Acord Cox & Scott, LLC
Certified Public Accountants

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

Financial Statements for the
Years Ended November 30, 2025 and 2024
and Independent Auditors' Report

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

We have audited the accompanying financial statements of Rural Water District No. 2, Miami County, Kansas (the "District"), which comprise the statements of net position as of November 30, 2025 and 2024, 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, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of November 30, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 8 to the financial statements, the District has not implemented GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2025 and 2024, KPERS computed and published the net pension liability (NPL) as of June 30, 2024 and 2023, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately $972,000 and $907,000 at November 30, 2025 and 2024, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 judgment made by a reasonable user based on the financial statements.

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

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

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

Other Matter: Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Accord Cox + Scott, LLC

December 30, 2025

Rural Water District No. 2
Miami County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 2, Miami County, Kansas annual financial report presents an analysis of the District's financial performance during the years ended November 30, 2025 and 2024. This information is prepared and presented in conjunction with the annual audited financial reports prepared by the District's independent auditing firm.

Rural Water District No. 2 Financial Overview for 2025

- The District's total assets increased by $6,725,005 from $54,215,597 in 2024 to $60,940,602 in 2025.
- The District's total liabilities increased by $6,330,998 from $25,364,279 in 2024 to $31,695,277 in 2025.
- The District's revenues from water sales decreased by $4,355 from $4,410,245 in 2024 to $4,405,890 in 2025.
- The District's costs and operating expenses increased by $622,422 from $4,379,158 in 2024 to $5,001,580 in 2025.
- The District began construction for the plant expansion to 12 million gallons per day in 2021. Phase 1 of the project was complete in 2024 and phase 2 of the project was completed in 2025.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended November 30, 2025 and 2024, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provides information about the types and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Activities and Changes in Net Position exhibit the District's revenues and expenses for the years ended November 30, 2025 and 2024. The Statements

of Cash Flows present information on the District's cash receipts, cash payments and changes in cash flow resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Activities and Changes in Net Position present information on the District's financial condition. The District's net position is indicated by the difference between its assets and liabilities. An improvement in the District's financial condition is reflected in its increase of net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2025	2024	Dollar Change	Percent Change
Current Assets	3,621,772	2,609,644	1,012,128	38.8%
Noncurrent Assets	16,726,458	15,287,540	1,438,918	9.4%
Capital Assets, net	40,592,372	36,318,413	4,273,959	11.8%
Total Assets	**60,940,602**	**54,215,597**	**6,725,005**	12.4%
Current Liabilities	2,456,857	1,889,450	567,407	30.0%
Long-term Debt	29,238,420	23,474,829	5,763,591	24.6%
Total Liabilities	**31,695,277**	**25,364,279**	**6,330,998**	25.0%
Net assets invested in capital assets, net of related debt	10,551,919	12,843,584	(2,291,665)	-17.8%
Unrestricted	18,693,406	16,007,734	2,685,672	16.8%
Total Net Position	**29,245,325**	**28,851,318**	**394,007**	**1.4%**

Total assets increased by $6,725,005 from $54,215,597 in 2024 to $60,940,602 in 2025. This is a result of capital asset additions including the debt financed plant expansion.

Total liabilities increased by $6,330,998 from $25,364,279 in 2024 to $31,695,277 in 2025. This is due to the district drawing on the KPWSLF loan to finance costs related to the plant expansion.

Total net position increased by $394,007 from $28,851,318 in 2024 to $29,245,325 in 2025.

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

	2025	2024	Dollar Change	Percent Change
Operating Revenues	4,405,890	4,410,245	(4,355)	-0.1%
Non-operating Revenues (Expense)	240,893	468,535	(227,642)	-48.6%
Total Revenues	**4,646,783**	**4,878,780**	**(231,997)**	-4.8%
Depreciation Expense	1,431,533	852,183	579,350	68.0%
Other Operating Expense	3,570,047	3,526,975	43,072	1.2%
Total Expenses	**5,001,580**	**4,379,158**	**622,422**	14.2%
Income (Loss) Before Capital Contributions	(354,797)	499,622	(854,419)	-171.0%
Capital Contributions	748,804	292,886	455,918	155.7%
Changes in Net Position	394,007	792,508	(398,501)	-50.3%
Beginning Net Position	28,851,318	28,058,810	792,508	2.8%
Total Net Position	**29,245,325**	**28,851,318**	**394,007**	**1.4%**

The Statements of Revenues, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the District had a loss before capital contributions of $354,797, and capital contributions of $748,804. Income (loss) plus contributions resulted in a $394,007 increase in net position during fiscal year 2025.

