

**Rural Water District No. 2,  
Ottawa County, Kansas**

**Financial Statements  
As of December 31, 2021 and 2020  
and For the Years Then Ended**

**With Report by Independent Auditors**



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To the Board of Directors of  
Rural Water District No. 2  
Ottawa County, Kansas  
Salina, Kansas

June 23, 2022

### Independent Auditor's Report

#### Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Ottawa County (the District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described below in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than

for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

#### **Required Supplemental Information**

Accounting principles generally accepted in the United States of American require that the management's discussion and analysis be presented to supplement the basis financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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.

*Kientz & Penick, CPAs, LLC*

Certified Public Accountants  
Manhattan, Kansas

## **REQUIRED SUPPLEMENTAL INFORMATION**

Within this section of the Ottawa County Rural Water District No. 2's (the District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2021. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

In 2021, the district added twenty (20) units, but lost (inactive or terminated) 19 units making a total of 986 units. In 2021 the gallons pumped was 110,675,000 gallons of water; the gallons sold was 79,193,000 which showed an annual loss of 18.26%. The water district experienced above average leaks and flushing of lines.

Since the District is a customer read district, the board has implemented a policy that a staff member will read all the meters once a year and whenever necessary to help maintain a reasonable yearly percentage loss. The District continually communicates with customers to keep the accounts receivable to a minimum. The district shows a considerable number of accounts receivable but when a customer overestimates gallons usage this happens, and it takes time to work itself out.

**A RESOLUTION NO. 22221 EXTENDING THE TIME FOR  
THE DISTRICT TO HOLD IT'S 2021 ANNUAL MEETING**

Therefore, be it resolved by the Board of Directors of Rural Water District No. 2 Ottawa Co., that the District hereby suspends the holding of its annual meeting due to the conflict between Kansas statutes and COVID emergency orders resulting in the legal impossibility of holding an open annual meeting according to the law. As provided by law, the terms of any rural water directors are extended until their successors are elected in a future meeting. This suspension shall remain in effect until such time as both of the following occur:

1. Rescission, cancellation, failure to extend or other lapse of the state of disaster emergency proclaimed by the State of Kansas and
2. Rescission, cancellation, failure to extend or other lapse of any applicable county or city ordinances, resolutions or similar restrictions that prevent the lawful meeting of the participating members.

Upon release of these orders and restrictions, the District Board shall meet and schedule the annual meeting as soon as it is reasonable possible considering the requirements of notice to the participating members and other requirements of Kansas law. Adopted by the Board of Directors on the 22nd day of February 2021 by a majority vote of the Board.

One of the VFD's at the Moorman well field had quit and a special meeting with the Board because this was the second VFD to quit which left only 2 for the entire well field. With summer coming on the District needed all four in top performance. Representative Keith Bowman from Sargent Drilling gave a presentation on why our pumps and VFD's were failing at the Moorman's well field (as he had been at the well field earlier). He explained what was wrong with the installation that was there and what they could do to fix it. He had 18 years' experience with this problem and described a fix for it. Motion was made, seconded and carried to purchase:

1- 20-hp, 480 volts, 3 phase Danfoss FC202 VFD (includes: fuse and disconnect, 3 contact bypass, relay card, Modbus TPC/IP, PSI transducer, phase protection, 4 position control, HOA switch and 6-year on-site warranty, stand, labor to program equipment, labor to install equipment.

The estimate price is \$14,261.51 times 4 wells approximate price \$57,046.04. In addition to approximate cost of \$10,000.00 for electrician and the wiring of the VFD's. Keith stated it would take approximately 4 weeks to get the order in and should start in a couple weeks after receiving the supplies.

Rose Mary Saunders spoke with the Board regarding applying for the SRF loan and to set a public hearing date October 15, 2020, at 7:00 at the ISIS Shrine Center, 200 E Diamond Dr. Salina KS. 67401 regarding a proposed loan in an amount not to exceed \$1,000,000.00 to be taken by the District from the Kansas Public Water Supply Loan Fund administered by the Kansas Department of Health and Environment. The district has made preliminary application to KDHE for the loan, the proceeds of which will be used by the District to finance certain modifications and improvement to be District's water supply and distribution system and to pay interest during construction of the Project.

In reference to the paragraph above the district's attorney reported that the current easement the district has for the current standpipe on Aspen Road which the district is wanting to replace with a water tower, likely will not allow (from a legal standpoint) a water tower that is roughly 7 times larger than the existing standpipe. Three persons, Mike Hine, Darrell Griffin and Josh Werner was chosen to visit with the current landowner with options to obtain an easement. The water tower would not exceed 200,000 gallons and the Board is offering \$10,000.00 for an easement.

