

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2

Salina, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2017 and 2016

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
TABLE OF CONTENTS

	Page
Independent Auditor's Report	<hr/> 1 - 2
Required Supplementary Information	
Management Discussion and Analysis	3 - 6
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 20
Supplemental Information	
Budget Report - Cash Basis	22



July 24, 2018

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No. 2 (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the applicable provisions of the *Kansas Municipal Audit and Accounting Guide*. 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 auditor's 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 entity'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 entity'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 audit opinion.

Independent Auditor's Report

July 24, 2018
Rural Water District No. 2 Ottawa County, Kansas
(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be 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.

The financial statements of Rural Water District No. 2, Ottawa County, Kansas for the year ended December 31, 2016, were audited by another auditor whose report dated April 3, 2017, issued an unmodified opinion.

Vannoy & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

REQUIRED SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2017 and 2016

Required Supplemental Information

This discussion and analysis of the Ottawa County Rural Water District No. 2's (the District) financial performance provides an overview of the District's financial statements for the year ended December 31, 2017. Please review in conjunction with the District's basic financial statements, which follows this section.

FINANCIAL STATEMENTS

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statements of net position provide information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as useful indicators of whether the District's financial position is improving or deteriorating.

The statements of revenues, expenses and changes in net position, present information showing how the net position of the District changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods. The statements of cash flows reverse the accruals to show the effect of the annual transactions on the available cash balance. The financial statements are shown comparative to the prior year while the supplemental information is shown for the current year.

FINANCIAL HIGHLIGHTS

The District's total assets increased by \$360,243 from December 2016 to 2017. Capital assets increased \$23,503 between December 2016 and 2017 primarily due to the completion of the Howison Heights project and an increase in accumulated depreciation of \$197,457. The remaining noncurrent assets increased \$99,588 due to the Howison Heights receivable and the increase in the bond and note reserves.

Total liabilities decreased \$2,768 from December 2016 to 2017. Current liabilities increased \$17,849 between December 2016 and 2017. Total noncurrent liabilities decreased \$20,617 primarily due to payments on the bonds and loan.

The District's net position increased between December 2016 and 2017 by \$363,011 with a \$101,003 increase in net investment in capital assets, an increase of \$18,606 for the restriction for the loan reserve, and an increase of \$243,402 in unrestricted net assets.

Water revenues increased \$68,580 between December 2016 and 2017 due to an increase in gallons sold and the addition of the Howison Heights area. Between December 2016 and 2017, total operating expenses increased \$36,770.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2017 and 2016

FINANCIAL HIGHLIGHTS (CONTINUED)

The District's operating income was \$214,903, after recognizing depreciation expense of \$197,457, in 2017, compared to operating income of \$183,093, after recognizing depreciation of \$179,215, in 2016.

The District realized net non-operating expenses of \$45,892 in 2017 and \$67,625 in 2016. An increase in other income of \$17,024 made up the majority of the lower non-operating total in the current year.

Total cash on hand at the end of the year was \$1,708,944 which was an increase of \$223,521 over the cash on hand at December 31, 2016. Ending net position was \$3,926,410 and \$3,563,399 as of December 2017 and 2016, respectively and the change in net position was \$363,011 and \$282,468 for the periods then ended.

ADDITIONAL INFORMATION

In 2017, the district added 82 (82) units, lost one (1), making a total of 952 units. In 2017 the gallons pumped was 92,393,000 gallons of water; the gallons sold was 78,605,000 which showed an annual loss of 12.64%.

Since we are 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 amount of accounts receivable but when a customer over estimates gallons usage this happens and it takes time to work itself out.

The Business Manager prepared the 2017 annual budget, as required by the BYLAWS of the District (see Article 8, Powers and Duties of Directors. Paragraph G). The annual budget for 2017 was presented to the Board of Directors for approval. The Board took action and approved the budget, stating the rates were sufficient as of now, but in the event the district gets below the 1.40% ratio the Board will revisit the budget.

On February 27, 2017, authorized personnel of the District met at the Bennington State Bank in Bennington, Ks, along with the contact person of Bennington State Bank and the district's attorney, to have the Howison Heights Inc. water system transfer to Ottawa County Rural Water District No. 2. At this time all the necessary documents were confirmed signed, dated and notarized. In the afternoon on February 28, 2017, Ottawa County RWD No. 2 severed the line of Howison Heights Inc. to his patrons and, after many hours of flushing the lines, the District started serving water to their new customers.

