Acord Cox & Scott, LLC
Certified Public Accountants

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

Financial Statements for the
Years Ended November 30, 2024 and 2023
and Independent Auditors' Report

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

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9325 Pflumm Rd. Lenexa, KS 66215
913•541•1993

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 2
Miami County, Kansas

Qualified Opinion

We have audited the accompanying financial statements of Rural Water District No. 2, Miami County, Kansas (the "District"), which comprise the statements of net position as of November 30, 2024 and 2023, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of November 30, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 8 to the financial statements, the District has not implemented GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2024 and 2023, KPERS computed and published the net pension liability (NPL) as of June 30, 2023 and 2022, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately $907,000 and $792,000 at November 30, 2024 and 2023, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the District and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter: Management's Discussion and Analysis

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.

Acord Cox + Scott, LLC

December 19, 2024

Rural Water District No. 2
Miami County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 2, Miami County, Kansas annual financial report presents an analysis of the District's financial performance during the years ended November 30, 2024 and 2023. This information is prepared and presented in conjunction with the annual audited financial reports prepared by the District's independent auditing firm.

Rural Water District No. 2 Financial Overview for 2024

- The District's total assets increased by $14,820,369 from $39,395,228 in 2023 to $54,215,597 in 2024.
- The District's total liabilities increased by $14,027,861 from $11,336,418 in 2023 to $25,364,279 in 2024.
- The District's revenues from water sales increased by $411,420 from $3,998,825 in 2023 to $4,410,245 in 2024.
- The District's costs and operating expenses increased by $237,041 from $4,142,117 in 2023 to $4,379,158 in 2024.
- The District began construction for the plant expansion to 12 million gallons per day in 2021. Phases 1 of the project is complete and Phase 2 of the project began in 2023 with an estimated completion date in the second quarter of 2025.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended November 30, 2024 and 2023, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provides information about the types and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Activities and Changes in Net Position exhibit the District's

revenues and expenses for the years ended November 30, 2024 and 2023. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash flow resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Activities and Changes in Net Position present information on the District's financial condition. The District's net position is indicated by the difference between its assets and liabilities. An improvement in the District's financial condition is reflected in its increase of net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2024	2023	Dollar Change	Percent Change
Current Assets	2,609,644	1,168,839	1,440,805	123.3%
Noncurrent Assets	15,287,540	12,999,218	2,288,322	17.6%
Capital Assets, net	36,318,413	25,227,171	11,091,242	44.0%
Total Assets	**54,215,597**	**39,395,228**	**14,820,369**	37.6%
Current Liabilities	1,889,450	511,508	1,377,942	269.4%
Long-term Debt	23,474,829	10,824,910	12,649,919	116.9%
Total Liabilities	**25,364,279**	**11,336,418**	**14,027,861**	123.7%
Net assets invested in capital assets, net of related debt	12,843,584	14,402,261	(1,558,677)	-10.8%
Unrestricted	16,007,734	13,656,549	2,351,185	17.2%
Total Net Position	**28,851,318**	**28,058,810**	**792,508**	**2.8%**

Total assets increased by $14,820,369 from $39,395,228 in 2023 to $54,215,597 in 2024. This is a result of net gains from operations and capital asset additions including the debt financed plant expansion.

Total liabilities increased by $14,027,861 from $11,336,418 in 2023 to $25,364,279 in 2024. This is due to the district drawing on the KPWSLF loan to finance costs related to the plant expansion.

Total net position increased by $792,508 from $28,058,810 in 2023 to $28,851,318 in 2024.

Table 2
Condensed Statements of Revenue, Expenses, And Changes in Net Position

	2024	2023	Dollar Change	Percent Change
Operating Revenues	4,410,245	3,998,825	411,420	10.3%
Non-operating Revenues (Expense)	468,535	288,308	180,227	62.5%
Total Revenues	**4,878,780**	**4,287,133**	**591,647**	13.8%
Depreciation Expense	852,183	851,657	526	0.1%
Other Operating Expense	3,526,975	3,290,460	236,515	7.2%
Total Expenses	**4,379,158**	**4,142,117**	**237,041**	5.7%
Income (Loss) Before Capital Contributions	499,622	145,016	354,606	244.5%
Capital Contributions	292,886	394,752	(101,866)	-25.8%
Changes in Net Position	792,508	539,768	252,740	46.8%
Merger of RWD No. 1	-	1,214,821	(1,214,821)	100.0%
Beginning Net Position	28,058,810	26,304,221	1,754,589	6.7%
Total Net Position	**28,851,318**	**28,058,810**	**792,508**	**2.8%**

The Statements of Revenues, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the District had income before capital contributions of $499,622, and capital contributions of $292,886. Income plus contributions resulted in a $792,508 increase in net position during fiscal year 2024.

