**RURAL WATER DISTRICT NUMBER 2**
**Coffey County**
Gridley, Kansas

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2023 & 2022

**RURAL WATER DISTRICT NUMBER 2**
**Coffey County**
**Gridley, Kansas**

TABLE OF CONTENTS
Years ended December 31, 2023 and 2022


| | Statements | Page |
|---|---|---|
| **Independent Auditor's Report** | | 1 |
| **Financial Statements** | | |
| Statement of Net Position | 1 | 3 |
| Statement of Revenues, Expenses and Changes in Net Position | 2 | 4 |
| Statement of Cash Flows | 3 | 5 |
| **Notes to Financial Statements** | | 6 |
| **Supplementary Information** | Schedule | |
| Schedule of Statistical Information | 1 | 12 |

234 South Main
Ottawa, Kansas 66067
(785) 242-3170
(785) 242-9250
www.ag.cpa WEB SITE

Agler & Gaeddert CHARTERED
Certified Public Accountants

Harold K. Mayes, CPA
Lucille L. Hinderliter, CPA

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District Number 2
Coffey County
Gridley, Kansas

**Opinions**
We have audited the accompanying financial statements of the business type fund, the one major fund, and the aggregate remaining fund information of Rural Water District Number 2, Coffey County and the related notes to the financial statements, which collectively comprise Rural Water District Number 2, Coffey County 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 fund the one major fund, and the aggregate remaining fund information of Rural Water District Number 2, Coffey County as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinions**
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District Number 2, Coffey 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.

**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 Rural Water District Number 2, Coffey County ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditor's Responsibilities for the Audit of 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 and auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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 Rural Water District Number 2, Coffey County 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 Rural Water District Number 2, Coffey County 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.

**Other Matters**
Rural Water District Number 2, Coffey County has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

***Report on Supplementary Information***
Our audit was conducted for the purpose of forming an opinion on the basic financial statements as noted in the table of contents taken as a whole. The revenues and expenses compared to budget (Schedule 1 listed in the table of contents) is presented for analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole, in accordance with accounting principles generally accepted in the United States of America.

Harold K. Mayes Jr

Harold K Mayes Jr CPA
Agler & Gaeddert Chartered
Ottawa, Kansas
June 20, 2024

**Rural Water District Number 2** **Statement 1**
**Coffey County**
Gridley, Kansas
STATEMENTS OF NET POSITION
December 31, 2023 & 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash Operations | $ 586,503 | $ 918,265 |
| Petty Cash | 200 | 200 |
| Money Market Accounts | 549,891 | 488,896 |
| Certificates of Deposit | 970,880 | 343,360 |
| Accounts Receivable | 76,495 | 68,588 |
| Prepaid Expenses | 7,246 | 7,246 |
| Inventory | 128,939 | 101,925 |
| Total current assets | 2,320,154 | 1,928,480 |
| **Property, Plant and Equipment** | | |
| Land | 58,093 | 58,093 |
| Water System | 5,857,546 | 5,857,546 |
| Office Equipment | 72,375 | 72,375 |
| Vehicles and Trailers | 454,844 | 454,844 |
| | 6,442,858 | 6,442,858 |
| Accumulated Depreciation | (4,197,804) | (3,998,643) |
| Total Property Plant and Equipment | 2,245,054 | 2,444,215 |
| Total Assets | $ 4,565,208 | $ 4,372,695 |
| **LIABILITIES AND NET POSITION** | | |
| **Current Liabilities** | | |
| Accounts Payable | $ 46,806 | $ 66,826 |
| Payroll Liabilities | 5,234 | 696 |
| Accrued Salaries and Payroll Taxes | 17,152 | 14,899 |
| Line Extension | 36,714 | 54,337 |
| Total Current Liabilities | 105,906 | 136,758 |
| **Net Position** | | |
| Invested in Capital Assets, Net of Related Debt | 2,245,054 | 2,444,215 |
| Unrestricted Net Position | 2,214,248 | 1,791,722 |
| Total Net Position | 4,459,302 | 4,235,937 |
| Total Liabilities & Net Position | $ 4,565,208 | $ 4,372,695 |

The accompanying notes are an integral part of these statements.

