

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2

Salina, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

December 31, 2019 and 2018

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
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June 18, 2020

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 years ended December 31, 2019 and 2018, 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

June 18, 2020
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, 2019 and 2018, 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.

Varny & 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, 2019 and 2018

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, 2019. 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 decreased by \$17,700 from December 2018 to 2019. Capital assets decreased \$175,069 between December 2018 and 2019 due to purchases of \$22,296 and an increase in accumulated depreciation of \$197,365. The remaining noncurrent assets increased \$26,797 due to the decrease in Howison Heights receivable and the increase in the bond and note reserves.

Total liabilities decreased \$188,955 from December 2018 to 2019. Current liabilities increased \$13,158 between December 2018 and 2019. Total noncurrent liabilities decreased \$202,113 primarily due to payments on the bonds and loan.

The District's net position increased between December 2018 and 2019 by \$171,255 with a \$20,957 increase in net investment in capital assets, a decrease of \$42,305 for the restriction for the loan and bond reserve, and an increase of \$192,603 in unrestricted net assets.

Water revenues decreased \$48,351 between December 2018 and 2019. Between December 2018 and 2019, total operating expenses increased \$3,340.

The District's operating income was \$168,710, after recognizing depreciation expense of \$197,365, in 2019, compared to operating income of \$220,401, after recognizing depreciation of \$200,308, in 2018.

The District realized net non-operating revenue (expenses) of \$(57,455) in 2019 and \$10,148 in 2018. An increase in bond issuance costs of \$38,002 made up the majority of the non-operating loss in the current year.

Total cash on hand at the end of the year was \$2,293,441 which was an increase of \$181,977 over the cash on hand at December 31, 2018. Ending net position was \$4,387,281 and \$4,216,023 as of December 2019 and 2018, respectively and the change in net position was \$171,255 and \$289,616 for the periods then ended.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2019 and 2018

Required Supplemental Information

ADDITIONAL INFORMATION

In 2019, the District added twelve (12) units, making a total of 975 units. The gallons pumped was 80,111,000 gallons of water; the gallons sold was 61,890,000, which was an annual loss of 14.76%.

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 overestimates gallons usage this happens, and it takes time to work itself out.

The Business Manager prepared the 2019 annual budget, as required by the BYLAWS of the District (see Article 8, Powers and Duties of Directors. Paragraph G). The annual budget for 2019 was presented to the Board of Directors for approval. The Board acted 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.

The District will be adding the Howison Heights and any water service customers that came on after the initial GPS map was done.

The District spoke with Beth Warren in regard to refunding the District's 2009 bond issue. The Board looked into a forward closing option, which would allow the District to lock rate in prior to the stated closing day on the issue. The Board choose to receive the savings yearly rather than a one-time basis. The bids went out and the Board reviewed and considered the bids and found the bid of Cooper Malone McClain, Wichita Kansas as the best bid for the bonds. The Chairman and Secretary were authorized to execute the bid from selling the bonds to the best bidder on the basis of the bid and the term specified in the Notice of Bond Sale. Therefore, a resolution was adopted: A resolution authorizing and providing for the issuance of \$585,000 principal amount of water utility system revenue bonds, Series 2019, of Rural Water District No. 2, Ottawa County, Kansas for the purpose of providing funds to refund a portion of the issuer's outstanding debt obligations; making certain covenants and agreements to provide for the payment and security thereof; authorizing certain other documents and actions in connection therewith.

An individual spoke with the Board of Directors regarding the cost and feasibility of adding 20 water service hookup's and 1 office hookup at the Country View Estates Trailer Park in New Cambria KS. Since this has been an ongoing discussion for many months, the Board invited an attorney to a Board Meeting to inform the Board on the regulations and legal aspects for the water districts. At the January 2020 meeting of the Board the attorney gave his expert advice and the legality on how to handle the furnishing of water to County View Estates. A letter will be sent to Mr. Shank stating the cost. A policy for the provision of water Service to Multi-User Facilities was adapted and a Resolution adopting a policy relating to the provision of water service to multi-user Facilities was approved by the Board

The auditor for the District presented the audit for 2018, which was approved.

The District transfers \$30,000 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.