The District's total operating revenues increased by $411,420 from $3,998,825 in 2023 to $4,410,245 in 2024. Total operating expenses increased by $237,041 from $4,142,117 in 2023 to $4,379,158 in 2024. The major contributor to the increase in revenue and expenses was related to 2024 being the first full year with the addition of the RWD No. 1, Miami County, which was acquired during 2023.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 2, Miami County, KS Business Manager at 25290 Harmony Road, Paola, KS 66071.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
NOVEMBER 30, 2024 AND 2023

ASSETS	2024	2023
CURRENT ASSETS		
Cash	$ 1,672,374	$ 244,988
Accounts receivable	264,583	228,070
Accounts receivable - wholesale	120,979	81,135
Contract receivables	-	125,325
Interest receivable	44,505	24,935
Prepaid expenses	111,209	96,480
Inventory	395,994	367,906
Total current assets	2,609,644	1,168,839
NONCURRENT ASSETS		
Loan reserve fund	2,347,483	1,082,491
Funds designated for capital improvement	1,104,759	1,711,039
Certificates of deposit	11,835,298	10,205,688
Total noncurrent assets	15,287,540	12,999,218
CAPITAL ASSETS		
Nondepreciable capital assets	23,794,747	12,494,079
Depreciable capital assets	34,347,016	33,837,486
Less accumulated depreciation	(21,823,350)	(21,104,394)
Depreciable capital assets, net	12,523,666	12,733,092
Total capital assets, net	36,318,413	25,227,171
Total assets	$ 54,215,597	$ 39,395,228
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 1,155,937	$ 181,420
Other accrued liabilities	386,933	205,180
Line extension deposit	231,580	78,408
Advance benefit unit payments	115,000	46,500
Total current liabilities	1,889,450	511,508
LONG-TERM DEBT	23,474,829	10,824,910
Total liabilities	25,364,279	11,336,418
NET POSITION		
Invested in capital assets, net of related debt	12,843,584	14,402,261
Unrestricted	16,007,734	13,656,549
Total net position	$ 28,851,318	$ 28,058,810

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2024 AND 2023

	2024	2023
WATER SALES	$ 4,410,245	$ 3,998,825
COSTS AND OPERATING EXPENSES:		
Personnel costs	1,636,820	1,496,234
Depreciation and amortization	852,183	851,657
Chemical expense	423,975	427,296
Plant expense	96,928	132,516
Line maintenance	285,698	227,508
Water purchased	304,464	175,345
Water samples	6,434	5,487
Sales and use tax	8,455	7,489
Utilities	306,056	337,220
Contract meter reading	80,206	90,529
Professional services	19,581	11,923
Vehicle upkeep	95,300	104,530
Office supplies	96,989	110,300
Insurance	63,737	64,254
Tower maintenance	-	89
Dues	32,093	25,510
Miscellaneous	47,303	51,432
Water plan tax	11,838	11,767
Clean drinking water fee	11,098	11,031
	4,379,158	4,142,117
INCOME (LOSS) FROM OPERATIONS	31,087	(143,292)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	636,709	375,978
Interest expense	(261,499)	(94,731)
Miscellaneous	14,454	7,061
Gain (loss) on disposal of fixed assets	78,871	-
	468,535	288,308
INCOME (LOSS) BEFORE CONTRIBUTIONS	499,622	145,016
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	292,886	394,752
INCREASE IN NET POSITION	792,508	539,768
MERGER OF MIAMI COUNTY RWD NO. 1	-	1,214,821
NET POSITION, BEGINNING OF YEAR	28,058,810	26,304,221
NET POSITION, END OF YEAR	$ 28,851,318	$ 28,058,810