In the October 2021 meeting the Board was advised by the District's attorney (by phone) that the title company in Minneapolis, Ks. was unable to find any road access easement from Ash Lane Homeowners Association to the District for the Western portion of Ash Lane. The attorney recommended that the district approach the Ash Lane (HOA) and request the HOA grant the District a written road access easement for the West portion of Ash Lane.

Rose Mary Saunders attended a meeting to present a resolution entitled:

A resolution authorizing the execution of a loan agreement between Ottawa Co. Rural Water District No. 2 and the State of Kansas, acting by and through the Kansas Department of Health and Environment for the purpose of obtaining a loan from the Kansas Public water supply Loan fund for the purpose of financing a public water supply project; establishing a dedicated source of revenue for repayment of such loan; authorizing and approving certain documents in connection therewith; and authorizing certain other actions in connection with the loan agreement.

Therefore, motion was made, seconded and carried that said Resolution be passed. Said Resolution was duly read and considered, and upon being put, the motion for the adoption of said Resolution was carried by the vote of the governing body, the vote being 9 ayes and – 0 nays.

Thereupon, the Chairman declared said Resolution duly adopted and the Resolution was then duly numbered Resolution No. 2021-06-17 and was signed by the Chairman and the signature attested by the Secretary.

The auditor for the District presented the Board of Directors a true copy of the 2020 Ottawa County Rural Water District No. 2's audit, which was approved.

In October, a new program called American Rescue Plan Act (ARPA) was signed by the Saline County Board of Commissioners.

#### Eligible Projects:

The available funding (listed below) should be used to assist with project planning or implementation with a priority for projects that address areas of greatest need and serve those most at-risk.

A total of \$500,000 will be allocated to projects in amounts of \$50,000 or less per project; awards are intended to fund planning and design projects as well as gap funding for larger construction projects. No more than 10% of the total available funds can be distributed to any single water and/or wastewater eligible project. If more eligible projects are received than can be funded, the County may make additional funding available and award that funding to additional projects in the order of their scoring priority as detailed in the grant guide. Funds will be disbursed on a reimbursement basis. If an applicant cannot cash-flow an otherwise eligible. The water district applied for two grants:

1. River crossing south of Bennington
2. Repair the wells at the Ohio Street well field.

The District received most of the cards that was sent out to customers for their telephone number and emails to reach them in case of an emergency. The office will contact each customer as needed.

All the substantial interest statements were completed and returned to the District.

The water district has an emergency disaster plan and a conservation plan in effect.

Since there are four employees and one contract worker of the District that are related, all their invoices and requests for reimbursement statements will be reviewed and signed by one of the Board members. Also, in the event a monthly meeting is not held, the bank account check register of the district will be presented to the Board

of Directors for approval. This will show all invoices and payroll that was paid, and all monies deposited. Each month the reconciliation of the bank accounts and bank statements will be reviewed and signed by the Chairman of the District. On the bank statement the Chairman is shown where the United States Treasury (for Federal, social security and Medicaid) and the Kansas Department of Revenue is paid monthly for the withholding taxes.

In the event the District does not have a meeting that month, the following month the Board reviews the check register in which the statements were paid and signed by the Chairman and/or Treasurer and/or Norma Griffin. The checks have two signatures as required.

Should you have any questions concerning this report or any other water district matter, feel free to call 785.823.2093.



