RURAL WATER DISTRICT NO. 2
DOUGLAS COUNTY, KANSAS

FINANCIAL STATEMENTS

Year ended December 31, 2023

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RURAL WATER DISTRICT NO. 2
DOUGLAS COUNTY, KANSAS

Financial Statements
Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 2, Douglas County, Kansas, (the District), as of and for the year ended December 31, 2023 and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis of Adverse and Unmodified Opinions" section of our report, the accompanying financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2023, or the changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2023, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statement" section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified opinions.

Matter Giving Rise to Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the financial statement is prepared by the District on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 GAAS 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statement, 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 statement.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however, are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, 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 basic financial statement as a whole, on the basis of accounting described in Note 1.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

June 25, 2024

RURAL WATER DISTRICT NO. 2, DOUGLAS COUNTY, KANSAS
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2023

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds:						
Water Utility	$ 814,571	$ 598,660	$ 495,426	$ 917,805	$ 445	$ 918,250
Total Reporting Entity	$ 814,571	$ 598,660	$ 495,426	$ 917,805	$ 445	$ 918,250

COMPOSITION OF CASH:	
Checking	$ 178,490
Certificates of deposit	739,760
Total Reporting Entity	$ 918,250

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 2
DOUGLAS COUNTY, KANSAS

Notes to the Financial Statements
December 31, 2023

NOTE 1 - Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

The Rural Water District No. 2, Douglas County, Kansas (the District), is a water utility that provides service for domestic, agricultural, and other purposes to rural customers. The District was organized under Kansas law as a quasi-municipal corporation. The District is accounted for as an enterprise fund using the regulatory basis and budget laws of the State of Kansas. The District's purpose 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 to owners and occupants of land located within the District.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the District for the year ended December 31, 2023:

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e., water fund, sewer fund, etc.).

NOTE 2 - Deposits and Investments

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 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.

Investments. 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.

NOTE 2 - Deposits and Investments (Continued)

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 does not have any "peak periods" designated. All deposits were legally secured at December 31, 2023.

As of December 31, 2023, the District's carrying amount of deposits was $918,250 and the bank balance was $921,767. The bank balance was held by four banks, alleviating a concentration of credit risk. Of the bank balance, $895,370 was covered by federal depository insurance, and the balance of $26,397 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 - Water Contracts

The District has an agreement with the City of Lawrence to treat and deliver water to the District. A small amount of water is purchased from Douglas County Rural Water District No. 5.

NOTE 4 - Benefit Unit Deposits

Customers joining the District are required to pay a deposit for a benefit unit prior to connecting to the District's water lines or transferring a benefit unit. In 2023, there were six new benefit units added to the District for a total of $39,000. During 2023, The District also received the second half of a deposit for $3,250 for a benefit unit originally added in 2022.

NOTE 5 - 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. No significant reductions in insurance coverage from that of the prior year have occurred. Settlements have not exceeded insurance coverage for each of the last three years.

NOTE 6 - Economic Dependency

The District acquires substantially all of its water from the State of Kansas. The City of Lawrence processes and transports water to the District. There are no significant suppliers of water available to the District.

All water sales are made to residents within the District. Accordingly, the District's operations are dependent upon the economic conditions of the area. The impact of the potential risk cannot be determined.

RURAL WATER DISTRICT NO. 2, DOUGLAS COUNTY, KANSAS
Water Utility Fund
Schedule of Receipts and Expenditures - Actual
Regulatory Basis
For the Year Ended December 31, 2023

	Actual
Receipts	
Water sales	$ 510,074
New construction	6,002
Benefit unit sales	42,250
Service review	750
Lease income	17,400
Insurance dividends	3,322
Meter and supply sales	341
Interest income	18,521
Total Receipts	598,660
Expenditures	
Water purchased	164,086
Water analysis	988
Salaries and wages	120,861
Repairs and maintenance	23,766
Utilities and telephone	17,879
Mileage and auto	5,770
Office expenses	13,136
Insurance and bonds	23,526
Taxes, licenses and fees	801
Continuing education	4,224
Professional and other services	11,529
Materials and supplies	12,028
Board expenses	217
Bank fees	8,153
Bad debt expense	1,394
Plant and equipment purchases	87,068
Total Expenditures	495,426
Receipts Over [Under] Expenditures	103,234
Unencumbered Cash, Beginning	814,571
Unencumbered Cash, Ending	$ 917,805