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2024 AND 2023

	2024	2023
OPERATING ACTIVITIES:		
Cash receipts from customers	$ 4,661,315	$ 3,964,752
Cash payments to suppliers for goods and services	(2,413,522)	(3,216,542)
Net cash provided by operating activities	2,247,793	748,210
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of fixed assets	149,539	-
Additions to capital assets	(12,014,093)	(5,187,727)
Contributions - Benefit units and aid-in construction	292,886	394,752
Merger of Miami County RWD No. 1	-	1,214,821
Interest paid	(261,499)	(94,731)
Advances on long term debt	12,649,919	8,863,788
Net cash provided by capital and related financing activities	816,752	5,190,903
NON-CAPITAL FINANCING ACTIVITIES:		
Other non-operating receipts	14,454	7,061
INVESTING ACTIVITIES:		
Change in certificates of deposit	(1,023,330)	(6,384,893)
Change in reserve funds	(1,264,992)	(886,379)
Interest received	636,709	375,978
Net cash used in investing activities	(1,651,613)	(6,895,294)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,427,386	(949,120)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	244,988	1,194,108
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,672,374	$ 244,988
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 31,087	$ (143,292)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	852,183	851,657
Changes in:		
Accounts receivable	(76,357)	(32,168)
Contract receivables	125,325	-
Inventories	(28,088)	(41,996)
Prepaid expenses	(14,729)	(13,589)
Interest receivable	(19,570)	(19,520)
Accounts payable and accrued liabilities	1,156,270	129,503
Line extension deposits	153,172	12,115
Advanced benefit unit payments	68,500	5,500
Net cash provided by operating activities	$ 2,247,793	$ 748,210

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2024 AND 2023

1. DESCRIPTION OF ENTITY

   a. Organization and Description of Operations – The Rural Water District (the "District") was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at November 30, 2024 and 2023 were 4,670 and 4,638.

   b. Rural Water District No. 1, Miami County, Kansas ("RWD #1") Acquisition – On June 12, 2023, the District acquired and assumed the assets, liabilities, customers and operations of RWD #1 under terms outlined in a Memorandum of Understanding dated March 13, 2023 that was approved by the Board of Directors of both Organizations.

      On June 12, 2023 the bank account balances of RWD #1 totaled $102,125 and were deposited into the account of the District and a third party was engaged to review the balances of the accounts transferred. Also on that date, the Capital Assets of RWD # 1 were transferred to the District at their historical cost of $1,890,587 less the related accumulated depreciation of $1,282,483, for a net book value of $608,104. Other assets transferred included receivables of $7,361, inventory of $9,920 and certificates of deposits of $487,311.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

   a. Basis of Presentation and Accounting – The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

      The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses.

      The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statement of Net Position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

      Management of the District has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.

c. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers, but not yet received by the District is recorded as accounts receivable and water sales.

d. Inventories – Inventories consist primarily of meters, line maintenance material, and chemicals. Inventories are stated at the lower of cost or market. During fiscal year 2022, the District changed the method at which cost is determined from the first-in, first-out method to the average cost method.

e. Capital Assets – The cost of additions to the District's plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and if applicable, interest on borrowed funds to finance construction. The District did not capitalize interest during the fiscal years 2024 or 2023. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses, and changes in net position.

   Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.

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

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

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

   Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

i. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue and determined there are no subsequent events required to be disclosed.

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2022	Additions	Transfers/ Disposals	2023
Nondepreciable capital assets:				
Land and easements	93,751	1,153	22,190	117,094
Construction in progress	8,134,535	4,400,051	(157,601)	12,376,985
	8,228,286	4,401,204	(135,411)	12,494,079
Depreciable capital assets:				
Plant and intake	10,384,967	-	188,303	10,573,270
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	18,776,097	(1,880)	1,863,754	20,637,971
Pumps and motors	377,333	9,038	-	386,371
Office furniture and equipment	399,237	3,495	-	402,732
Vehicles	311,920	37,930	24,906	374,756
Equipment	330,832	4,665	54,112	389,609
	31,653,163	53,248	2,131,075	33,837,486
Less accumulated depreciation	(18,990,348)	(851,657)	(1,262,389)	(21,104,394)
Depreciable capital assets, net	12,662,815	(798,409)	868,686	12,733,092
Total capital assets, net	20,891,101	3,602,795	733,275	25,227,171