On July 13, 2017, Caldwell Tanks was paid the final payment for the construction of the water tower on Ohio and Ottawa Rd.

On July 13, 2017, a check in the amount of \$1,500.00 was paid to Ken Wasserman in regards to terms set forth by Ralph Luther for the removal of a water tower/standpipe by Rural Water District No. 2 from land owned by Mr. Luther and vacation for the existing water tank easement that Ottawa County Rural Water District No. 2 has on the land in Section 7-13-2 Saline County, KS.

On July 20, 2017, Larson Construction has been paid for the project on Howison Heights Inc. The job is completely finished and the final inspection is complete.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2017 and 2016

ADDITIONAL INFORMATION

An agreement for the water line relocation with the City of Salina on the Markley Sewer job was discussed. The District shall receive the New Pipeline free of charge. The City was to pay all expenses for moving the district main water line (attorneys will be paid \$1,000.00, engineers and the inspection crew \$50.00 an hr.). The contract with the City of Salina for the Markley Sewer job was written with the \$10,000.00 removed.

The Board allowed the petition of land to be released from Saline County Rural Water District 2 and attached to the territory of Ottawa County Rural Water District No. 2. The property is Tract 1 (Lilly Property) in the Northwest Quarter of Section 30, Township 14 South, Range 1 west of the 6th p.m. in Saline County, Kansas and Tract 2 (Ade Property) in the Northwest Quarter of Section 30, Township 14 South, Range 1 west of the 6th p.m. in Saline County, Kansas

The District transfers \$10,000 plus anything extra each month into the Water District's savings account until it reaches a certain amount and then a Certificate of Deposit is purchased. This money is designated as improvements and/or can be used as the Board of Directors instructs.

It was announced that Pat Parker CPA with Pottberg, Gassman and Hoffman would be retiring from the firm at the end of 2017. As in the past Sandy Foltz would do the audit (accounting) and Pat Parker would be the auditor to check Sandy's work. Now that Pat is retiring, she suggested hiring the firm of Varney and Associates, CPAs, LLC Manhattan, Kansas. to do the annual audits at the same comparative price that Pottberg, Gassman and Hoffman charged. The Board signed an engagement letter with Varney and Associates, CPA, LLC to do the annual audit of the District.

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 Medicare) 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.

It is with deep regret that Kenneth Sly, Board Member and Chairman of the District passed away November 26, 2017 after being with the District since 1996.

FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
STATEMENTS OF NET POSITION
 December 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,369,438	\$ 1,148,459
Accounts receivable	18,673	13,752
Howison Heights receivable - Current portion	13,726	-
Inventory	8,890	11,364
Total Current Assets	<u>\$ 1,410,727</u>	<u>\$ 1,173,575</u>
Non-Current Assets		
Capital assets, net of accumulated depreciation	\$ 4,857,860	\$ 4,834,357
Howison Heights receivable - Long term - Net of current portion	78,440	-
Certificate of Deposit - 2009 Bond Reserve	89,811	88,857
Certificate of Deposit - 2012 and 2013 Bond Reserve	82,423	81,604
Certificate of Deposit - 2013 Bond Reserve	167,272	166,503
Loan reserve - KDHE	91,682	73,076
Total Non-Current Assets	<u>\$ 5,367,488</u>	<u>\$ 5,244,397</u>
TOTAL ASSETS	<u><u>\$ 6,778,215</u></u>	<u><u>\$ 6,417,972</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accrued interest payable	\$ 15,406	\$ 14,576
Payroll liabilities	1,761	1,597
Unearned revenue - Customer credits	48,025	48,447
Bonds payable - Current portion	150,000	150,000
Loans payable - Current portion	39,048	21,771
Total Current Liabilities	<u>\$ 254,240</u>	<u>\$ 236,391</u>
Non-Current Liabilities		
Bonds payable - 2009 Bond Issue (net of discount) - Net of current portion	\$ 620,772	\$ 659,998
Bonds payable - 2012 Bond Issue (net of discount) - Net of current portion	360,356	424,089
Bonds payable - 2013 Bond Issue (net of discount) - Net of current portion	802,828	847,059
Kansas Public Water Supply loan 2855 - Net of current portion	813,609	687,036
Total Non-Current Liabilities	<u>\$ 2,597,565</u>	<u>\$ 2,618,182</u>
Total Liabilities	<u>\$ 2,851,805</u>	<u>\$ 2,854,573</u>
Net Position		
Net investment in capital assets	\$ 2,071,247	\$ 1,970,244
Restricted for 2009 Bond Reserve	78,563	78,563
Restricted for 2012 and 2013 Bond Reserve	64,242	64,242
Restricted for loan reserve	91,682	73,076
Unrestricted	1,620,676	1,377,274
Total Net Position	<u>\$ 3,926,410</u>	<u>\$ 3,563,399</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 6,778,215</u></u>	<u><u>\$ 6,417,972</u></u>

