

**RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS**

**Financial Statements for the
Years Ended November 30, 2021 and 2020
and Independent Auditors' Report**

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net position of Rural Water District No. 2, Miami County, Kansas (the "District") as of November 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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 2021 and 2020, KPERS computed and published the net pension liability (NPL) as of June 30, 2021 and 2020, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately \$640,000 and \$487,000 at November 30, 2021 and 2020, respectively.

Qualified Opinion

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, 2021 and 2020, 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.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 3 through 5 is presented to supplement the basic 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.

Acord Cox + Scott, LLC

December 16, 2021

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, 2021 and 2020. 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 2021

- The District's total assets increased by \$1,175,556 from \$25,194,692 in 2020 to \$26,370,248 in 2021.
- The District's total liabilities increased by \$332,463 from \$418,615 in 2020 to \$751,078 in 2021.
- The District's revenues from water sales increased by \$1,511 from \$3,225,464 in 2020 to \$3,226,975 in 2021.
- The District's costs and operating expenses increased by \$247,454 from \$3,142,129 in 2020 to \$3,389,583 in 2021.
- The District began construction for the plant expansion to 12 million gallons per day in 2021.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended November 30, 2021 and 2020, 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, 2021 and 2020. 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

	2021	2020	Dollar Change	Percent Change
Current Assets	2,652,863	4,646,898	(1,994,035)	-42.9%
Noncurrent Assets	5,738,894	5,448,617	290,277	5.3%
Capital Assets, net	17,978,491	15,099,177	2,879,314	19.1%
Total Assets	26,370,248	25,194,692	1,175,556	4.7%
Current Liabilities	751,078	418,615	332,463	79.4%
Total Liabilities	751,078	418,615	332,463	79.4%
Net assets invested in				
capital assets, net of related debt	17,978,491	15,099,177	2,879,314	19.1%
Unrestricted	7,640,679	9,676,900	(2,036,221)	-21.0%
Total Net Position	25,619,170	24,776,077	843,093	3.4%

Total assets increased by \$1,175,556 from \$25,194,692 in 2020 to \$26,370,248 in 2021. This is attributed to net income in the current year. Capital assets are a net result of all fixed assets, including 2021 additions, less accumulated depreciation.

Total liabilities increased by \$332,463 from \$418,615 in 2020 to \$751,078 in 2021. This is a result of an increase in payables related to timing of when payments are made.

Total net position increased by \$843,093 from \$24,776,077 in 2020 to \$25,619,170 in 2021.

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

	2021	2020	Dollar Change	Percent Change
Operating Revenues	3,226,975	3,225,464	1,511	0.0%
Non-operating Revenues (Expense)	420,894	243,650	177,244	72.7%
Total Revenues	3,647,869	3,469,114	178,755	5.2%
Depreciation Expense	783,137	785,381	(2,244)	-0.3%
Other Operating Expense	2,606,446	2,356,748	249,698	10.6%
Total Expenses	3,389,583	3,142,129	247,454	7.9%
Income (Loss) Before Capital Contributions	258,286	326,985	(68,699)	-21.0%
Capital Contributions	584,807	157,812	426,995	270.6%
Changes in Net Position	843,093	484,797	358,296	73.9%
Beginning Net Position	24,776,077	24,291,280	484,797	2.0%
Total Net Position	25,619,170	24,776,077	843,093	3.4%

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 \$258,286, and capital contributions of \$584,807. This resulted in a net increase in net position of \$843,093 for the year ended November 30, 2021.

The District's total operating revenues increased by \$1,511 from \$3,225,464 in 2020 to \$3,226,975 in 2021. Total operating expenses increased by \$247,454 from \$3,142,129 in 2020 to \$3,389,583 in 2021. The major contributor to the increase in revenue was related to a litigation settlement received in 2021.

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 P.O. Box 186, Hillsdale, KS 66036.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
NOVEMBER 30, 2021 AND 2020

ASSETS	2021	2020
CURRENT ASSETS		
Cash	\$ 1,675,217	\$ 4,123,386
Accounts receivable	159,120	178,158
Accounts receivable - wholesale	75,947	65,277
Contract receivables	431,599	-
Interest receivable	1,193	2,978
Prepaid expenses	70,828	67,756
Inventory	238,959	209,343
Total current assets	<u>2,652,863</u>	<u>4,646,898</u>
NONCURRENT ASSETS		
Funds designated for capital improvement	1,516,901	1,243,135
Certificates of deposit	4,221,993	4,205,482
Total noncurrent assets	<u>5,738,894</u>	<u>5,448,617</u>
CAPITAL ASSETS		
Nondepreciable capital assets	4,782,384	2,690,322
Depreciable capital assets	31,386,784	29,847,636
Less accumulated depreciation	<u>(18,190,677)</u>	<u>(17,438,781)</u>
Depreciable capital assets, net	13,196,107	12,408,855
Total capital assets, net	<u>17,978,491</u>	<u>15,099,177</u>
Total assets	<u>\$ 26,370,248</u>	<u>\$ 25,194,692</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 572,676	\$ 118,119
Other accrued liabilities	118,201	106,046
Line extension deposit	2,701	114,950
Advance benefit unit payments	57,500	79,500
Total current liabilities	<u>751,078</u>	<u>418,615</u>
NET POSITION		
Invested in capital assets, net of related debt	17,978,491	15,099,177
Unrestricted	7,640,679	9,676,900
Total net position	<u>\$ 25,619,170</u>	<u>\$ 24,776,077</u>