	2023	Additions	Transfers/ Disposals	2024
Nondepreciable capital assets:				
Land and easements	117,094	1,204	(25,070)	93,228
Construction in progress	12,376,985	11,745,830	(421,296)	23,701,519
	12,494,079	11,747,034	(446,366)	23,794,747
Depreciable capital assets:				
Plant and intake	10,573,270	-	(74,853)	10,498,417
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	20,637,971	60,497	395,714	21,094,182
Pumps and motors	386,371	17,201	-	403,572
Office furniture and equipment	402,732	14,550	(798)	416,484
Vehicles	374,756	126,310	(71,128)	429,938
Equipment	389,609	48,500	(6,463)	431,646
	33,837,486	267,058	242,472	34,347,016
Less accumulated depreciation	(21,104,394)	(852,183)	133,227	(21,823,350)
Depreciable capital assets, net	12,733,092	(585,125)	375,699	12,523,666
Total capital assets, net	25,227,171	11,161,909	(70,667)	36,318,413

The District entered into agreements with the Kansas Department of Transportation (KDOT) to relocate certain water lines (the "Project"). KDOT will reimburse the District for Project costs incurred, not to exceed amounts defined by the agreement. From inception through the year ended November 30, 2024, the District incurred $3,387,380 of costs related to the project, of which KDOT reimbursed $2,621,674. As of November 30, 2024 and 2023, unreimbursed expenditures due from KDOT amounted to $0 and

$125,325, which are reported as Contract receivables in the accompanying Statements of Net Position. Expenditures on the Project that exceed amounts reimbursable under the agreement are funded by the District.

4. CASH AND INVESTMENTS

Deposits – At November 30, 2024 and 2023, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name.

Investments – State statutes also authorize municipalities to invest general operating monies in direct obligations of the United States government or its agencies or in repurchase agreements if local financial institutions are not able to pay the average Treasury bill rate. All investments must be insured, registered or held by the municipality or its agent in the municipality's name.

The District's investments are categorized as either (1) insured, registered or securities held by the District or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name. The District's investments at November 30, 2024 and 2023 are summarized below:

	2024		2023		
	Carrying Value	Market Value	Carrying Value	Market Value	Category
Investments:					
Certificates of Deposit	$ 11,835,298	$ 11,835,298	$ 10,205,688	$ 10,205,688	1
Funds Designated for Capital Improvement:					
Money Market Account	$ 1,104,759	$ 1,104,759	$ 1,711,039	$ 1,711,039	1
Funds Designated for Loan Reserve Fund:					
KPWSLF Reserve Fund	$ 2,347,483	$ 2,347,483	$ 1,082,491	$ 1,082,491	1

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2020

In October 2020 the District entered into a loan agreement with the KPWSLF under which the District can borrow up to $36,265,903 at a combined interest and service fee rate of 1.51%. The loan is payable in semi-annual installments of $753,877 beginning February 1, 2025 through maturity on August 1, 2053. As of November 30, 2024 and 2023, the outstanding balance of the loan totaled $23,474,829 and $10,824,910, respectively.

Changes to the District's long-term debt are as follows:

	2023	Additions	Payments	2024	Interest Paid
KPWSLF - 3001	$ 10,824,910	12,649,919	-	$ 23,474,829	$ 261,499

The District is required to establish and fund a reserve account with a balance of at least ten percent of the outstanding loan balance. The balance in the reserve account is $2,347,483 and $1,082,491 as of November 30, 2024 and 2023, respectively.

Interest expense on long-term debt totaled $261,499 and $94,731 for the years ended November 30, 2024 and 2023, respectively.

The amortization schedules for the KPWSLF loan have not been finalized as of November 30, 2024, and therefore, a presentation of the future annual debt service requirements has not been included.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 125%.