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$ 761,072	\$ 692,492
OPERATING EXPENSES		
Professional fees	\$ 16,436	\$ 12,556
Repairs and maintenance	47,340	50,572
Salaries	99,977	97,004
Payroll taxes	7,262	7,024
Utilities	39,552	36,913
Insurance	19,872	20,629
Miscellaneous expense	4,514	6,084
Water fees	6,102	5,962
Supplies	16,120	4,962
Contract labor	61,949	60,620
Depreciation	197,457	179,215
Mileage	18,540	20,254
Office supplies	6,790	3,557
IRA contributions	2,887	2,778
Conference and training	428	467
Dues and subscriptions	943	802
Total Operating Expenses	<u>\$ 546,169</u>	<u>\$ 509,399</u>
OPERATING INCOME (LOSS)	<u>\$ 214,903</u>	<u>\$ 183,093</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest income	\$ 17,738	\$ 12,310
Other income	32,254	15,230
Service fee on loan	(2,429)	(1,786)
Interest expense	(93,455)	(93,379)
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>\$ (45,892)</u>	<u>\$ (67,625)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ 169,011	\$ 115,468
CONTRIBUTIONS		
Capital contributions from members	194,000	167,000
CHANGE IN NET POSITION	\$ 363,011	\$ 282,468
NET POSITION - BEGINNING	<u>3,563,399</u>	<u>3,280,931</u>
NET POSITION - ENDING	<u><u>\$ 3,926,410</u></u>	<u><u>\$ 3,563,399</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 663,563	\$ 701,973
Cash payments to suppliers for goods and services	(164,159)	(178,326)
Cash payments to employees and professional contractors for services	(181,085)	(179,870)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 318,319</u>	<u>\$ 343,777</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>\$ 17,738</u>	<u>\$ 12,310</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	\$ (220,960)	\$ (198,509)
Capital contributions	194,000	167,000
Payments on long-term debt	(192,989)	(164,143)
Proceeds from long-term debt	189,649	34,783
Change in reserves	(21,148)	(6,168)
Other capital activities	32,254	15,230
Interest and service fees paid on long-term debt	(95,884)	(95,165)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (115,078)</u>	<u>\$ (246,972)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 220,979	\$ 109,115
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,148,459</u>	<u>1,039,344</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,369,438</u></u>	<u><u>\$ 1,148,459</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 214,903	\$ 183,093
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	197,457	179,215
(Increase) Decrease in accounts receivables	(4,921)	(2,226)
(Increase) Decrease in other receivables	(92,166)	-
(Increase) Decrease in inventory	2,474	-
Increase (Decrease) in accounts payables	-	(31,302)
Increase (Decrease) in accrued interest	830	3,178
Increase (Decrease) in payroll liabilities	164	112
Increase (Decrease) in unearned revenue	(422)	11,707
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 318,319</u></u>	<u><u>\$ 343,777</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Rural Water District No. 2, Ottawa County, Kansas (District), was declared incorporated as a municipal Corporation by the Board of Commissioners of Ottawa County, Kansas. The Board of Directors for the district adopted bylaws at a meeting of the landowners of the district on June 11, 1979.

The Financial Reporting Entity

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

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, in that the financial statements include all organization, activities, and functions that compromise the District. Component units are legally separate entities for which the District (the primary government) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the organization's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the organization. Using these criteria, the District has no component units.

Basis of Presentation and Accounting

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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 all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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 all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted for debt services; and unrestricted components.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market and checking accounts and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable include amounts due from customers for water use. All receivables are current and; therefore, due within one year. Management has evaluated all receivables and determined that the allowance for uncollected receivables should be \$0 as of December 31, 2017 and 2016.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

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 \$500 or more and a useful life exceeding one year. Depreciation is recorded on the straight-line method over the useful lives of the assets as follows : Buildings - 40 years, Infrastructure - 40 years, and Equipment - 5 to 20 years.

Inventory

Inventory is stated at cost and consists of pipe, valves , meters, and other items needed to repair water lines.

Non-Current Assets

Noncurrent assets primarily include construction in process, capital assets, and reserves for bonds and easements. The amounts placed in the reserve often exceed the amount legally required to be restricted as they include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bond and loans payable footnotes and shown in the net position section of the statements of net position.