The Chairman signed an engagement letter with Varney and Associates CPA, LLC Manhattan KS for the 2019 annual audit and with Pottberg, Gassman and Hoffman, Chtd. for accounting services for the District.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2019 and 2018

ADDITIONAL INFORMATION

A communication source has been put in place on how to inform the district customers of emergency situations that occur, and customers need to be informed immediately. For instances such as water boil advisory or water line repair where customers will be out of water. The office of the District will be getting information from all customers and put on an excel sheet. The communication source will be informed of the message and routes to call and they will make a mass phone message to all persons on that list. Also, the office of the District will have email addresses, so that a mass message can be sent also.

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.

FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

STATEMENTS OF NET POSITION

December 31,

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,905,239	\$ 1,767,480
Accounts receivable	17,068	19,935
Howison Heights receivable - Current portion	13,733	14,069
Inventory	11,674	15,658
Total Current Assets	<u>\$ 1,947,714</u>	<u>\$ 1,817,142</u>
Non-Current Assets		
Capital assets - Net of accumulated depreciation	\$ 4,515,469	\$ 4,690,538
Howison Heights receivable - Long term - Net of current portion	43,585	61,006
Certificate of Deposit - Bond Reserve	388,202	343,984
Loan reserve - KDHE	111,260	111,260
Total Non-Current Assets	<u>\$ 5,058,516</u>	<u>\$ 5,206,788</u>
TOTAL ASSETS	<u><u>\$ 7,006,230</u></u>	<u><u>\$ 7,023,930</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 180	\$ -
Accrued interest payable	18,346	15,515
Payroll liabilities	1,468	1,588
Unearned revenue - Customer credits	58,770	54,590
Bonds payable - Current portion	160,000	155,000
Loans payable - Current portion	44,153	43,066
Total Current Liabilities	<u>\$ 282,917</u>	<u>\$ 269,759</u>
Non-Current Liabilities		
Bonds payable (net of discount) - Net of current portion	\$ 1,473,805	\$ 1,631,766
Kansas Public Water Supply loan - Net of current portion	862,227	906,379
Total Non-Current Liabilities	<u>\$ 2,336,032</u>	<u>\$ 2,538,145</u>
Total Liabilities	<u>\$ 2,618,949</u>	<u>\$ 2,807,904</u>
Net Position		
Net investment in capital assets	\$ 1,975,284	\$ 1,954,327
Restricted for bond reserve	100,500	142,805
Restricted for loan reserve	111,260	111,260
Unrestricted	2,200,237	2,007,634
Total Net Position	<u>\$ 4,387,281</u>	<u>\$ 4,216,026</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 7,006,230</u></u>	<u><u>\$ 7,023,930</u></u>

Financial Statements

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,

	2019	2018
OPERATING REVENUES		
Water sales	\$ 713,479	\$ 761,830
OPERATING EXPENSES		
Professional fees	\$ 11,945	\$ 20,084
Repairs and maintenance	52,318	39,182
Salaries	101,798	100,413
Payroll taxes	7,376	7,226
Utilities	40,432	40,832
Insurance	19,971	20,631
Miscellaneous expense	6,008	2,863
Water fees	5,032	6,316
Supplies	10,205	10,942
Contract labor	53,520	60,729
Depreciation	197,365	200,308
Mileage	25,567	21,514
Office supplies	8,731	6,054
IRA contributions	2,972	2,893
Conference and training	642	490
Dues and subscriptions	887	952
Total Operating Expenses	\$ 544,769	\$ 541,429
OPERATING INCOME (LOSS)	\$ 168,710	\$ 220,401
NON-OPERATING REVENUE (EXPENSES)		
Interest income	\$ 44,791	\$ 27,915
Other income	15,064	78,652
Service fee on loan	(1,564)	(4,840)
Bond issuance costs	(38,002)	-
Interest expense	(77,744)	(91,579)
TOTAL NON-OPERATING REVENUES AND EXPENSES	\$ (57,455)	\$ 10,148
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ 111,255	\$ 230,549
CONTRIBUTIONS		
Capital contributions from members	60,000	59,067
CHANGE IN NET POSITION	\$ 171,255	\$ 289,616
NET POSITION - BEGINNING	4,216,026	3,926,410
NET POSITION - ENDING	\$ 4,387,281	\$ 4,216,026

Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 738,283	\$ 784,224
Cash payments to suppliers for goods and services	(170,174)	(163,661)
Cash payments to employees and professional contractors for services	(170,355)	(184,292)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 397,754</u>	<u>\$ 436,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>\$ 44,791</u>	<u>\$ 27,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	\$ (22,296)	\$ (32,986)
Capital contributions	60,000	59,067
Payments on long-term debt	(781,026)	(187,985)
Proceeds from long-term debt	585,000	137,583
Change in reserves	(44,218)	(24,056)
Other capital activities	15,064	78,652
Bond issuance costs	(38,002)	-
Interest and service fees paid on long-term debt	(79,308)	(96,419)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>\$ (304,786)</u>	<u>\$ (66,144)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 137,759	\$ 398,042
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,767,480</u>	<u>1,369,438</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,905,239</u></u>	<u><u>\$ 1,767,480</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 168,710	\$ 220,401
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	197,365	200,308
(Increase) Decrease in accounts receivables	2,867	(1,262)
(Increase) Decrease in other receivables	17,757	17,091
(Increase) Decrease in inventory	3,984	(6,768)
Increase (Decrease) in accounts payables	180	-
Increase (Decrease) in accrued interest	2,831	109
Increase (Decrease) in payroll liabilities	(120)	(173)
Increase (Decrease) in unearned revenue	4,180	6,565
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 397,754</u></u>	<u><u>\$ 436,271</u></u>

Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018.

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, 2019 and 2018

Notes to Financial Statements

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, 2019

At December 31, 2019, the carrying amount of the District's deposits, including certificates of deposit, was \$2,293,441 and the bank balance was \$2,300,715. The bank balance was held by six banks which did not result in a concentration of credit risk. Of the bank balance, \$1,245,672 was covered by federal depository insurance and \$1,055,043 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

December 31, 2018

At December 31, 2018, the carrying amount of the District's deposits, including certificates of deposit, was \$2,111,464 and the bank balance was \$2,106,386. The bank balance was held by six banks which did not result in a concentration of credit risk. Of the bank balance, \$1,261,827 was covered by federal depository insurance and \$844,559 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, 2019 and 2018

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Capital Assets Not Being Depreciated				
Construction in process	\$ -	\$ -	\$ -	\$ -
Other Capital Assets				
Engineering costs	\$ 149,699	\$ -	\$ -	\$ 149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	291,180	-	-	291,180
Distribution system	7,314,493	22,296	-	7,336,789
Total Other Capital Assets	<u>\$ 7,766,986</u>	<u>\$ 22,296</u>	<u>\$ -</u>	<u>\$ 7,789,282</u>
Less: Accumulated Depreciation				
Engineering costs	\$ 79,012	\$ 3,742	\$ -	\$ 82,754
Office equipment	11,180	186	-	11,366
Water wells and easements	80,601	7,167	-	87,768
Distribution system	2,905,655	186,270	-	3,091,925
Total Less: Accumulated Depreciation	<u>\$ 3,076,448</u>	<u>\$ 197,365</u>	<u>\$ -</u>	<u>\$ 3,273,813</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 4,690,538</u>	<u>\$ (175,069)</u>	<u>\$ -</u>	<u>\$ 4,515,469</u>
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets at cost	7,766,986	22,296	-	7,789,282
Total Cost of Capital Assets	<u>\$ 7,766,986</u>	<u>\$ 22,296</u>	<u>\$ -</u>	<u>\$ 7,789,282</u>
Less: Accumulated depreciation	(3,076,448)	(197,365)	-	(3,273,813)
CAPITAL ASSETS - NET	<u>\$ 4,690,538</u>	<u>\$ (175,069)</u>	<u>\$ -</u>	<u>\$ 4,515,469</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