The District's total operating revenues decreased by $4,355 from $4,410,245 in 2024 to $4,405,890 in 2025. Total operating expenses increased by $622,422 from $4,379,158 in 2024 to $5,001,580 in 2025. The major contributor to the decrease in revenue is the decrease in wholesale water sales. The increase in expenses was primarily related to the increase in depreciation due to the plant expansion being placed into service in 2025.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 2, Miami County, KS Business Manager at 25290 Harmony Road, Paola, KS 66071.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
NOVEMBER 30, 2025 AND 2024

ASSETS	**2025**	**2024**
CURRENT ASSETS		
Cash	$ 2,673,289	$ 1,672,374
Accounts receivable	313,738	264,583
Accounts receivable - wholesale	52,002	120,979
Interest receivable	51,811	44,505
Prepaid expenses	111,899	111,209
Inventory	419,033	395,994
Total current assets	3,621,772	2,609,644
NONCURRENT ASSETS		
Loan reserve fund	3,004,045	2,347,483
Funds designated for capital improvement	1,369,366	1,104,759
Certificates of deposit	12,353,047	11,835,298
Total noncurrent assets	16,726,458	15,287,540
CAPITAL ASSETS		
Nondepreciable capital assets	1,372,981	23,794,747
Depreciable capital assets	62,419,374	34,347,016
Less accumulated depreciation	(23,199,983)	(21,823,350)
Depreciable capital assets, net	39,219,391	12,523,666
Total capital assets, net	40,592,372	36,318,413
Total assets	$ 60,940,602	$ 54,215,597
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 802,033	$ -
Accounts payable	484,368	1,155,937
Other accrued liabilities	411,820	386,933
Line extension deposit	614,636	231,580
Advance benefit unit payments	144,000	115,000
Total current liabilities	2,456,857	1,889,450
LONG-TERM DEBT	29,238,420	23,474,829
Total liabilities	31,695,277	25,364,279
NET POSITION		
Invested in capital assets, net of related debt	10,551,919	12,843,584
Unrestricted	18,693,406	16,007,734
Total net position	$ 29,245,325	$ 28,851,318

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2025 AND 2024

	2025	2024
WATER SALES	$ 4,405,890	$ 4,410,245
COSTS AND OPERATING EXPENSES:		
Personnel costs	1,551,239	1,636,820
Depreciation and amortization	1,431,533	852,183
Chemical expense	448,291	423,975
Plant expense	100,106	96,928
Line maintenance	229,970	285,698
Water purchased	222,855	304,464
Water samples	6,532	6,434
Sales and use tax	8,730	8,455
Utilities	353,400	306,056
Contract meter reading	-	80,206
Professional services	43,306	19,581
Vehicle upkeep	89,344	95,300
Office supplies	125,885	96,989
Insurance	75,463	63,737
Tower maintenance	204,460	-
Dues	43,480	32,093
Miscellaneous	45,788	47,303
Water plan tax	10,941	11,838
Clean drinking water fee	10,257	11,098
	5,001,580	4,379,158
INCOME (LOSS) FROM OPERATIONS	(595,690)	31,087
NON-OPERATING REVENUES (EXPENSES):		
Interest income	640,431	636,709
Interest expense	(416,372)	(261,499)
Miscellaneous	17,613	14,454
Gain (loss) on disposal of fixed assets	(779)	78,871
	240,893	468,535
INCOME (LOSS) BEFORE CONTRIBUTIONS	(354,797)	499,622
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	748,804	292,886
INCREASE IN NET POSITION	394,007	792,508
NET POSITION, BEGINNING OF YEAR	28,851,318	28,058,810
NET POSITION, END OF YEAR	$ 29,245,325	$ 28,851,318

