minimum amount due in future years as of December 31st for the Newbury Project is as follows:

Year Ended December 31,		Amount Due
2024	$	4,587
2025		4,587
2026		4,587
2027		4,587
2028		4,587
Thereafter		5,511
Totals	$	**$28,446**

Prepaid Expenses
Payments made to vendors for goods or services that will benefit periods beyond the date of this report are recorded as prepaid expenses.

Inventory
Inventory consists primarily of parts and supplies and is stated at cost on a first-in, first-out basis.

Net Position
Net position is the difference between assets and liabilities. The District's net position is classified as follows:

a. *Invested in capital assets, net of related debt:* This represents the District's total investment in capital assets, net of related debt obligations related to those capital assets.

b. *Restricted net position – expendable:* Restricted expendable net position includes resources that have legal limitations that are imposed on their use by legislation or external restrictions by creditors or grantors to indicate that their use is limited as stipulated by contract.

c. *Unrestricted net position:* Unrestricted net position represents resources that does not meet the definition of "restricted" or "invested in capital assets, net of related debt". These resources are used for transactions relating to the operations of the District and may be used at the discretion of the governing body to meet current expenses for any lawful purpose.

Operating Revenues
The District's rates are established by the Board of Directors. The District sells water to members at established rates. Revenue is measured based on the sale of water, which establishes a contract with District customers. All customers reside in the District. The District recognizes revenue when it satisfies its performance obligation, i.e. when water is available and use of water occurs. A transaction price of $5 per gallon of water used is charged upon water usage as well as a minimum fee of $31 per customer per month. Sale of water occurs at the point of time when water is used and totaled $618,245 and $593,085 as of December 31, 2023 and 2022, respectively.

Compensated Absences
Employees of the District are entitled to paid time off (PTO) depending on length of service and other factors. All PTO can be carried over to the subsequent year. Employees are not required to be reimbursed for any unused PTO upon termination of employment. As a result, no accrued compensated absences existed at December 31, 2023 and 2022.

NOTE 2 - CAPITAL ASSETS

The cost of additions to the water system, building, and equipment is capitalized. Capital assets are recorded at cost.

Capital assets are defined by the District as assets or group of assets that have an estimated useful life in excess of three years and cost $2,500 or more. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives is not capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation expense is computed using the straight-line method based on estimated service lives. Depreciation expense for the years ended December 31, 2023 and 2022 was $216,048 and $201,154, respectively. Estimated useful lives for related assets are 5 to 50 years.

A summary of changes in fixed assets is as follows:

		Balance 12/31/2022	Increases	Decreases	**Balance 12/31/2023**
Buildings, Standpipes, Telemetry	$	705,285	45,549	3,399	**747,435**
Company Vehicle		21,783	-	-	**21,783**
Land and Easements		83,946	-	-	**83,946**
Office Furniture and Equipment		26,278	-	1,029	**25,249**
Water System – Phase 1		1,877,150	-	-	**1,877,150**
Water System – Phase 2		2,516,459	97,814	-	**2,614,273**
Water System – Phase 3		1,217,620	15,421	-	**1,233,041**
Water System – Newbury Addition		91,542	-	-	**91,542**
Skid #3		222,475	-	-	**222,475**
Water System – Kaw Addition		218,938	-	-	**218,938**
Water System – Prairie South		176,864	-	-	**176,864**
Tank Project		199,588	-	-	**199,588**
Well #1 Project		49,878	-	-	**49,878**
Well #2 Project		59,492	-	-	**59,492**
Alma Loop Project		-	314,965	-	**314,965**
K99 Phase II		-	57,859	-	**57,859**
Total Capital Assets		7,467,298	531,608	(4,428)	**7,994,478**
Accumulated Depreciation		(4,423,588)	(216,048)	4,400	**(4,635,236)**
Capital Assets, Net of Accumulated Depreciation	**$**	**3,043,710**	**315,560**	**(28)**	**3,359,242**

		Balance 12/31/2021	Increases	Decreases	Balance 12/31/2022
Buildings, Standpipes, Telemetry	$	627,585	77,700	-	705,285
Company Vehicle		21,783	-	-	21,783
Land and Easements		83,946	-	-	83,946
Office Furniture and Equipment		26,278	-	-	26,278
Water System – Phase 1		1,877,150	-	-	1,877,150
Water System – Phase 2		2,427,463	88,996	-	2,516,459
Water System – Phase 3		1,217,620	-	-	1,217,620
Water System – Newbury Addition		91,542	-	-	91,542
Skid #3		222,475	-	-	222,475
Water System – Kaw Addition		218,938	-	-	218,938
Water System – Prairie South		176,864	-	-	176,864
Tank Project		199,588	-	-	199,588
Well #1 Project		49,878	-	-	49,878
Well #2 Project		59,492	-	-	59,492
Total Capital Assets		7,300,602	166,696	-	7,467,298
Accumulated Depreciation		(4,222,433)	(201,154)	-	(4,423,588)
Capital Assets, Net of Accumulated Depreciation	$	3,078,169	(34,458)	-	3,043,710

NOTE 3 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than related to employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

NOTE 4 - LITIGATION

The District is party to various legal proceedings which normally occur in governmental operations. These proceedings are not likely to have a material financial impact on the affected fund of the District.

NOTE 5 - ENVIRONMENTAL ISSUES

The District's operation of the water distribution services poses a potential risk for environmental remediation liabilities. The operator of the facility has indicated that the District has not violated environmental laws.

NOTE 6 – MEMBERSHIP SETUP FEES

The District receives applications for new service from individuals and businesses within the District boundaries. During the monthly board meetings, these applications are reviewed and voted on. If an application is approved, the individual or business pays a $5,200 membership fee and pays for construction costs related to the installation of the new service. These fees are non-reimbursable. Total customer water line setup fees were $51,600 and $154,420 at December 31, 2023 and 2022, respectively.

NOTE 7 – RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

The District has adopted the direct method of presenting cash flow from operating activities in this period, as it provides greater transparency into the cash receipts and payments related to operations. To facilitate this change, the prior year cash flow has been adjusted to the direct method for comparative purposes.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District had a public works contract in excess of $100,000 without proper bonding, in violation of K.S.A. 60-1111.

NOTE 9 – LONG-TERM LIABILITIES

On June 1, 2012, the District issued $1,603,000 in Water Finance Authority Revenue Bonds - Series 2016 for the purpose of providing funds for refunding the Series 2011 Bonds.

Long-term liability activity for the year ended December 31, 2023 was as follows:

	Outstanding December 31, 2022	Additions	Reductions	Outstanding December 31 2023	Current Portion	Interest Paid
Revenue Bond Series 2016	$ 630,000	-	173,000	457,000	177,000	12,096

Long-term liability activity for the year ended December 31, 2022 was as follows:

	Outstanding December 31, 2021	Additions	Reductions	Outstanding December 31 2022	Current Portion	Interest Paid
Revenue Bond Series 2016	$ 800,000	-	170,000	630,000	173,000	15,360

Scheduled maturities of long-term debt and interest for the next three years through maturity are as follows:

Years Ended December 31		Principal	Interest	Total
2024	$	177,000	8,774	185,774
2025		180,000	5,376	185,376
2026		100,000	1,920	101,920
Total	$	**$ 457,000**	**16,070**	**473,070**

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 11, 2024, which is the date the financial statements were available to be issued on **Rural Water District No. 2, Wabaunsee County**.