Note 3: Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
Capital Assets Not Being Depreciated				
Construction in process	\$ -	\$ -	\$ -	\$ -
Other Capital Assets				
Engineering costs	\$ 149,699	\$ -	\$ -	\$ 149,699
Office equipment	11,614	-	-	11,614
Water wells and easements	291,180	-	-	291,180
Distribution system	7,281,508	32,985	-	7,314,493
Total Other Capital Assets	<u>\$ 7,734,001</u>	<u>\$ 32,985</u>	<u>\$ -</u>	<u>\$ 7,766,986</u>
Less: Accumulated Depreciation				
Engineering costs	\$ 75,270	\$ 3,742	\$ -	\$ 79,012
Office equipment	10,848	332	-	11,180
Water wells and easements	73,434	7,167	-	80,601
Distribution system	2,716,589	189,066	-	2,905,655
Total Less: Accumulated Depreciation	<u>\$ 2,876,141</u>	<u>\$ 200,307</u>	<u>\$ -</u>	<u>\$ 3,076,448</u>
OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION	<u>\$ 4,857,860</u>	<u>\$ (167,322)</u>	<u>\$ -</u>	<u>\$ 4,690,538</u>
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets at cost	7,734,001	32,985	-	7,766,986
Total Cost of Capital Assets	<u>\$ 7,734,001</u>	<u>\$ 32,985</u>	<u>\$ -</u>	<u>\$ 7,766,986</u>
Less: Accumulated depreciation	(2,876,141)	(200,307)	-	(3,076,448)
CAPITAL ASSETS - NET	<u>\$ 4,857,860</u>	<u>\$ (167,322)</u>	<u>\$ -</u>	<u>\$ 4,690,538</u>

Notes to Financial Statements

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 4: Long-Term Debt

	Beginning Balance	Issued	Retired	Ending Balance
State Water Supply Loan - 2855	\$ 815,405	\$ -	\$ 37,333	\$ 778,072
State Water Supply Loan - 2911	134,041	-	5,733	128,308
Revenue Bonds - 2009	630,000	-	630,000	-
Revenue Bonds - 2012	365,000	-	70,000	295,000
Revenue Bonds - 2013	815,000	-	40,000	775,000
Revenue Bonds - 2019	-	585,000	-	585,000
Total	\$ 2,759,446	\$ 585,000	\$ 783,066	\$ 2,561,380

Long-term debt consists of the following at December 31, 2019 and 2018:

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.

	2019	2018
	\$ 778,072	\$ 815,405

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 total loan was \$196,546. There was principal forgiveness of \$58,964. The interest rate is 1.56% with payments of \$4,133 per month that began February 1, 2018. Through 2018, the District received total loan disbursements of \$196,545, of which \$176,890 was deposited in the District's accounts to cover expenses incurred and \$19,655 was applied to the loan reserve which is held at KDHE.

128,308 134,041

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. These bonds were paid off in 2019 as part of the 2019 bond issuance.

- 630,000

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.

295,000 365,000

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
 Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

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>2019</u>	<u>2018</u>
775,000	815,000

On September 4, 2019, the District issued \$585,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2019 with effective interest rates ranging from 2.75% to 3.00%. The new bond issue refinance the 2009 bonds. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2020 and maturing in 2029.

<u>585,000</u>	<u>-</u>
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TOTAL LONG-TERM DEBT

\$ 2,561,380	\$ 2,759,446
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Less: Current portion of long-term debt

(204,153)	(198,066)
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Less: Unamortized bond discount

<u>(21,195)</u>	<u>(23,235)</u>
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NET LONG-TERM DEBT

<u><u>\$ 2,336,032</u></u>	<u><u>\$ 2,538,145</u></u>
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RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Note 4: Long-Term Debt (Continued)

Maturities of long-term debt are as follows:

Year Ended December 31, 2019	Principal	Interest	Service Fee	Total
2020	\$ 204,153	\$ 74,958	\$ 3,124	\$ 282,235
2021	215,325	65,981	2,968	284,274
2022	221,469	60,521	2,838	284,828
2023	222,642	54,473	2,744	279,859
2024	153,845	48,559	2,477	204,881
2025 - 2029	858,376	177,607	9,716	1,045,699
2030 - 2034	573,402	60,184	4,837	638,423
2035 - 2039	112,168	2,586	448	115,202
Total	\$ 2,561,380	\$544,869	\$ 29,152	\$ 3,135,401

Year Ended December 31, 2018	Principal	Interest	Service Fee	Total
2019	\$ 198,066	\$ 85,885	\$ 3,276	\$ 287,227
2020	204,209	81,048	3,124	288,381
2021	210,325	75,493	2,968	288,786
2022	216,469	69,584	2,838	288,891
2023	222,642	63,085	2,744	288,471
2024 - 2028	831,884	228,557	10,620	1,071,061
2029 - 2033	701,040	84,324	5,862	791,226
2034 - 2038	174,811	5,898	995	181,704
Total	\$ 2,759,446	\$693,874	\$ 32,427	\$ 3,485,747

Total interest incurred and expensed in 2019 and 2018 was \$77,744 and \$91,579, respectively.