## **FINANCIAL STATEMENTS**

	2021	2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,101,498	\$ 2,043,840
Accounts receivable	31,216	23,515
Member receivable – current portion	12,452	13,325
Inventory	14,952	14,952
<b>Total Current Assets</b>	<u>2,160,118</u>	<u>2,095,632</u>
<b>Noncurrent Assets</b>		
Capital assets, net	4,382,402	4,378,640
Member receivable, net of current portion	-	14,230
Certificates of deposit – bond reserve	399,318	396,611
Loan reserve - KDHE	111,260	111,260
<b>Total Noncurrent Assets</b>	<u>4,892,980</u>	<u>4,900,741</u>
<b>Total Assets</b>	<u>\$ 7,053,098</u>	<u>\$ 6,996,373</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 47,680	\$ -
Accrued interest payable	10,079	11,468
Payroll liabilities	3,978	2,149
Unearned revenue – customer credits	58,922	52,426
Bonds payable - current portion	185,000	175,000
Kansas Public Water Supply loan – current portion	46,411	45,268
<b>Total Current Liabilities</b>	<u>352,070</u>	<u>286,311</u>
<b>Noncurrent Liabilities</b>		
Bonds payable, net of discount and current portion	1,138,605	1,321,366
Kansas Public Water Supply loan, net of current portion	770,547	816,959
<b>Total Noncurrent Liabilities</b>	<u>1,909,152</u>	<u>2,138,325</u>
<b>Total Liabilities</b>	<u>2,261,222</u>	<u>2,424,636</u>
<b>Net Position</b>		
Net investment in capital assets	2,241,839	2,020,047
Restricted for bond reserve	399,318	396,611
Restricted for loan reserve	111,260	111,260
Unrestricted	2,039,459	2,043,819
<b>Total Net Position</b>	<u>4,791,876</u>	<u>4,571,737</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 7,053,098</u>	<u>\$ 6,996,373</u>

	2021	2020
<b>Operating Revenues</b>		
Water sales	\$ 774,231	\$ 762,856
<b>Operating Expenses</b>		
Professional fees	16,600	16,795
Repairs and maintenance	42,043	35,274
Salaries	152,454	150,228
Payroll taxes	11,055	10,721
Utilities	46,431	43,021
Insurance	26,487	25,391
Miscellaneous	9,885	7,166
Water fees	6,054	5,589
Supplies	6,743	5,454
Contract labor	51,010	49,250
Depreciation	202,279	197,268
Mileage	46,707	38,041
Office supplies	7,679	7,537
Employee retirement contributions	4,502	4,435
<b>Total Operating Expenses</b>	<b>629,929</b>	<b>596,170</b>
<b>Net Operating Income</b>	<b>144,302</b>	<b>166,686</b>
<b>Nonoperating Revenue (Expense)</b>		
Interest income	27,257	48,542
Other income	4,751	30,672
Service fee on loan	(2,866)	(1,747)
Bond issuance costs	-	(42,728)
Interest expense	(50,305)	(56,969)
<b>Total Nonoperating Income (Expense)</b>	<b>(21,163)</b>	<b>(22,230)</b>
<b>Net Income Before Contributions</b>	<b>123,139</b>	<b>144,456</b>
<b>Contributions</b>		
Capital contributions from members	97,000	40,000
<b>Change in Net Position</b>	<b>220,139</b>	<b>184,456</b>
<b>Net Position, Beginning</b>	<b>4,571,737</b>	<b>4,387,281</b>
<b>Net Position, Ending</b>	<b>\$ 4,791,876</b>	<b>\$ 4,571,737</b>

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 788,129	\$ 779,828
Cash paid to suppliers for goods and services	(224,403)	(254,575)
Cash paid to employees for services	(155,127)	(153,982)
<b>Net Cash Provided by Operating Activities</b>	<b>408,599</b>	<b>371,271</b>
<b>Cash Flows from Investing Activities</b>		
Interest income	27,257	48,542
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(206,041)	(60,439)
Capital contributions	97,000	40,000
Payments on long-term debt	(218,030)	(931,592)
Proceeds from long-term debt	-	750,000
Change in reserves	(2,707)	(8,409)
Other capital activities	4,751	30,672
Bond issuance costs	-	(42,728)
Interest and service fees paid on long-term debt	(53,171)	(58,716)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(378,198)</b>	<b>(281,212)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>57,658</b>	<b>138,601</b>
<b>Cash and Cash Equivalents – Beginning of the Year</b>	<b>2,043,840</b>	<b>1,905,239</b>
<b>Cash and Cash Equivalents – End of the Year</b>	<b>\$ 2,101,498</b>	<b>\$ 2,043,840</b>
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</b>		
Net operating income	\$ 144,302	\$ 166,686
Adjustments to reconcile operating net income to net cash provided by operating activities		
Depreciation	202,279	197,268
Decrease (increase) in accounts receivable	(7,701)	(6,447)
Decrease (increase) in member receivables	15,103	29,763
Decrease (increase) in inventory	-	(3,278)
Increase (decrease) in accounts payable	47,680	(180)
Increase (decrease) in accrued interest payable	(1,389)	(6,878)
Increase (decrease) in payroll liabilities	1,829	681
Increase (decrease) in unearned revenue – customer credits	6,496	(6,344)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 408,599</b>	<b>\$ 371,271</b>

## Note 1: Summary of Significant Accounting Policies

### Organization

The Rural Water District No. 2, Ottawa County, Kansas (the District), was declared incorporated by the Board of Commissioners of Ottawa County, Kansas, on June 11, 1979 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the areas of the District. The District is governed by a nine member board of directors. The following is a summary of the District's significant accounting policies.

