RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS

Financial Statements and
Independent Auditors' Reports
With Supplementary Information

For the Years Ended
December 31, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Trego County, Kansas, which comprise the statements of net position as of December 31, 2023 and 2022, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 2, Trego County, Kansas as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide (KMAAG)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District No. 2, Trego County, Kansas 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 Rural Water District No. 2, Trego County, Kansas's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 Rural Water District No 2, Trego County, Kansas'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No 2, Trego County, Kansas'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule 1 and 2 as listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jeff Pinkney CPA, Inc.

Hays, Kansas
February 19, 2024

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statements of Net Position
December 31,

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	$ 1,363,539	$ 1,017,488
Accounts receivable, net of allowance for doubtful accounts	1,474	7,959
Prepaid insurance	31,526	31,022
Real Estate tax receivable	13,284	-
Total Current Assets	1,409,823	1,056,469
Noncurrent Assets		
Restricted cash - debt reserve funds	253,145	252,704
Deposit	-	25,000
Bond costs, net of amortization	105,005	111,212
Capital assets, net of accumulated depreciation	7,660,037	7,571,675
Total Noncurrent Assets	8,018,187	7,960,591
Total Assets	$ 9,428,010	$ 9,017,060
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 43,537	$ 18,551
Interest payable	10,986	11,586
Payroll liabilities	4,982	4,880
Advanced water charges	16,701	20,402
Current maturities of long term debt	185,000	180,000
Total Current Liabilities	261,206	235,419
Long Term Liabilities		
Bond payable, less current maturities	3,450,000	3,635,000
Bond premium, net of amortization	75,388	79,845
Total long term liabilities	3,525,388	3,714,845
Total Liabilities	3,786,594	3,950,264
Net Position		
Net investment in capital assets	4,054,654	3,788,042
Restricted	253,145	252,704
Unrestricted	1,333,617	1,026,050
Total Net Position	5,641,416	5,066,796
Total Liabilities and Net Position	$ 9,428,010	$ 9,017,060

The accompanying notes are an integral part of these statements.

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS

Statements of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31,

	2023	2022
Operating Revenues		
Water sales and monthly meter fees	$ 988,499	$ 918,056
Late charges	5,659	7,930
Reimbursed expenses-construction costs	83,050	19,640
Other	14,051	27,947
Total Operating Revenues	1,091,259	973,573
Operating Expenses		
Personnel services	228,246	203,135
Maintenance, operations, and contractual services	341,071	542,158
Amortization	6,207	6,207
Depreciation	372,821	363,367
Total Operating Expenses	948,345	1,114,867
Operating (Loss) Income	142,914	(141,294)
Non-Operating Revenues (Expenses)		
Member's Fees	489,250	54,750
Interest income	6,918	3,305
Gain on sale of equipment	-	45,939
Interest expense	(64,462)	(74,155)
Total Non-Operating Revenues	431,706	29,839
Increase (Decrease) in Net Position	574,620	(111,455)
Net Position, Beginning of Year	5,066,796	5,178,251
Net Position, End of Year	$ 5,641,416	$ 5,066,796

The accompanying notes are an integral part of these statements.

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statements of Cash Flows
For the Year Ended December 31,

	2023	2022
Cash Flows from Operating Activities		
Receipts from customers	$ 996,942	$ 929,346
Reimbursed construction costs	83,050	19,640
Other operating revenues	14,051	27,947
Payments to suppliers for goods and services	(329,873)	(559,852)
Payments to employees for services	(228,144)	(201,675)
Net Cash Provided by Operating Activities	536,026	215,406
Cash Flows from Financing Activities		
Member's Fees	489,250	54,750
Principal paid on loans	(180,000)	(180,000)
Bond refinance costs, net	(4,457)	(4,456)
Interest paid on loans	(65,062)	(68,662)
Net Cash Provided by (Used in) Financing Activities	239,731	(198,368)
Cash Flows from Investing Activities		
Interest income	6,918	3,305
Restricted cash - debt reserve funds	(441)	(519)
Repayment of CoBank equity	-	1,000
Acquisition and construction of capital assets	(436,183)	(154,116)
Proceeds from sale of capital assets	-	74,539
Net Cash Used in Investing Activities	(429,706)	(75,791)
(Decrease) Increase in Cash and Cash Equivalents	346,051	(58,753)
Cash and Cash Equivalents, Beginning of Year	1,017,488	1,076,241
Cash and Cash Equivalents, End of Year	$ 1,363,539	$ 1,017,488

The accompanying notes are an integral part of these statements.