**Rural Water District Number 2** **Statement 2**

**Coffey County**

Gridley, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2023 & 2022

| | 2023 | 2022 |
|---|---|---|
| **Operating Revenues** | | |
| Water Sales | $ 769,852 | $ 662,357 |
| Maintenance Fee | 271,717 | 268,155 |
| Line Extension Reimbursements | 116,903 | 0 |
| Repair Reimbursements | 0 | 853 |
| Reconnect Fees | 290 | 300 |
| Miscellaneous | 6,631 | 6,172 |
| Total Revenues | 1,165,393 | 937,837 |
| **Cost of Sales** | | |
| Cost of Water | 422,073 | 396,271 |
| Gross Profit | 743,320 | 541,566 |
| **Operating Expenses** | | |
| Director Expenses | 10,015 | 5,325 |
| Wages | 188,387 | 162,957 |
| Payroll Taxes | 14,585 | 13,044 |
| Maintenance Labor | 13,943 | 5,142 |
| Small Tools & Supplies | 1,260 | 4,525 |
| Maintenance Materials | 44,225 | 36,181 |
| Repairs - Equipment | 354 | 7,330 |
| Repairs - Vehicle | 10,322 | 10,439 |
| Repairs - Building | 54 | 5,263 |
| Gas & Oil | 18,233 | 21,587 |
| Utilities | 19,187 | 15,417 |
| Telephone | 4,165 | 5,270 |
| Office Utilities | 4,379 | 3,544 |
| Dues & Subscriptions | 889 | 877 |
| Training/Education | 1,482 | 828 |
| Insurance | 29,748 | 28,608 |
| Chemicals | 1,791 | 4,205 |
| Professional Fees | 13,574 | 14,840 |
| Maintenance & Repairs | 0 | 6,810 |
| Office Supplies | 6,543 | 3,765 |
| Meeting Expense | 551 | 572 |
| Postage | 3,278 | 3,768 |
| Water testing | 3,814 | 4,963 |
| Bad Debts | 0 | 3,702 |
| Depreciation | 199,161 | 199,160 |
| Total Operating Expenses | 589,940 | 568,122 |
| Total Operating Income (Loss) | 153,380 | (26,556) |
| **Non-Operating Revenues (Expenses)** | | |
| Interest Income | 35,685 | 4,521 |
| **Other Revenues and (Expenses)** | | |
| Sales of Benefit Units | 34,300 | 42,900 |
| Net Income | 223,365 | 20,865 |
| Net Position, Beginning of Year | 4,235,937 | 4,215,072 |
| Total Net Position, End of Year | $ 4,459,302 | $ 4,235,937 |

The accompanying notes are an integral part of these statements.

**Rural Water District Number 2** **Statement 3**

**Coffey County**

Gridley, Kansas

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2023 & 2022

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Cash Received from Customers | $ 1,157,486 | $ 982,530 |
| Cash Paid to Suppliers | (656,914) | (574,070) |
| Cash Paid to Employees (Including Payroll Taxes and Benefits) | (196,181) | (175,596) |
| Net Cash Provided by (Used in) Operating Activities | 304,391 | 232,864 |
| **Cash Flows Provided by (Used in) Financing Activities** | | |
| Water Benefit Units Proceeds | 34,300 | 42,900 |
| Net Cash Provided by (Used in) Financing Activities | 34,300 | 42,900 |
| **Cash Flows Provided by (Used in) Investing Activities:** | | |
| Interest Income | 35,685 | 4,521 |
| Increase (Decrease) in Line Extensions | (17,593) | 0 |
| (Increase) Decrease in Certificates of Deposit | (627,550) | (1,208) |
| Net Cash Provided by (Used in) Investing Activities | (609,458) | 3,313 |
| Net increase (decrease) in cash and cash equivalents | (270,767) | 279,077 |
| Cash and cash equivalents, beginning of year | 1,407,361 | 1,128,284 |
| Cash and cash equivalents, end of year | $ 1,136,594 | $ 1,407,361 |
| **Cash Balances** | | |
| Cash Operations | 586,503 | 918,265 |
| Petty Cash | 200 | 200 |
| Money Market | 549,891 | 488,896 |
| | $ 1,136,594 | $ 1,407,361 |
| **Reconciliations of Operating Income to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating Income | $ 153,380 | $ (26,556) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation | 199,161 | 199,160 |
| Changes in Assets and Liabilities not Current Affecting Cash: | | |
| (Increase) Decrease in Accounts Receivable | (7,907) | (9,644) |
| (Increase) Decrease in Prepaid Expenses | 0 | (374) |
| (Increase) Decrease in Inventory | (27,014) | (25,139) |
| Increase (Decrease) in Accounts Payable | (20,020) | 40,675 |
| Increase (Decrease) in Prepament of Line Extension | 0 | 54,337 |
| Increase (Decrease) in Other Payables | 6,791 | 405 |
| | $ 304,391 | $ 232,864 |

The accompanying notes are an integral part of these financial statements.