### The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District.

The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based on these criteria, there are no component units to be included within the District as a reporting entity.

### Basis of Presentation

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

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

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

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

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

The District considers all bank deposit accounts, money market accounts and certificates of deposit classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties.

**Accounts Receivable**

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

**Allowance for Doubtful Accounts**

The District bills customers monthly. Invoices not paid by the 16<sup>th</sup> day of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. As most customers pay before they are disconnected and there have been no amounts written off in the past three years, management has set the allowance account at zero. Management has evaluated all receivables and determined that the allowance for doubtful accounts should be \$0 as of December 31, 2021 and 2020.

**Inventory**

Inventory is valued at the lower of cost or market and consists of pipe, valves, meters and other items needed to repair or add water lines.

**Capital Assets, Net**

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of \$1,000 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: engineering costs – 40 years, water distribution system, wells and easements – 10 to 40 years, and office equipment – 3 to 7 years.

**Net Position**

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

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

**Income Taxes**

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

**Estimates**

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Operating Revenues and Expenses**

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

**Capital Contributions**

Assets contributed by new benefit units are recorded as capital contributions when received. When a benefit unit is returned, operating revenue is recognized for the capital contribution that was originally recorded. New benefit units added during the years ending December 31, 2021 and 2020 totaled \$97,000 and \$40,000, respectively.

**Budgetary Information**

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund types used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

**Subsequent Events**

Management has evaluated subsequent events through June 23, 2022 which is the date the financial statements were available to be issued.

**Note 2: Deposits and Investments**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's fund have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. Kansas statutes require the District's deposit in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured on December 31, 2021. There were \$3,188 of unsecured deposits as of December 31, 2020.

***December 31, 2021***

On December 31, 2021, the District's carrying amount of deposits was \$2,500,816 and the bank balance was \$2,501,724. The bank balance was held by six banks which did not result in a concentration of credit risk. Of the bank balance, \$1,488,886 was covered by federal depository insurance and \$1,012,838 was collateralized with securities held by the pledging financial institution's agents in the District's name.

***December 31, 2020***

On December 31, 2020, the District's carrying amount of deposits was \$2,440,451 and the bank balance was \$2,437,565. The bank balance was held by six banks which did not result in a concentration of credit risk. Of the bank balance, \$1,264,853 was covered by federal depository insurance and \$1,169,524 was collateralized with securities held by the pledging financial institution's agents in the District's name. The remaining \$3,188 was unsecured.

**Note 3: Capital Assets**

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balance on December 31, 2020	Additions	Retirements	Balance on December 31, 2021
<b>Capital Assets not Being Depreciated</b>				
Construction in progress	\$ -	\$ 18,292	\$ -	\$ 18,292
<b>Other Capital Assets</b>				
Engineering costs	149,699	-	-	149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	291,180	-	-	291,180
Distribution system	7,397,228	187,749	-	7,584,977
<b>Total Other Capital Assets</b>	<u>7,849,721</u>	<u>187,749</u>	<u>-</u>	<u>8,037,470</u>
<b>Accumulated Depreciation</b>				
Engineering costs	86,497	3,743	-	90,240
Office equipment	11,552	62	-	11,614
Water wells and easements	94,220	6,452	-	100,672
Distribution system	3,278,812	192,022	-	3,470,834
<b>Total Accumulated Depreciation</b>	<u>3,471,081</u>	<u>202,279</u>	<u>-</u>	<u>3,673,360</u>
<b>Other Capital Assets Net of Accumulated Depreciation</b>	<u>\$ 4,378,640</u>	<u>\$ (14,530)</u>	<u>\$ -</u>	<u>\$ 4,382,402</u>
Capital assets not depreciated	\$ -	\$ 18,292	\$ -	\$ 18,292
Other capital assets at cost	<u>7,849,721</u>	<u>187,749</u>	<u>-</u>	<u>8,037,470</u>
<b>Total Cost of Capital Assets</b>	<u>7,849,721</u>	<u>206,041</u>	<u>-</u>	<u>8,055,762</u>
Less: Accumulated depreciation	<u>(3,471,081)</u>	<u>(202,279)</u>	<u>-</u>	<u>(3,673,360)</u>
<b>Capital Assets - Net</b>	<u>\$ 4,378,640</u>	<u>\$ 3,762</u>	<u>\$ -</u>	<u>\$ 4,382,402</u>