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS
Statements of Cash Flows
For the Year Ended December 31,

	2023	2022
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 142,914	$ (141,294)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization	6,207	6,207
Depreciation	372,821	363,367
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(6,799)	1,753
(Increase) decrease in prepaid expenses	(504)	3,285
Increase (decrease) in accounts payable	24,986	(20,979)
Increase in payroll liabilities	102	1,460
(Decrease) (increase) in advanced water payments	(3,701)	1,607
Total Adjustments	393,112	356,700
Net Cash Provided by Operating Activities	$ 536,026	$ 215,406

The accompanying notes are an integral part of these statements.

Note 1 – Summary of Significant Accounting Policies

Reporting Entity – Rural Water District No. 2, Trego County, Kansas, was incorporated on September 16, 1991. The District was formed as a public body under the provisions of K.S.A. 82a-612 et seq and is exempt from federal and state income tax.

The purpose of the District is to acquire water and water rights, to build and acquire pipelines and other facilities, and to operate the same for the purpose of furnishing water for domestic, garden, livestock, and other purposes to owners and occupants of land located within the District, and to others as authorized by the by-laws.

The District is governed by no fewer than five and no more than a nine-member board, all of which are participating members of the District. Members are elected to staggering one, two, and three-year terms. Nomination of new members is performed by the current board.

Generally accepted accounting principles of the United States of America require that the financial statements present the accounts and operations of the District and its component units, entities for which the entity is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the entity's operations. If component units exist, data from these units are combined with data from the District. Each discretely presented component unit, if any, would be reported in a separate column in the combined financial statements to emphasize that it is legally separate from the District. As of December 31, 2023 and 2022, and for the fiscal years then ended, the District had no discretely presented component units or any component units required to be blended in these financial statements.

Basis of Presentation – The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) and KMAAG regulatory basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Proprietary Fund Type – The District uses a proprietary fund type to account for the activities of the District in a manner similar to commercial enterprises. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated, if applicable.

The District has one major proprietary fund and that fund accounts for the business-type activities of the District. Business-type activities are financed in whole by water fees charges to customers and accounts for the operation, maintenance, and development of water meters and pipeline, which are owned by the District.

Note 1 – **Summary of Significant Accounting Policies - continued**

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included in the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating and Non-Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses in its Statements of Revenues, Expenses and Changes in Net Position. Operating revenues include water sales, monthly meter fees, late fees, and other miscellaneous reimbursements. Operating expenses include the cost attributed to administration, utilities, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenue and expenses.

Member's Fees – Each participating landowner is required to remit a membership fee for each benefit unit attached to the District's services. The fee is non-refundable and follows ownership of the property on which it is located.

Monthly Meter Fee Revenue – The District collects $37 per month for each benefit unit attached to its system. This charge is in addition to water sales and is assessed whether or not the member used water during any given month. The purpose of the charge is to assure that funds will be available for payment of the annual loan installment. Members will be responsible for the monthly reading of the meter and assessment of a rate of $5.00 per 1,000 gallons of water consumed.

Advanced Water Payments – The District reports unearned deferred revenue in the Statement of Net Position. Advanced Water Payments arise when customers prepay fees for water usage. These advance water payments do not meet both the measurable and available criteria for recognition in the current period.

Use of Estimates – The District has made estimates and assumptions in preparing these financial statements in accordance with the comprehensive basis of accounting described above. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Accordingly, actual results could vary from estimates that were used.