**Rural Water District Number 2**
Coffey County
Gridley, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 & 2022

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting principles consistently applied in the preparation of the accompanying financial statements are noted as follows.

### 1. Financial Reporting Entity

The scope of the entity for financial reporting purposes is defined as those funds for which the Rural Water District Number 2 (here in referred to as the District) is considered to be financially accountable. The District's financial statements include all of its operations. The District is a separately administered organization. The District has no component units. The District is a quasi-municipality governed by an elected six-member board.

### 2. Government-wide and Fund Financial Statements

***Government-wide Financial Statements*** - The government-wide financial statements include the statement of net position. This statement reports financial information for the District as a whole. Individual funds are not displayed but the statements distinguish between governmental activities generally supported by taxes and general revenues (of which the District does not have any), from the business-types activities, generally financed in whole or in part with fees charged to external customers. The District is a special-purpose government engaged in a single governmental program (delivery of water to customers in the Gridley, Kansas area).

The statement of revenues, expenses and changes in net position reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities, expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services that report fees, fines and forfeitures, and other charges to users of the District's services; (2) members deposits water meters. All other revenues and expenses not properly included with program revenues or meter deposits will be reported as other revenues and expenses.

The District has just one fund to present in the basic financial statements that accounts for water sales and service to customers of the District. This fund is reported as an enterprise fund.

### 3. Measurement focus and Financial Statement Presentation

The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when relate cash flows take place. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Reimbursements are reported as reductions to expenses or capital assets.

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the District. Operating revenues are charges to customers for sales or services. Operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Non-operating revenues and expenses consist of gain (loss) on sales of assets, realized and unrealized gains and losses on investments, and investment income. Other revenues and expenses consist primarily of benefit units sold or refunded.

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 needed.

Budgets are adopted for internal use only and are not required to be published or approved by outside agencies. All budgets are prepared using the accrual basis of accounting.

**NOTE A. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICEIES - continued**

**4. Fund Types and Major Funds**

***Governmental funds***: The District has no governmental funds.

***Business-type funds***: The District has one major enterprise fund. The Water fund accounts for the operating activities of the District's water utilities services.

**5. Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents are short term, highly liquid investments having original maturities of three months or less, not restricted for contingencies.

**6. Accounts Receivable**

The direct write-off method is used for bad debts. Accounts receivable are written off when deemed uncollectible. Accordingly, no allowance for bad debts has been recorded.

**7. Inventory**

Inventory consist of pipe, meters and other materials used by the District in its daily operations and is valued at cost which is based upon invoices received at the time the inventory item is paid.

**8. Property, Plant and Equipment**

Property, plant and equipment are reported at cost. Major improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable assets are charged to expenses as incurred. Historically, the District has received reimbursements from customers (i.e. line extensions) which are accounted for as reductions of costs. District's capitalization policy is any item over $5,000.

Depreciation is provided on the straight-line basis over the estimated useful life of the assets as follows:

| | |
|---|---|
| Water Systems | 10 - 40 years |
| Office Equipment | 3 - 10 years |
| Vehicle and Trailers | 3 - 10 years |

**9. Use of 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**10. Revenue Recognition**

Operating revenues and expenses included the sale of water and the expenses associated with pumping and cleaning the water. Non-operating revenues and expenses consist of investment income and sales of assets. The District recognizes revenue each month as it reads meters to determine water sales and then applies the rate for gallons used and records the sale of water at that time.

## NOTE A. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### 11. Income Tax

The District is not subject to federal or state income taxes as a quasi-governmental unit.

### 12. Deferred Outflows and Inflows of Resources

The District does not have any deferred outflows or inflows to report at the current time.

### 13. Restricted and Unrestricted Resources

The District's policy is to first expend restricted resources should the expenditure qualify for the restricted purpose before expending unrestricted funds.

## NOTE B - ASSETS, LIABILITIES AND NET POSITION

### 1. Cash and Investments

**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.

**Custodial credit risk** – 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 did not have any designated "peak periods" for the current year. All deposits were legally secured at December 31, 2023 & 2022.

At year-end the carrying amount of the District's deposits (less cash on hand of $200) was $2,107,274 for 2023 and $1,750,521 for 2022. The bank balance was $2,107,724 for 2023 and $1,752,213 for 2022. The difference between book and bank balance is outstanding deposits and checks. The bank balance was held by three banks which reduces credit risk. Of the bank balance $592,856 for 2023 and $592,856 for 2022 was covered by FDIC insurance and $1,159,357 for 2023 and $1,159,357 for 2022 was secured by pledged securities.