Taxes

The District is exempt from federal and state income taxes.

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. Non-operating 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 amount of the capital contribution that was originally recorded.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 and 2016

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 funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The U.S. Government 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. The District had no investments, other than certificates of deposit which are included in the bank deposits; therefore they do not have a rating.

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.

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 federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District had no agreements for designated "peak periods."

December 31, 2017

At December 31, 2017, the carrying amount of the District's deposits, including certificates of deposit, was \$1,708,944 and the bank balance was \$1,722,807. The bank balance was held by four banks which did not result in a concentration of credit risk. Of the bank balance, \$931,435 was covered by federal depository insurance; \$791,372 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

December 31, 2016

At December 31, 2016 the District's carrying amount of deposits was \$1,485,423 and the bank balance was \$1,485,618. The bank balance at one of the three banks utilized by the District exceeded Federal Depository Insurance Corporation (FDIC) limits. Of the bank balance, \$679,943 was covered by federal depository insurance and \$805,675 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Capital Assets Not Being Depreciated				
Construction in process	\$ 45,306	\$ -	\$ (45,306)	\$ -
Other Capital Assets				
Engineering costs	\$ 149,699	\$ -	\$ -	\$ 149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	277,361	13,819	-	291,180
Distribution system	7,029,061	252,447	-	7,281,508
Total Other Capital Assets	<u>\$ 7,467,735</u>	<u>\$ 266,266</u>	<u>\$ -</u>	<u>\$ 7,734,001</u>
Less: Accumulated Depreciation				
Engineering costs	\$ 71,528	\$ 3,742	\$ -	\$ 75,270
Office equipment	10,338	510	-	10,848
Water wells and easements	66,325	7,109	-	73,434
Distribution system	2,530,493	186,096	-	2,716,589
Total Less: Accumulated Depreciation	<u>\$ 2,678,684</u>	<u>\$ 197,457</u>	<u>\$ -</u>	<u>\$ 2,876,141</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 4,789,051</u>	<u>\$ 68,809</u>	<u>\$ -</u>	<u>\$ 4,857,860</u>
Capital assets not being depreciated	\$ 45,306	\$ -	\$ (45,306)	\$ -
Other capital assets at cost	7,467,735	266,266	-	7,734,001
Total Cost of Capital Assets	<u>\$ 7,513,041</u>	<u>\$ 266,266</u>	<u>\$ (45,306)</u>	<u>\$ 7,734,001</u>
Less: Accumulated depreciation	<u>(2,678,684)</u>	<u>(197,457)</u>	<u>-</u>	<u>(2,876,141)</u>
CAPITAL ASSETS - NET	<u>\$ 4,834,357</u>	<u>\$ 68,809</u>	<u>\$ (45,306)</u>	<u>\$ 4,857,860</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016
Capital Assets Not Being Depreciated				
Construction in process	\$ 729,020	\$ 45,306	\$ (729,020)	\$ 45,306
Other Capital Assets				
Engineering costs	\$ 149,699	\$ -	\$ -	\$ 149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	277,361	-	-	277,361
Distribution system	6,146,838	882,223	-	7,029,061
Total Other Capital Assets	<u>\$ 6,585,512</u>	<u>\$ 882,223</u>	<u>\$ -</u>	<u>\$ 7,467,735</u>
Less: Accumulated Depreciation				
Engineering costs	\$ 67,785	\$ 3,743	\$ -	\$ 71,528
Office equipment	9,659	679	-	10,338
Water wells and easements	60,106	6,219	-	66,325
Distribution system	2,361,919	168,574	-	2,530,493
Total Less: Accumulated Depreciation	<u>\$ 2,499,469</u>	<u>\$ 179,215</u>	<u>\$ -</u>	<u>\$ 2,678,684</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 4,086,043</u>	<u>\$ 703,008</u>	<u>\$ -</u>	<u>\$ 4,789,051</u>
Capital assets not being depreciated	\$ 729,020	\$ 45,306	\$ (729,020)	\$ 45,306
Other capital assets at cost	6,585,512	882,223	-	7,467,735
Total Cost of Capital Assets	<u>\$ 7,314,532</u>	<u>\$ 927,529</u>	<u>\$ (729,020)</u>	<u>\$ 7,513,041</u>
Less: Accumulated depreciation	(2,499,469)	(179,215)	-	(2,678,684)
CAPITAL ASSETS - NET	<u>\$ 4,815,063</u>	<u>\$ 748,314</u>	<u>\$ (729,020)</u>	<u>\$ 4,834,357</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 and 2016