**Note 3: Capital Assets (continued)**

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance on December 31, 2019	Additions	Retirements	Balance on December 31, 2020
<b>Capital Assets not Being Depreciated</b>				
Construction in progress	\$ -	\$ -	\$ -	\$ -
<b>Other Capital Assets</b>				
Engineering costs	149,699	-	-	149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	291,180	-	-	291,180
Distribution system	7,336,789	60,439	-	7,397,228
<b>Total Other Capital Assets</b>	<u>7,789,282</u>	<u>60,439</u>	<u>-</u>	<u>7,849,721</u>
<b>Accumulated Depreciation</b>				
Engineering costs	82,754	3,743	-	86,497
Office equipment	11,366	186	-	11,552
Water wells and easements	87,768	6,452	-	94,220
Distribution system	3,091,925	186,887	-	3,278,812
<b>Total Accumulated Depreciation</b>	<u>3,273,813</u>	<u>197,268</u>	<u>-</u>	<u>3,471,081</u>
<b>Other Capital Assets Net of Accumulated Depreciation</b>	<u>\$ 4,515,469</u>	<u>\$ (136,829)</u>	<u>\$ -</u>	<u>\$ 4,378,640</u>
Capital assets not depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets at cost	7,789,282	60,439	-	7,849,721
<b>Total Cost of Capital Assets</b>	<u>7,789,282</u>	<u>60,439</u>	<u>-</u>	<u>7,849,721</u>
Less: Accumulated depreciation	<u>(3,273,813)</u>	<u>(197,268)</u>	<u>-</u>	<u>(3,471,081)</u>
<b>Capital Assets - Net</b>	<u>\$ 4,515,469</u>	<u>\$ (136,829)</u>	<u>\$ -</u>	<u>\$ 4,378,640</u>

**Note 4: Long-Term Debt**

	Beginning Balance	Additions	Retirements	Ending Balance
Water Supply Loan - 2855	\$ 739,762	\$ -	\$ 39,314	\$ 700,448
Water Supply Loan - 2911	122,465	-	5,955	116,510
Revenue Bonds - 2012	220,000	-	75,000	145,000
Revenue Bonds - 2019	540,000	-	55,000	485,000
Revenue Bonds - 2020	750,000	-	45,000	705,000
<b>Total Debt</b>	<u>\$ 2,372,227</u>	<u>\$ -</u>	<u>\$ 220,268</u>	<u>\$ 2,151,958</u>

**Note 4: Long-Term Debt (Continued)**

Long-term debt consists of the following on December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
In 2014, the District executed a loan agreement with the Kansas Department of Health and Environment (KDHE) Public Water Supply Loan Fund (Loan 2855) for the purpose of financing a public water supply project. The loan from KDHE was not expected to exceed \$970,929. Interest on the loan was to be 2.6% per annum. In 2015, the District received total loan disbursements of \$695,976 which consisted of \$614,241 deposited to the District's accounts to cover expenses incurred, \$69,598 for the loan reserve which is held at KDHE and \$12,137 of loan closing costs. In 2016, the District received total loan disbursements of \$34,782 of which \$31,345 was deposited into the District's accounts to cover expenses incurred and \$3,478 was applied to the loan reserve which is held at KDHE.		
Payments began in August 2016 and are due semi-annually on February 1 and August 1. Final maturity is February 2036.	\$ 700,448	\$ 739,762
In 2016, the District executed another loan agreement with the KDHE Public Water Supply Loan Fund (Loan 2911) for the purpose of financing the construction of a connecting waterline and appurtenances to facilitate consolidation of a neighboring public water supply system. The total loan was \$196,546. There was principal forgiveness of \$58,964. The interest rate is 1.56% with payments of \$4,133 per month that began February 1, 2018. Through 2018, the District received total loan disbursements of \$196,545, of which \$176,890 was deposited in the District's accounts to cover expenses incurred and \$19,655 was applied to the loan reserve which is held at KDHE.	116,510	122,465
On September 11, 2012, the District issued \$760,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2012 with effective interest rates ranging from 1.00% to 2.75%. The new bond issue paid off the outstanding 2004 bond issue and was used for the construction and remodeling of the chlorination buildings. Interest payments are due semi-annually on April 1 and October 1. Principal payments were due starting on October 1, 2013 and maturing in 2023.	145,000	220,000
On September 4, 2019, the District issued \$585,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2019 with effective interest rates ranging from 2.75% to 3.00%. The new bond issue refinanced 2009 bonds. Interest payments are due semi-annually on June 1 and December 1. Principal payments were due starting on December 1, 2020 and maturing in 2029.	485,000	540,000
On August 13, 2020, the District issued \$750,000 om Water Utility System Refunding Revenue Bonds, Series 2020 with effective interest rates ranging from 1.00% to 1.50%. The new bond issue refinanced 2013 bonds. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2021 and maturing in 2033.	705,000	750,000