**Investments** - K.S.A. 12-1675 authorizes 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.

### 2. Accounts Receivable

| Accounts receivable | 2023 | 2022 |
|---|---|---|
| Currently due from customers | $ 76,495 | $ 68,588 |

**NOTE B - ASSETS, LIABILITIES AND NET POSITION - continued**

**3. Inventories**

Inventory is valued at costs and is used internally and not for resell.

| Inventories | 2023 | 2022 |
|---|---|---|
| Pipe, couplings, fittings, meters etc. | $ 128,939 | $ 101,925 |

**4. Capital Assets are detailed as follows:**

| | 2023 | | | |
|---|---|---|---|---|
| Capital assets | Beginning Balance | Additions | Retirements | Ending Balance |
| Land | $ 58,093 | $ 0 | $ 0 | $ 58,093 |
| Water System | 5,857,546 | 0 | 0 | 5,857,546 |
| Office Equipment | 72,375 | 0 | 0 | 72,375 |
| Vehicles and Trailers | 454,844 | 0 | 0 | 454,844 |
| Totals at cost | 6,442,858 | 0 | 0 | 6,442,858 |
| Accumulated depreciation: | 3,998,643 | 199,161 | 0 | 4,197,804 |
| Net Fixed Assets | $ 2,444,215 | $ (199,161) | $ 0 | $ 2,245,054 |

| | 2022 | | | |
|---|---|---|---|---|
| Capital assets | Beginning Balance | Additions | Retirements | Ending Balance |
| Land | $ 58,093 | $ 0 | $ 0 | $ 58,093 |
| Water System | 5,857,546 | 0 | 0 | 5,857,546 |
| Office Equipment | 72,375 | 0 | 0 | 72,375 |
| Vehicles and Trailers | 454,844 | 0 | 0 | 454,844 |
| Totals at cost | 6,442,858 | 0 | 0 | 6,442,858 |
| Accumulated depreciation: | 3,799,483 | 199,160 | 0 | 3,998,643 |
| Net Fixed Assets | $ 2,643,375 | $ (199,160) | $ 0 | $ 2,444,215 |

There were no impairment of capital assets as described above as of December 31, 2023 & 2022

**5. Compensated Absences**

The District does not have a compensated absence policy.

**NOTE C. - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

The District adopts an internal budget for the support and maintenance of the District.

**NOTE C. - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued**

**2. Compliance with Kansas Statutes**

The District is not aware of any statutory violations

**NOTE D. - OTHER INFORMATION**

**1. 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; and natural disasters for which the District carries commercial insurance. During the last three years, claim settlements have not exceeded insurance coverage.

**2. Concentrations of Risk**

The District purchases all of its water from either the City of Emporia or the City of Burlington.

**3. Net Position**

Net position in proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through State statute. As of December 31, 2023 & 2022 the District did not have any restricted net positions.

**4. Water Purchase Contract**

In 1969, the District entered into a 40-year contract with the City of Burlington, Kansas for the purchase of water. The agreement requires the City to sell water to the District not to exceed 4,500,000 gallons per month. The District and city have continued the argument after the 40-year term.

In 1999, the District entered into a 20-year contract with the City of Emporia, Kansas for the purchase of water. The agreement requires the City to sell water to the District not to exceed 8,000,000 gallons per month.

**5. Related Party Transactions**

The Board of Directors are paid a fee of $75 for each meeting attended. As of the end of the 2023 and 2022 the District will pay out $5,400 and $5,100 respectively to board members.

**6. Subsequent events**

Management has evaluated events through May 15, 2024 and has determined there are no significant events that require disclosure.

## SUPPLEMENTARY INFORMATION

**Rural Water District Number 2** **Schedule 1**
**Coffey County**
Gridley, Kansas
SCHEDULES OF STATISTICAL INFORMATION
For the Years Ended December 31, 2023 & 2022

| | 2023 | 2022 |
|---|---|---|
| Gallons Sold | 80,634,000 | 70,357,000 |
| Gallons Purchased | 91,860,000 | 82,858,000 |
| Water Loss Percentage | 12.22% | 15.09% |
| Number of Benefit Units | 967 | 956 |
| Average Monthly Customers Water Bill | $ 89.76 | $ 80.27 |
| Average Monthly Costs and Expenses Per Customer | $ 87.21 | $ 83.19 |
| Average Monthly Gallons Used Per Customer | 6,949 | 6,133 |

See Independent Auditor's Report.