Note 4: Long-Term Debt

	Beginning Balance	Issued	Retired	Ending Balance
State Water Supply Loan	\$ 708,807	\$ 186,060	\$ 42,210	\$ 852,657
Revenue Bonds - 2009	710,000	-	40,000	670,000
Revenue Bonds - 2012	500,000	-	70,000	430,000
Revenue Bonds - 2013	900,000	-	40,000	860,000
Total	\$ 2,818,807	\$ 186,060	\$ 192,210	\$ 2,812,657

Long-term debt consists of the following at December 31, 2017 and 2016:

In 2014, the District executed a loan agreement with the Kansas Department of Health and Environment 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.

In 2016, the District executed another loan agreement with the Kansas Department of Health and Environment (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 loan from KDHE is not expected to exceed \$260,500. The interest rate is 1.56% with payments of \$5,506 per month that will not begin until February 1, 2018. In 2017, the District received total loan disbursements of \$189,649, of which \$167,454 was deposited in the District's accounts to cover expenses incurred and \$22,195 was applied to the loan reserve which is held at KDHE.

\$ 852,657 \$ 708,807

On December 1, 2009, the district issued \$885,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2009 with effective interest rates ranging from 1.75% to 4.75%. The purpose of the bond issue was to purchase a water tower. Interest payments are due semi-annually on June 1 and December 1. Principal payments were due starting on December 1, 2012 and maturing in 2029.

670,000 710,000

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.

430,000 500,000

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

Note 4: Long-Term Debt (Continued)

On November 15, 2013, the district issued \$1,025,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2013 with effective interest rates ranging from 0.60% to 4.40%. The new bond issue was used for the construction of a new well field. Interest payments are due semi-annually on June 1 and December 1. Principal payments were due starting on June 1, 2014 and maturing in 2033.

	<u>2017</u>	<u>2016</u>
	860,000	900,000
TOTAL LONG-TERM DEBT	\$ 2,812,657	\$ 2,818,807
Less: Current portion of long-term debt	(189,048)	(171,771)
Less: Unamortized bond discount	(26,044)	(28,854)
NET LONG-TERM DEBT	<u>\$ 2,597,565</u>	<u>\$ 2,618,182</u>

Maturities of long-term debt are as follows:

<u>Year Ended</u> <u>December 31, 2017</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2018	\$ 189,048	\$ 89,662	\$ 3,166	\$ 281,876
2019	195,070	85,190	3,028	283,288
2020	201,118	80,382	2,887	284,387
2021	207,194	74,856	2,742	284,792
2022	213,299	69,006	2,594	284,899
2023 - 2027	859,094	254,987	10,599	1,124,680
2028 - 2032	726,370	108,663	6,932	841,965
2033 - 2037	221,464	12,782	1,475	235,721
Total	<u>\$ 2,812,657</u>	<u>\$ 775,528</u>	<u>\$ 33,423</u>	<u>\$ 3,621,608</u>

<u>Year Ended</u> <u>December 31, 2016</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2017	\$ 188,052	\$ 93,414	\$ 3,300	\$ 284,766
2018	189,048	89,662	3,166	281,876
2019	195,070	85,190	3,028	283,288
2020	201,118	80,382	2,887	284,387
2021	207,194	74,856	2,742	284,792
2022 - 2026	903,125	284,091	11,402	1,198,618
2027 - 2031	769,577	136,557	7,168	913,302
2032 - 2036	165,623	23,257	2,112	190,992
Total	<u>\$ 2,818,807</u>	<u>\$ 867,409</u>	<u>\$ 35,805</u>	<u>\$ 3,722,021</u>

Total interest incurred and expensed in 2017 and 2016 was \$93,455 and \$93,379, respectively.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 and 2016

Note 4: Long-Term Debt (Continued)

2009 Bonds Payable Information:

Issuance costs of \$16,712 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$15,487 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2017 was \$775 and 2016 was \$775. A bond reserve account of \$78,563 is required to be maintained. \$89,811 is segregated as a Certificate of Deposit at Bank VI as of December 31, 2017.

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 and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2017 was \$1,267 and 2016 was \$1,266. A bond reserve account of \$76,000 was required to be maintained until the 2013 bonds were issued. This reserve has been combined with the 2013 reserve.