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2021 AND 2020

	2021	2020
WATER SALES	\$ 3,226,975	\$ 3,225,464
COSTS AND OPERATING EXPENSES:		
Personnel costs	1,085,580	1,065,186
Depreciation and amortization	783,137	785,381
Chemical expense	289,571	247,946
Plant expense	266,487	144,208
Line maintenance	144,011	133,553
Water purchased	150,171	141,662
Water samples	5,633	6,424
Sales and use tax	4,117	5,336
Utilities	302,654	281,139
Contract meter reading	67,351	57,933
Professional services	20,108	18,387
Vehicle upkeep	75,114	59,092
Office supplies	76,591	72,164
Insurance	55,859	50,717
Tower maintenance	-	3,482
Dues	16,062	11,549
Miscellaneous	29,016	24,259
Water plan tax	9,353	24,822
Clean drinking water fee	8,768	8,889
	<u>3,389,583</u>	<u>3,142,129</u>
INCOME (LOSS) FROM OPERATIONS	<u>(162,608)</u>	<u>83,335</u>
NON-OPERATING REVENUES:		
Interest income	29,695	139,892
Miscellaneous	900	-
Litigation settlement	382,510	-
Gain (loss) on disposal of fixed assets	7,789	103,758
	<u>420,894</u>	<u>243,650</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>258,286</u>	<u>326,985</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>584,807</u>	<u>157,812</u>
INCREASE IN NET POSITION	<u>843,093</u>	<u>484,797</u>
NET POSITION, BEGINNING OF YEAR	<u>24,776,077</u>	<u>24,291,280</u>
NET POSITION, END OF YEAR	<u>\$ 25,619,170</u>	<u>\$ 24,776,077</u>

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 3,053,790	\$ 3,382,090
Cash payments to suppliers for goods and services	<u>(2,172,422)</u>	<u>(2,500,612)</u>
Net cash provided by operating activities	<u>881,368</u>	<u>881,478</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of fixed assets	18,850	168,200
Additions to capital assets	(3,673,512)	(1,333,559)
Contributions - Benefit units and aid-in construction	<u>584,807</u>	<u>157,812</u>
Net cash used in capital and related financing activities	<u>(3,069,855)</u>	<u>(1,007,547)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	(290,277)	3,253,578
Interest received	<u>30,595</u>	<u>139,892</u>
Net cash provided by (used in) investing activities	<u>(259,682)</u>	<u>3,393,470</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,448,169)	3,267,401
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,123,386</u>	<u>855,985</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,675,217</u>	<u>\$ 4,123,386</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (162,608)	\$ 83,335
Adjustments to reconcile operating income (loss)		
to net cash provided by operating activities:		
Depreciation and amortization	783,137	785,381
Litigation settlement	382,510	-
Changes in:		
Accounts receivable	8,368	(2,755)
Contract receivables	(431,599)	-
Inventories	(29,616)	8,985
Prepaid expenses	(3,072)	(7,953)
Interest receivable	1,785	21,931
Accounts payable and accrued liabilities	466,712	(144,896)
Line extension deposits	(112,249)	94,950
Advanced benefit unit payments	<u>(22,000)</u>	<u>42,500</u>
Net cash provided by operating activities	<u>\$ 881,368</u>	<u>\$ 881,478</u>

RURAL WATER DISTRICT NO. 2

MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2021 AND 2020

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, 2021 and 2020 were 3,927 and 3,874.