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2025 AND 2024

	2025	2024
OPERATING ACTIVITIES:		
Cash receipts from customers	$ 4,830,462	$ 4,661,315
Cash payments to suppliers for goods and services	(4,240,458)	(2,413,522)
Net cash provided by operating activities	590,004	2,247,793
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of fixed assets	31,000	149,539
Additions to capital assets	(5,737,271)	(12,014,093)
Contributions - Benefit units and aid-in construction	748,804	292,886
Interest paid	(416,372)	(261,499)
Advances on long term debt	6,565,624	12,649,919
Net cash provided by capital and related financing activities	1,191,785	816,752
NON-CAPITAL FINANCING ACTIVITIES:		
Other non-operating receipts	17,613	14,454
INVESTING ACTIVITIES:		
Change in certificates of deposit	(782,356)	(1,023,330)
Change in reserve funds	(656,562)	(1,264,992)
Interest received	640,431	636,709
Net cash used in investing activities	(798,487)	(1,651,613)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,000,915	1,427,386
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,672,374	244,988
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,673,289	$ 1,672,374
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ (595,690)	$ 31,087
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,431,533	852,183
Changes in:		
Accounts receivable	19,822	(76,357)
Contract receivables	-	125,325
Inventories	(23,039)	(28,088)
Prepaid expenses	(690)	(14,729)
Interest receivable	(7,306)	(19,570)
Accounts payable and accrued liabilities	(646,682)	1,156,270
Line extension deposits	383,056	153,172
Advanced benefit unit payments	29,000	68,500
Net cash provided by operating activities	$ 590,004	$ 2,247,793

See notes to financial statements.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2025 AND 2024

1. DESCRIPTION OF ENTITY

   a. Organization and Description of Operations – The Rural Water District (the "District") was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at November 30, 2025 and 2024 were 4,718 and 4,670.

   b. Rural Water District No. 1, Miami County, Kansas ("RWD #1") Acquisition – On June 12, 2023, the District acquired and assumed the assets, liabilities, customers and operations of RWD #1 under terms outlined in a Memorandum of Understanding dated March 13, 2023 that was approved by the Board of Directors of both Organizations.

      On June 12, 2023 the bank account balances of RWD #1 totaled $102,125 and were deposited into the account of the District and a third party was engaged to review the balances of the accounts transferred. Also on that date, the Capital Assets of RWD # 1 were transferred to the District at their historical cost of $1,890,587 less the related accumulated depreciation of $1,282,483, for a net book value of $608,104. Other assets transferred included receivables of $7,361, inventory of $9,920 and certificates of deposits of $487,311.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

   a. Basis of Presentation and Accounting – The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

      The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses.

      The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statement of Net Position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

      Management of the District has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.

c. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers, but not yet received by the District is recorded as accounts receivable and water sales.

d. Inventories – Inventories consist primarily of meters, line maintenance material, and chemicals. Inventories are stated at the lower of cost or market. During fiscal year 2022, the District changed the method at which cost is determined from the first-in, first-out method to the average cost method.

e. Capital Assets – The cost of additions to the District's plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and if applicable, interest on borrowed funds to finance construction. The District did not capitalize interest during the fiscal years 2025 or 2024. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses, and changes in net position.

   Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.

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

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

   Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

   Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

i. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue and determined there are no subsequent events required to be disclosed.

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2023	Additions	Transfers/ Disposals	2024
Nondepreciable capital assets:				
Land and easements	117,094	1,204	(25,070)	93,228
Construction in progress	12,376,985	11,745,830	(421,296)	23,701,519
	12,494,079	11,747,034	(446,366)	23,794,747
Depreciable capital assets:				
Plant and intake	10,573,270	-	(74,853)	10,498,417
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	20,637,971	60,497	395,714	21,094,182
Pumps and motors	386,371	17,201	-	403,572
Office furniture and equipment	402,732	14,550	(798)	416,484
Vehicles	374,756	126,310	(71,128)	429,938
Equipment	389,609	48,500	(6,463)	431,646
	33,837,486	267,058	242,472	34,347,016
Less accumulated depreciation	(21,104,394)	(852,183)	133,227	(21,823,350)
Depreciable capital assets, net	12,733,092	(585,125)	375,699	12,523,666
Total capital assets, net	25,227,171	11,161,909	(70,667)	36,318,413