2013 Bonds Payable Information:

Issuance costs of \$13,695 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$15,375 which is amortized and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2017 was \$769 and 2016 was \$768. A bond reserve account of \$64,242 is required to be maintained for the 2012 and 2013 bonds. \$82,423 and \$167,272 is segregated as a Certificate of Deposit at Great Plains Federal Credit Union and Bennington State Bank, respectively.

Note 5: Debt Service Ratio

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

	December 31, 2017	December 31, 2016
Debt service ration caculation for the year ending		
Change in net position	\$ 363,011	\$ 282,468
Interest expense	93,455	93,379
Depreciation	197,457	179,215
Less: Capital contributions	(194,000)	(167,000)
Total Revenue Available for Debt Service	\$ 459,923	\$ 388,062
Debt service payments	\$ 288,094	\$ 254,344
Debt Service Ratio	1.60	1.53

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017 and 2016

Notes to Financial Statements

Note 6: Howison Heights Receivable

During 2017, the District entered 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 minimum principal receivables are as follows for December 31,

	2017	2016
2018	\$ 13,726	\$ -
2019	14,429	-
2020	15,167	-
2021	15,943	-
2022	16,758	-
Thereafter	16,143	-
	<u>\$ 92,166</u>	<u>\$ -</u>

The minimum interest receivables are as follows for December 31,

	2017	2016
2018	\$ 4,274	\$ -
2019	3,571	-
2020	2,833	-
2021	2,057	-
2022	1,242	-
Thereafter	381	-
	<u>\$ 14,358</u>	<u>\$ -</u>

Note 7: 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 8: 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 \$48,025 at December 31, 2017 and \$48,447 at December 31, 2016.

Note 9: Budgets and Budgetary Accounting

Per K.S.A. 82a-628, the Board is required to annually prepare an estimated budget for the coming year. The Board approves a budget each year which is used by management to internally monitor the District's expenditures, and is presented as supplementary information.

Note 10: 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 2017, the District contributed \$2,887 and in 2016, \$2,778 to the retirement plan. The IRAs are with American Funds.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

Note 11: Litigation

There were no known legal actions involving the District as of December 31, 2017.

Note 12: Related Parties

All the members of the Board of Directors and all employees are water district customers . The only material transactions were water purchases consummated on the same terms as all other water customers. All were current at year-end .

Note 13: Risk Management

Ottawa County Rural Water District No. 2 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 14: Subsequent Events

Management has evaluated subsequent events through July 24, 2018, which is the date the financial statements were available for issuance.

Note 15: Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the reported results of operations.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

BUDGET REPORT - CASH BASIS

For the Year Ended December 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Water revenues	\$ 756,560	\$ 761,072	\$ (4,512)
OPERATING EXPENSES			
Professional fees	\$ 19,000	\$ 16,436	\$ 2,564
Repairs and maintenance	35,000	47,340	(12,340)
Salaries	100,000	99,977	23
Payroll taxes	7,650	7,262	388
Utilities	40,800	39,552	1,248
Insurance	16,126	19,872	(3,746)
Miscellaneous expense	3,700	4,514	(814)
Water fees	2,400	6,102	(3,702)
Supplies	8,000	16,120	(8,120)
Contract labor	65,000	61,949	3,051
Depreciation	196,437	197,457	(1,020)
Mileage	20,000	18,540	1,460
Office supplies	6,000	6,790	(790)
IRA contributions	8,277	2,887	5,390
Conference and training	500	428	72
Dues and subscriptions	1,000	943	57
Total Operating Expenses	<u>\$ 529,890</u>	<u>\$ 546,169</u>	<u>\$ (16,279)</u>
DEBT RETIREMENT			
Bond principal	\$ 188,052	\$ 150,000	\$ 38,052
Bond interest	93,413	71,784	21,629
Loan principal	-	42,210	(42,210)
Loan interest	-	19,327	(19,327)
Total Expenditures	<u>\$ 281,465</u>	<u>\$ 283,321</u>	<u>\$ (1,856)</u>
OTHER INCOME (EXPENSES)			
Interest income	\$ 15,000	\$ 17,738	\$ (2,738)
Other income	-	32,254	(32,254)
Service fee on loan	-	(2,429)	2,429
Proceeds from loan	-	186,060	(186,060)
Capital improvements	-	266,266	(266,266)
Total Other Income (Expense)	<u>\$ 15,000</u>	<u>\$ 499,889</u>	<u>\$ (484,889)</u>
INCREASE (DECREASE) IN CASH	<u>\$ 826,355</u>	<u>\$ 1,329,379</u>	<u>\$ (503,024)</u>