Note 1 – **Summary of Significant Accounting Policies - continued**

Cash and Cash Equivalents – For the purpose of reporting cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit with original maturities greater than three months are considered investments and included in Other Assets.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future periods. These payments are recorded as prepaid expenses.

Restricted Cash and Investments – Restricted cash and investments are funds which use is limited by legal requirements. Reserve accounts represent amounts required by debt covenants to be segregated for debt payment. When restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. In 2023, the District purchased a twelve month certificate of deposit for $253,145.

Reimbursed Expenses – Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. The reimbursed expenses are for construction costs repaid by developers.

Income Tax – The District is a governmental subdivision of the State of Kansas and is exempt from Federal and State income taxes.

New Accounting Standards – In 2022, the District adopted ASU 2016-02 – Leases (Topic 842) and subsequent amendments thereto. The ASU requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard requires entities to classify leases as either a finance or operating lease based upon the contractual terms. Lessees record a right of use asset with a corresponding liability based on the net present value of rental payments. The District adopted the standard under the modified retrospective approach to the earliest period presented. The adoption of Topic 842 did not result in the recording of a right of use asset or a corresponding liability on the District's statement of net position as the District's leases are not in excess of twelve months.

The District has elected to account for short-term lease payments, those that do not exceed twelve months, to be recognized in profit or loss on a straight-line basis over the term of the lease. The District has also elected to not separate lease components from non-lease components as it pertains to all right of use assets and lease liability.

Note 2 – **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of

return on the 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.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The District's investments consist solely of certificates of deposit and are considered a component of cash.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by the federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

At December 31, 2023 and 2022, the District's carrying amount of deposits, including certificates of deposit, was $1,616,684 and $1,270,192, respectively, and the bank balance was $1,617,389 and $1,089,775, respectively. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $500,000 and $500,000, respectively, was covered by federal depository insurance and the balance of $789,319 and $589,775, respectively, was collateralized with securities held by the pledging financial institutions' agents in the District's name. At December 31, 2023, the District had $328,070 in uninsured cash due to exceeding FDIC insurance limits of $250,000 at an institution without pledged securities. All deposits were legally secured at December 31, 2022.

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2023	2022
Cash and cash equivalents	$ 1,363,539	$ 1,017,488
Accounts receivable	1,474	7,959
Total	$ 1,365,013	$ 1,025,447

Note 4 – Fair Value Measurements

FASB ASC 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 – Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 4 – Fair Value Measurements - continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Certificate of Deposit: Valued based on the amount initially invested plus accrued interest.

	Assets at Fair Value as of December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	$ -	$ 253,145	$ -	$ 253,145
	$ -	$ 253,145	$ -	$ 253,145

There were no assets under this valuation methodology at December 31, 2022.

Note 5 – **Accounts Receivable**

All receivables from landowners or occupants are for meter fees, installation charges, or water sales. These receivables are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based upon a review of delinquent accounts.

	2023	2022
Gross accounts receivable	$ 2,192	$ 9,126
Less: allowance for doubtful accounts	(718)	(1,167)
Net accounts receivable	$ 1,474	$ 7,959

Note 6 – **Capital Assets, Depreciation, and Amortization**

Capital assets are valued at historical cost. The District generally capitalizes assets with costs of $500 or more. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives in years for depreciable assets are as follow:

Note 6 – Capital Assets, Depreciation, and Amortization - continued

Non-dwelling structures	40 years	straight-line
Vehicles and equipment	5 - 20 years	straight-line

Capital assets are reported net of accumulated depreciation. Depreciation expense was $372,821 and $363,367 for the year ended December 31, 2023 and 2022, respectively. A summary of capital assets and accumulated depreciation is as follows:

	Balance 12/31/2022	Increases	Decreases	Balance 12/31/2023
Buildings & pump stations	$ 212,000	$ 257,271	$ -	$ 469,271
Machinery & equipment	418,547	97,697	-	516,244
Vehicles	77,712	-	-	77,712
Water storage tanks & towers	923,709	-	-	923,709
Wells & pipelines	12,265,317	-	-	12,265,317
Construction in progress	-	106,368	-	106,368
Less: accumulated depreciation	(6,325,610)	(372,821)	-	(6,698,584)
Capital assets, net	$ 7,571,675	$ 79,278	$ -	$ 7,660,037

As of December 31, 2023 and 2022, the District did not have any impaired assets.