	2024	Additions	Transfers/ Disposals	2025
Nondepreciable capital assets:				
Land and easements	93,228	2,227	-	95,455
Construction in progress	23,701,519	5,598,514	(28,022,507)	1,277,526
	23,794,747	5,600,741	(28,022,507)	1,372,981
Depreciable capital assets:				
Plant and intake	10,498,417	-	22,871,426	33,369,843
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	21,094,182	55,717	4,565,629	25,715,528
Pumps and motors	403,572	1,964	562,439	967,975
Office furniture and equipment	416,484	5,604	-	422,088
Vehicles	429,938	56,241	(49,278)	436,901
Equipment	431,646	17,003	(14,387)	434,262
	34,347,016	136,529	27,935,829	62,419,374
Less accumulated depreciation	(21,823,350)	(1,431,533)	54,900	(23,199,983)
Depreciable capital assets, net	12,523,666	(1,295,004)	27,990,729	39,219,391
Total capital assets, net	36,318,413	4,305,737	(31,778)	40,592,372

The District entered into agreements with the Kansas Department of Transportation (KDOT) to relocate certain water lines (the "Project"). KDOT will reimburse the District for Project costs incurred, not to exceed amounts defined by the agreement. From inception through the year ended November 30, 2025, the District incurred $4,633,919 of costs related to the project, of which KDOT reimbursed $3,973,751.

4. CASH AND INVESTMENTS

Deposits – At November 30, 2025 and 2024, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name.

Investments – State statutes also authorize municipalities to invest general operating monies in direct obligations of the United States government or its agencies or in repurchase agreements if local financial institutions are not able to pay the average Treasury bill rate. All investments must be insured, registered or held by the municipality or its agent in the municipality's name.

The District's investments are categorized as either (1) insured, registered or securities held by the District or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name. The District's investments at November 30, 2025 and 2024 are summarized below:

	2025		2024		
	Carrying Value	Market Value	Carrying Value	Market Value	Category
Investments:					
Certificates of Deposit	$ 12,353,047	$ 12,353,047	$ 11,835,298	$ 11,835,298	1
Funds Designated for Capital Improvement:					
Money Market Account	$ 1,369,366	$ 1,369,366	$ 1,104,759	$ 1,104,759	1
Funds Designated for Loan Reserve Fund:					
KPWSLF Reserve Fund	$ 3,004,045	$ 3,004,045	$ 2,347,483	$ 2,347,483	1

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2020

In October 2020 the District entered into a loan agreement with the KPWSLF under which the District can borrow up to $36,265,903 at a combined interest and service fee rate of 1.51%. The loan is payable in semi-annual installments of $624,790 beginning February 1, 2026 through maturity on August 1, 2055. As of November 30, 2025 and 2024, the outstanding balance of the loan totaled $30,040,453 and $23,474,829, respectively.

Changes to the District's long-term debt are as follows:

Total long-term debt, beginning	$ 23,474,829
Advances	6,565,624
Principal payments	-
Total long-term debt, ending	30,040,453
Less current portion	802,033
Noncurrent portion	$ 29,238,420

The District is required to establish and fund a reserve account with a balance of at least ten percent of the outstanding loan balance. The balance in the reserve account is $3,004,045 and $2,347,483 as of November 30, 2025 and 2024, respectively.

Interest expense on long-term debt totaled $416,372 and $261,499 for the years ended November 30, 2025 and 2024, respectively.

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2026	$ 802,033	$ 447,548	$ 1,249,581
2027	809,744	439,837	1,249,581
2028	822,056	427,525	1,249,581
2029	834,556	415,025	1,249,581
2030	847,245	402,336	1,249,581
Thereafter	25,924,819	5,314,697	31,239,516
	$ 30,040,453	$ 7,446,968	$ 37,487,421

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 125%.