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 2019 and 2018 was \$8,453 and \$775, respectively.

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 2019 and 2018 was \$1,267. 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 2019 and 2018 was \$769. A bond reserve account of \$64,242 is required to be maintained for the 2012 and 2013 bonds. \$84,450 and \$168,183 is segregated as a Certificate of Deposit at Bennington State Bank, respectively.

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2019 and 2018

Notes to Financial Statements

Note 4: Long-Term Debt (Continued)

2019 Bonds Payable Information:

Issuance costs of \$24,951 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$8,775 which is amortized and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2019 and 2018 was \$325 and \$0, respectively. A bond reserve account of \$36,258 is required to be maintained for the 2019 bonds.

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, 2019	December 31, 2018
Debt service ration calculation for the year ending		
Change in net position	\$ 171,255	\$ 289,616
Interest expense	77,744	91,579
Depreciation	197,365	200,308
Less: Capital contributions	(60,000)	(59,067)
Total Revenue Available for Debt Service	\$ 386,364	\$ 522,436
Debt service payments	\$ 232,374	\$ 254,344
Debt Service Ratio	1.66	2.05

Note 6: Howison Heights Receivable

During 2017, the District entered an agreement to purpose 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,

	2019	2018
2019	\$ -	13,926
2020	13,584	14,639
2021	14,279	15,388
2022	15,010	16,175
2023	14,445	14,947
	\$ 57,318	\$ 75,075

The minimum interest receivables are as follows for December 31,

	2019	2018
2019	\$ -	\$ 4,274
2020	2,616	3,571
2021	1,921	2,833
2022	1,190	2,057
2023	422	1,242
	\$ 6,149	\$ 13,977

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS
Salina, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

Notes to Financial Statements

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 \$58,770 at December 31, 2019 and \$54,590 at December 31, 2018.

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 2019, the District contributed \$2,972 and in 2018, \$2,893 to the retirement plan. The IRAs are with American Funds.

Note 11: 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 12: 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 13: Subsequent Events

Management has evaluated subsequent events through June 18, 2020, which is the date the financial statements were available for issuance.

SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 2 OTTAWA COUNTY, KANSAS

Salina, Kansas

BUDGET REPORT - CASH BASIS

For the Year Ended December 31, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Water revenues	\$ 763,019	\$ 713,479	\$ (49,540)
OPERATING EXPENSES			
Professional fees	\$ 11,630	\$ 11,945	\$ 315
Repairs and maintenance	40,000	52,318	12,318
Salaries	102,000	101,798	(202)
Payroll taxes	7,800	7,376	(424)
Utilities	47,800	40,432	(7,368)
Insurance	17,036	19,971	2,935
Miscellaneous expense	3,700	6,008	2,308
Water fees	4,815	5,032	217
Supplies	14,000	10,205	(3,795)
Contract labor	65,000	53,520	(11,480)
Depreciation	199,734	197,365	(2,369)
Mileage	29,000	25,567	(3,433)
Office supplies	6,000	8,731	2,731
IRA contributions	8,277	2,972	(5,305)
Conference and training	500	642	142
Dues and subscriptions	1,000	887	(113)
Total Operating Expenses	<u>\$ 558,292</u>	<u>\$ 544,769</u>	<u>\$ (13,523)</u>
DEBT RETIREMENT			
Bond principal	\$ 200,803	\$ 110,000	\$ (90,803)
Bond interest	87,268	68,796	(18,472)
Loan principal	-	43,066	43,066
Loan interest	-	20,584	20,584
Total Expenditures	<u>\$ 288,071</u>	<u>\$ 242,446</u>	<u>\$ (45,625)</u>
OTHER INCOME (EXPENSES)			
Interest income	\$ 32,000	\$ 44,791	\$ 12,791
Other income	14,000	15,064	1,064
Service fee on loan	-	(1,564)	(1,564)
Bond issuance costs	-	(38,002)	(38,002)
Capital improvements	-	22,296	22,296
Total Other Income (Expense)	<u>\$ 46,000</u>	<u>\$ 42,585</u>	<u>\$ (3,415)</u>
INCREASE (DECREASE) IN CASH	<u>\$ (37,344)</u>	<u>\$ (31,151)</u>	<u>\$ 6,193</u>