In 2017, the District started the engineering of an above ground water storage system. During 2020, in connection with the City of Victoria expansion, the District started the construction of the system and continued the process in 2021, however the bulk of this

project was not finalized by the end of 2021. In 2022, the District finished this project and it was fully placed in service.

In 2023, the District entered into an agreement to build an office building adjacent to the shop building that was purchased in the City of Ellis. The estimated cost of the new office building is $321,677. The District started the construction of the building in 2023, and incurred costs of 106,368.

Construction in progress costs are as follows:

	Balance 12/31/2022	Increases	Decreases	Balance 12/31/2022
Office Building	$ -	$ 106,368	$ -	$ 106,368
Total Construction in progress	$ -	$ 106,398	$ -	$ 106,368

Bond costs are amortized over the life of the bond payable and are reported net of accumulated amortization. Amortization expense was $6,207 and $6,207 for the year

Note 6 – **Capital Assets, Depreciation, and Amortization - continued**

ended December 31, 2023 and 2022, respectively. A summary of bond costs and accumulated amortization at December 31 was as follows:

	2023	2022
Bond costs	$ 124,143	$ 124,143
Less: accumulated amortization	(19,138)	(12,931)
Bond costs, net	$ 105,005	$ 111,212

Note 7 – Short-Term Leases

The District has a real estate lease agreement for office space. The District has elected the practical expedient for this short-term lease as the lease term does not exceed twelve months. The current lease was entered into March 2023 for a term of one year commencing March 15, 2023, at a cost of $650 per month.

The short-term lease expense included in operating expenses for the year ending December 31, 2023 and 2022, was $7,150 and 6,500, respectively.

Note 8 – **Contingencies**

The District is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries.

Note 9 – **Compensated Absences**

Full-time employees are entitled to the following vacation:

1 full year of continuous service = 1 week paid vacation
2 full years of continuous service = 2 weeks paid vacation
10 full years of continuous service = 3 weeks paid vacation
15 full years of continuous service = 4 weeks paid vacation
25 full years of continuous service = 5 weeks paid vacation

Full-time employees earn 1/2 day of sick leave per month. Sick leave may accumulate up to a maximum of six days.

Note 10 – **Other Employment Benefits**

The District provides a health insurance plan for all full-time employees, with the District paying for an employee's single health insurance premium. For the year-end December

Note 10 – **Other Employment Benefits - continued**

31, 2023 and 2022, the district had three employees participating in the plan at a cost of $22,833 and $15,867, respectively, to the District.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

Note 11 – **Net Position**

The financial statements utilize a net position presentation. Net position is categorized as Net Investment in capital assets, Restricted Net Position, and Unrestricted Net Position.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Debt and accumulated depreciation attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category represents net position of the District restricted for repayment of debt as per the debt covenants. A summary of restricted net position at December 31 was as follows:

	2023	2022
Water Revenue Bonds Series 2020 - Reserve	$ 253,145	$ 252,704

Unrestricted Net Position – This category represents net position of the District, not restricted for any project or other purpose.

Note 12 – **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 for which the District carries commercial insurance.

During the year ended December 31, 2023 and 2022, the District did not reduce insurance coverage from levels in place during the prior year.

Note 13 – Compliance with Finance-Related Legal and Contractual Provisions

Statutory Compliance

(a) Bond Payments

K.S.A. 10-130 requires the District to remit at least 20 days prior to maturity of the bonds the amount necessary to pay the interest and principal due. For the year ended December 31, 2023 and 2022, the District timely remitted the payments for the Series 2020 Water Revenue Bonds.