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. Cost is determined using the first-in, first-out 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 2020 or 2021. 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:

	2019	Additions	Transfers/ Disposals	2020
Nondepreciable capital assets:				
Land and easements	88,049	561	-	88,610
Construction in progress	1,620,783	1,091,134	(110,205)	2,601,712
	<u>1,708,832</u>	<u>1,091,695</u>	<u>(110,205)</u>	<u>2,690,322</u>
Depreciable capital assets:				
Plant and intake	9,420,779	-	-	9,420,779
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	17,948,746	-	103,381	18,052,127
Pumps and motors	321,125	40,523	-	361,648
Office furniture and equipment	397,928	2,518	(22,933)	377,513
Vehicles	282,001	49,278	(28,052)	303,227
Equipment	255,357	156,370	(152,162)	259,565
	<u>29,698,713</u>	<u>248,689</u>	<u>(99,766)</u>	<u>29,847,636</u>
Less accumulated depreciation	<u>(16,792,105)</u>	<u>(785,381)</u>	<u>138,705</u>	<u>(17,438,781)</u>
Depreciable capital assets, net	<u>12,906,608</u>	<u>(536,692)</u>	<u>38,939</u>	<u>12,408,855</u>
Total capital assets, net	<u>14,615,440</u>	<u>555,003</u>	<u>(71,266)</u>	<u>15,099,177</u>
	2020	Additions	Transfers/ Disposals	2021
Nondepreciable capital assets:				
Land and easements	88,610	1,446	-	90,056
Construction in progress	2,601,712	3,240,897	(1,150,281)	4,692,328
	<u>2,690,322</u>	<u>3,242,343</u>	<u>(1,150,281)</u>	<u>4,782,384</u>
Depreciable capital assets:				
Plant and intake	9,420,779	5,280	843,958	10,270,017
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	18,052,127	-	612,521	18,664,648
Pumps and motors	361,648	11,770	-	373,418
Office furniture and equipment	377,513	1,080	-	378,593
Vehicles	303,227	41,861	(33,168)	311,920
Equipment	259,565	55,846	-	315,411
	<u>29,847,636</u>	<u>115,837</u>	<u>1,423,311</u>	<u>31,386,784</u>
Less accumulated depreciation	<u>(17,438,781)</u>	<u>(783,137)</u>	<u>31,241</u>	<u>(18,190,677)</u>
Depreciable capital assets, net	<u>12,408,855</u>	<u>(667,300)</u>	<u>1,454,552</u>	<u>13,196,107</u>
Total capital assets, net	<u>15,099,177</u>	<u>2,575,043</u>	<u>304,271</u>	<u>17,978,491</u>

In 2021, the District entered into an agreement 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. During the year ended November 30, 2021, the District incurred \$973,041 of costs related to the project, of which KDOT reimbursed \$334,662. As of November, 30, 2021, unreimbursed expenditures due from KDOT amounted to \$431,599, 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, 2021 and 2020, 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, 2021 and 2020 are summarized below:

	2021		2020		Category
	Carrying Value	Market Value	Carrying Value	Market Value	
Investments:					
Certificates of Deposit	\$ 4,221,993	\$ 4,221,993	\$ 4,205,482	\$ 4,205,482	1
Funds Designated for					
Capital Improvement:					
Certificates of Deposit	\$ 1,516,901	\$ 1,516,901	\$ 1,243,135	\$ 1,243,135	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 an interest and service fee rate of 1.16%. The loan is payable in semi-annual installments of \$753,877 beginning February 1, 2024, through maturity on August 1, 2053. As of November 30, 2021 and 2020, the District has not drawn on the loan and has an outstanding balance of \$0.

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 January of 2000, the District entered into a 20-year water supply contract with Rural Water District No. 1 (Miami No. 1), Miami County, Kansas. Under the agreement, the District is required to sell water to Miami No. 1 at rates based on a formula defined in the agreement.

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.

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 \$280 for the year ended December 31, 2021 and 2020. The future minimum lease payments are as follows:

2022	\$	1,680
2023		1,680
2024		1,680
2025		1,680
2026		140
	\$	<u>6,860</u>

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:

2022	\$	5,000
2023		5,000
2024		5,000
2025		5,000
2026		5,000
Thereafter		68,333
	\$	<u>93,333</u>

8. EMPLOYEE BENEFITS

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 \$745,929 and \$709,450 in 2021 and 2020.

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 8.87% to 9.87% and 9.61% to 9.89% in 2021 and 2020. The contribution requirement for the years ended November 30, 2021 and 2020 was \$115,002 and \$110,632, which consisted of \$44,756 and \$42,567 from employees and \$70,246 and \$68,064 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 \$640,000 and \$487,000 at November 30, 2021 and 2020, 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, 2021 and 2020 the District's contribution to the Plan totaled \$30,194 and \$28,101.

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 \$57,500 and \$79,500 at November 30, 2021 and 2020.

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, 2021 and 2020 amounted to \$87,208 and \$79,679, respectively.

11. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is an affiliate of a company that was paid \$92,000 and \$0 in 2021 and 2020 for maintenance and construction services.

In 2020, the District sold a piece of equipment and a vehicle to employee's of the District for \$25,000 and \$9,000, respectively.

12. 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, 2021 and 2020.

13. LITIGATION SETTLEMENT

In 2021, the District received a \$382,510 litigation settlement from the Liquid Aluminum Sulfate Antitrust Litigation.

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