Debt Service Coverage Calculation:

Income before contributions	$	499,622
Add:		
Depreciation and amortization		852,183
Interest expense		261,499
Income available for debt service	$	1,613,304
Debt service		
Interest expense	$	261,499
Principal payments		-
	$	261,499
Debt service coverage ratio		6.17

6. LONG-TERM WATER SUPPLY CONTRACTS AND AGREEMENTS

In connection with the original construction of the water treatment plant, a long-term contract was entered into with RWD #7 of Johnson County to provide water to that district. In addition to paying monthly charges based upon actual water usage, RWD #7 also agreed to pay an amount equal to 8.63% of the District's Water System Revenue Bonds, Series 1993. In connection with the plant expansion and the retirement of the 1993 bonds, the District amended and restated the water supply contract with RWD #7. Under the amended contract RWD #7 agreed to pay an amount equal to 10.94% of the Series 1998 Bonds.

The District also received $333,143 in 1999 from RWD #7 for their portion of the costs associated with establishing the 1998 Bond issue which was amortized to non-operating income over a ten-year period.

In March of 2006, the District amended the wholesale water contract with RWD #7 and contributed $337,037 for capital costs related to the water treatment plant.

In July of 2000, the District entered into a 30-year water supply contract with Rural Water District No. 1 (Franklin No. 1), Franklin County, Kansas. Under the agreement, the District is required to sell water to Franklin No. 1 at rates based on a formula defined in the agreement.

In July of 2003, the District entered into a water distribution contract with the City of Spring Hill, Kansas (Spring Hill) and RWD #7. Simultaneous with the water distribution contract, the District entered into a 20-year water supply contract with Spring Hill. Under the agreement, the District is required to sell water (not to exceed one million gallons per day) to Spring Hill at rates based on a formula defined in the agreement. Effective January 1, 2015, this contract was amended to reduce the maximum gallons per day to 753,425 gallons. During 2024, the contract was extended on an annual basis through June 2025.

In February of 2006, the District entered into a 20-year water supply contract with the City of Edgerton, Kansas (Edgerton). Under the agreement, the District is required to sell water (not to exceed 250,000 gallons per day) to Edgerton at rates based on a formula defined in the agreement. Either party may, without cause, terminate the contract as of the 10-year anniversary of the contract upon 24 months prior written notice to the other party.

In February of 2017, the District entered into a 40-year water supply contract with the City of Fontana (Fontana). Under the agreement, the District is required to sell water to Fontana at rates based on a formula defined in the agreement.

7. LEASES

In September 2020, the District entered into an operating lease for office equipment which expires in 2026. Lease expenses totaled $1,680 and $1,680 for the years ended December 31, 2024 and 2023. The future minimum lease payments are as follows:

2025	$ 1,680
2026	140
	$ 1,820

In August 2020, the District agreed to lease part of its property to a tenant under a non-cancelable operating lease through 2040. Future minimum rental income under the lease is as follows:

2025	$ 5,000
2026	5,000
2027	5,000
2028	5,000
2029	5,000
Thereafter	53,333
	$ 78,333

8. EMPLOYEE BENFITS

Defined Benefit Plan

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. Total payroll for employees covered by the System was $1,106,638 and $982,234 in 2024 and 2023.

Employees are vested upon hire and are required by state statute to contribute 6% of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The District's monthly contribution rates are defined by the State and ranged from 9.90% to 10.26% and 9.43% to 9.90% in 2024 and 2023. The contribution requirement for the years ended November 30, 2024 and 2023 was $179,225 and $151,897, which consisted of $66,399 and $58,934 from employees and $112,826 and $92,963 from the District.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces

the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

The District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately $907,000 and $792,000 at November 30, 2024 and 2023, respectively, for its proportionate share of the net pension liability.

Deferred Compensation Plan

The District has a 457 deferred compensation plan. Under the Plan the District matches employee contributions at rates from 2.50% to 5.50% depending upon years of service. For the years ended November 30, 2024 and 2023 the District's contribution to the Plan totaled $43,684 and $35,265.

9. ADVANCE BENEFIT UNIT PAYMENTS

Potential customers desiring water service within the District are required to submit an application for a benefit unit along with a deposit for the cost of a benefit unit. Such payments, refundable only if service cannot be provided, totaled $115,000 and $46,500 at November 30, 2024 and 2023.

10. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. The liability for accrued vacation at November 30, 2024 and 2023 amounted to $112,910 and $107,260, respectively.

11. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the Water District. There were no apparent statutory violations during the years ended November 30, 2024 and 2023.

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