**Note 4: Long-Term Debt (Continued)**

<b>TOTAL LONG-TERM DEBT</b>	2,151,958	2,372,227
Less: Current portion of long-term debt	(231,411)	(220,268)
Less: Unamortized bond discount	(11,395)	(13,634)
<b>Net Long-Term Debt</b>	<b>\$ 1,909,152</b>	<b>\$ 2,138,325</b>

Future maturities of long-term debt are as follows:

<b>Year Ended December 31, 2021</b>	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
2022	\$ 231,411	\$ 42,451	\$ 2,838	\$ 276,700
2023	227,642	37,023	2,744	267,409
2024	158,845	32,049	2,477	193,371
2025	165,079	29,117	2,305	196,501
2026	171,345	26,038	2,129	199,512
2027-2031	771,860	79,964	7,994	859,818
2032-2036	406,903	19,314	2,708	428,925
2037-2038	18,873	190	21	19,084
<b>Total</b>	<b>\$ 2,151,958</b>	<b>\$ 266,146</b>	<b>\$ 23,216</b>	<b>\$ 2,441,320</b>

Total interest incurred and expensed in 2021 and 2020 was \$50,305 and \$56,969, respectively.

**2012 Bonds Payable Information:**

Issuance costs of \$17,229 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$11,400 which is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was \$1,267 of bond amortization expense for the years ending December 31, 2021 and 2020.

**2019 Bonds Payable Information:**

Issuance costs of \$24,951 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$8,775 which is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was \$975 of bond amortization expense for each of the years ending December 31, 2021 and 2020.

**2020 Bonds Payable Information:**

Issuance costs of \$42,728 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$5,455 which is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was \$420 and \$140 of bond amortization expense for the years ending December 31, 2021 and 2020.

Additionally, during 2021, the District applied for and was approved for a third loan from the KDHE Public Water Supply Loan Fund. A loan amount of \$1,000,000 was approved to finance the construction of a new water tower. As of December 31, 2021, no draws on this loan have been made.

**Note 5: Debt Service Ratio**

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

The following represents the device ratio calculation for the years ending December 31:

	2021	2020
Change in net position	\$ 220,139	\$ 184,456
Interest expense	50,305	56,969
Depreciation	202,279	197,268
Less: Capital contributions	(97,000)	(40,000)
<b>Total Revenue Available for Debt Service</b>	<b>\$ 375,723</b>	<b>\$ 398,693</b>
Debt service payments	\$ 273,439	\$ 222,869
Debt service ratio	1.37	1.79

**Note 6: Howison Heights Receivable**

During 2017, the District entered into an agreement to purchase the Howison Heights district. The District required the residents to pay a \$4,000 capital contribution. The residents were given the option to pay in full or pay \$1,000 and pay the remaining fee at \$50 per month with an interest rate of 5%. The balance as of December 31, 2021 is \$12,452 and is expected to be fully collected during 2022.

**Note 7: Unearned Revenue**

Multiple District customers have paid in advance for water usage. These amounts have not been earned and would be refundable if water usage discontinues. The balance of these customer credits was \$58,922 at December 31, 2021 and \$52,426 at December 31, 2020.

**Note 8: Retirement Plan**

The District provides a Simple IRA for the full time employees as retirement compensation. The District contributes 3% of the eligible employee wages to these IRAs. In 2021, the District contributed \$4,502 and in 2020, \$4,435 to the retirement plan. The IRAs are with American Funds.

**Note 9: Compensated Absences Policy**

The District provides vacation leave for the Business Manager. There is no written policy for the carry forward of unused time nor for the payment of unused time at termination or retirement, therefore no accrual has been made.

**Note 10: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage.

**Note 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 District. There were no apparent statutory violations during the year end December 31, 2021. As described in Note 2, the District had an unsecured bank balance of \$3,188 as of December 31, 2020.