(b) Substantial Interest Filing

K.S.A. 75-4302a requires an individual elected or appointed to a local office to file a substantial interest filing within the timeline established by the statute. The District is in compliance with this statute.

Note 14 – Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net assets, change in net assets, or cash flows as previously reported.

Note 15 – Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statement were available to be issued.

Note 16 – **Current and Non-Current Obligations**

The financial statements include outstanding debt reported as current and non-current obligations. The District obtained financing for new construction through Rural Development, an agency of the United States Department of Agriculture. Rural Development provides loans, grants, and loan guarantees for drinking water, sanitary sewer, solid waste, and storm drainage facilities in rural areas, cities, and towns of 10,000 or less. The financial statements recognize the loan proceeds and grants as other financing sources of the current period. See the schedule of current and non-current obligations and the schedule of maturity of current and non-current obligations.

In November 2020, the District issued $4,175,000 in fixed rate Water System Refunding Revenue Bonds (Series 2020). The net proceeds of the bonds were used to refinance and payoff Rural Development Loans and Water Revenue Bonds Series 2012 and to pay costs relating to the issuance of the bonds. The bonds are at a fixed interest rate ranging from 1.25% to 2.0% with a final maturity due November 1, 2040.

Changes in current and non-current obligations for the District for the year ended December 31, 2023, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning Of Year	Additions	Payments	Balance End Of Year	Interest Paid
Water Revenue Bonds:									
Series 2020	1.25-2%	11/30/2020	$ 4,175,000	11/1/2040	$ 3,815,000	$ -	$ 180,000	$ 3,635,000	$ 69,519
Total current and non-current obligations					$ 3,815,000	$ -	$ 180,000	$ 3,635,000	$ 69,519

Note 16 – **Current and Non-Current Obligations – continued**

Maturities of current and non-current obligations and interest for the next five years and through maturity are as follows:

	2024	2025	2026	2027	2028	2029-2033
Principal						
Water Revenue Bonds	$ 185,000	$ 190,000	$ 195,000	$ 195,000	$ 200,000	$ 1,040,000
Total principal	185,000	190,000	195,000	195,000	200,000	1,040,000
Interest						
Water Revenue Bonds	65,919	62,219	58,419	55,494	52,569	218,888
Total interest	65,919	62,219	58,419	55,494	52,569	218,888
Total principal and interest	$ 250,919	$ 252,219	$ 253,419	$ 250,494	$ 252,569	$ 1,258,888

	2034-2038	2039-2040	Total
Principal			
Water Revenue Bonds	$ 1,145,000	$ 485,000	$ 3,635,000
Total principal	1,145,000	485,000	3,635,000
Interest			
Water Revenue Bonds	105,040	14,600	633,147
Total interest	105,040	14,600	633,147
Total principal and interest	$ 1,250,040	$ 499,600	$ 4,268,147

RURAL WATER DISTRICT NO. 2
TREGO COUNTY, KANSAS

Supplementary Information

December 31, 2022

Schedule 1 – **Insurance Disclosure**

The District maintained insurance coverage as follows:

	Coverage	Deductible	Expiration	Premium	Carrier
Commercial property	$ 7,354,109	$ 1,000	10/13/2024	$ 26,536	EMC Insurance
General liability	1,000,000	-	10/13/2024	4,224	EMC Insurance
Inland marine	83,950	500	10/13/2024	1,060	EMC Insurance
Workers compensation	500,000	-	10/13/2024	4,134	EMC Insurance
Other – linebacker E&O	1,000,000	2,000	10/13/2024	2,111	EMC Insurance
Commercial automobile	1,000,000	500	5/14/2024	3,935	State Farm Insurance
Fidelity	200,000	2,000	3/17/2024	732	Liberty Mutual

Schedule 2 – Number of Customers Served

At December 31, 2023, the District reported 1,168 customers served.