Debt Service Coverage Calculation:

Increase in net position	$ 394,007
Add:	
Depreciation and amortization	1,431,533
Interest expense	416,372
Income available for debt service	$ 2,241,912
Debt service	
Interest expense	$ 447,548
Principal payments	802,033
	$ 1,249,581
Debt service coverage ratio	1.79

6. LONG-TERM WATER SUPPLY CONTRACTS AND AGREEMENTS

In connection with the original construction of the water treatment plant, a long-term contract was entered into with RWD #7 of Johnson County to provide water to that district. In addition to paying monthly charges based upon actual water usage, RWD #7 also agreed to pay an amount equal to 8.63% of the District's Water System Revenue Bonds, Series 1993. In connection with the plant expansion and the retirement of the 1993 bonds, the District amended and restated the water supply contract with RWD #7. Under the amended contract RWD #7 agreed to pay an amount equal to 10.94% of the Series 1998 Bonds.

The District also received $333,143 in 1999 from RWD #7 for their portion of the costs associated with establishing the 1998 Bond issue which was amortized to non-operating income over a ten-year period.

In March of 2006, the District amended the wholesale water contract with RWD #7 and contributed $337,037 for capital costs related to the water treatment plant.

In July of 2000, the District entered into a 30-year water supply contract with Rural Water District No. 1 (Franklin No. 1), Franklin County, Kansas. Under the agreement, the District is required to sell water to Franklin No. 1 at rates based on a formula defined in the agreement.

In July of 2003, the District entered into a water distribution contract with the City of Spring Hill, Kansas (Spring Hill) and RWD #7. Simultaneous with the water distribution contract, the District entered into a 20-year water supply contract with Spring Hill. Under the agreement, the District is required to sell water (not to exceed one million gallons per day) to Spring Hill at rates based on a formula defined in the

agreement. Effective January 1, 2015, this contract was amended to reduce the maximum gallons per day to 753,425 gallons. During 2025, the contract was terminated.

In February of 2006, the District entered into a 20-year water supply contract with the City of Edgerton, Kansas (Edgerton). Under the agreement, the District is required to sell water (not to exceed 250,000 gallons per day) to Edgerton at rates based on a formula defined in the agreement. Either party may, without cause, terminate the contract as of the 10-year anniversary of the contract upon 24 months prior written notice to the other party.

In February of 2017, the District entered into a 40-year water supply contract with the City of Fontana (Fontana). Under the agreement, the District is required to sell water to Fontana at rates based on a formula defined in the agreement.

7. LEASES

In September 2020, the District entered into an operating lease for office equipment which expires in 2026. Lease expenses totaled $1,680 and $1,680 for the years ended November 31, 2025 and 2024. The future minimum lease payments are as follows:

2026	$ 140
	$ 140

In August 2020, the District agreed to lease part of its property to a tenant under a non-cancelable operating lease through 2040. Future minimum rental income under the lease is as follows:

2026	$ 5,000
2027	5,000
2028	5,000
2029	5,000
2030	5,000
Thereafter	48,333
	$ 73,333

8. EMPLOYEE BENFITS

Defined Benefit Plan

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. Total payroll for employees covered by the System was $1,089,291 and $1,106,638 in 2025 and 2024.

Employees are vested upon hire and are required by state statute to contribute 7% of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The District's monthly contribution rates are defined by the State and ranged from 10.26% to 10.71% and 9.90% to 10.26% in 2025 and 2024. The contribution requirement for the years ended November 30, 2025 and 2024 was $181,577 and $179,225, which consisted of $65,357 and $66,399 from employees and $116,220 and $112,826 from the District.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local

governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

The District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately $972,000 and $907,000 at November 30, 2025 and 2024, respectively, for its proportionate share of the net pension liability.

Deferred Compensation Plan

The District has a 457 deferred compensation plan. Under the Plan the District matches employee contributions at rates from 2.50% to 5.50% depending upon years of service. For the years ended November 30, 2025 and 2024 the District's contribution to the Plan totaled $43,931 and $43,684.

9. ADVANCE BENEFIT UNIT PAYMENTS

Potential customers desiring water service within the District are required to submit an application for a benefit unit along with a deposit for the cost of a benefit unit. Such payments, refundable only if service cannot be provided, totaled $144,000 and $115,000 at November 30, 2025 and 2024.

10. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. The liability for accrued vacation at November 30, 2025 and 2024 amounted to $99,427 and $112,910, respectively.

11. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the Water District. There were no apparent statutory violations during the years ended November 30, 2025 and 2024.

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