RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Regulatory Basis Financial Statement,
Independent Auditors' Report,
Regulatory-Required Supplementary Information,
For the Year Ended December 31, 2021

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

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Diehl
Banwart
Bolton
Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors and management
Rural Water District #2, Inc.
Linn County, Kansas

Adverse and Unmodified Opinions
We have audited the accompanying summary statement of receipts, expenditures, and unencumbered cash, regulatory basis of Rural Water District, #2, Inc., Linn County, Kansas, as of and for the year ended December 31, 2021 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 for 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, 2021 or changes in financial positions 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, 2021 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 audit 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.

Management's Responsibility for the Financial Statements
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 to meet the financial reporting requirements of the State of Kansas. 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.

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

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)
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.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash, regulatory basis (basic financial statement) as a whole. The schedule of receipts and expenditures-actual, regulatory basis (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is 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.

The 2020 Actual column presented in the schedule of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2020 basic financial statement upon which we rendered an unmodified opinion dated February 4, 2021. The 2020 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link http://admin.ks.gov/offices/chief-financial-officer/municipal-services. Such 2020 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2020 basic financial statement. The 2020 comparative information was subjected to the auditing procedures applied in the audit of the 2020 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 2020 basic financial statement or to the 2020 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 2020 comparative information is fairly stated in all material respects in relation to the 2020 basic financial statement as a whole, on the basis of accounting described in Note 1.

Diehl, Banwart, Bolton, CPAs, PA

DIEHL, BANWART, BOLTON, CPAs PA

February 10, 2022

Fort Scott, Kansas

RURAL WATER DISTRICT #2, INc.
LINN COUNTY, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered cash Balances
Regulatory Basis
For the Year Ended December 31, 2021

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund:						
Water Utility	$311,289.29	$985,545.07	$768,914.32	$527,920.04	$36,876.58	$564,796.62

Cash in bank - operating checking account	$335,145.49
Cash in bank - other checking accounts	46,736.92
Certificates of Deposit	182,914.21
Totals	$564,796.62

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

RURAL WATER DISTRICT #2, INC.
LINN COUNTY, KANSAS

Notes to Financial Statement
For the Year Ended December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Rural Water District #2, Inc., Linn County, Kansas, has been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization: The Rural Water District #2, Inc., Linn County, Kansas, is located in the eastern part of Linn County, Kansas. The District is a municipal corporation governed by an elected seven-member council. The District purchases treated water from Public Wholesale Water Supply District #13 (PWWSD #13) and sells the water to over 800 rural customers. To continue serving its patrons, the District is dependent upon PWWSD #13 to provide adequate, reasonably priced water.

Reporting Entity
This financial statement presents the Rural Water District #2, Inc., Linn County, Kansas, (primary government). There are no related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation - Fund Accounting
A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following types of funds comprise the financial activities of the Rural Water District #2, Inc., Linn County, Kansas:

Business fund: funds financed in whole or part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory Basis of Accounting and Departures from Accounting Principles Generally Accepted in the United States of America

The 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.

Budgetary Information
Kansas statutes do not require budgets for rural water districts.

Deposits and Investments
Deposits and investments include a money market checking account and certificates of deposit. Kansas statutes permit investment in checking accounts, savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Compensated Absences
The District does not provide sick or vacation benefits beyond the year earned, but pays employees for unused vacation days before year end.

Income Taxes: Rural Water District #2, Inc., of Linn County, Kansas, is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

Termination and Post Employment Benefits
The District does not offer termination or post employment benefits.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes
This financial statement has been prepared in order to show compliance with the cash basis laws and Statutes of the State of Kansas. The District was in apparent compliance with the cash basis laws and Statutes of the State of Kansas.

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statue 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.

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, but has limited the investments to time deposits at the local bank.

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 does not have any "peak periods" designated.

At December 31, 2021, the District's carrying amount of deposits was $564,796.62 and the bank balance was $565,630.35. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $363,315.30 was covered by federal depository and the remaining $202,315.05 was collateralized with securities totaling $395,000.00 held by the pledging financial institutions' agents in the District's name.

4. BENEFIT UNIT DEPOSITS

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. New benefit units totaling $160,987.08 were added during the year.

5. RISK MANAGEMENT

The water 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; employees' health and life; and natural disasters. The water district manages these risks of loss through various insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

6. FIXED ASSETS

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense in the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

Office Equipment and Automobiles	5 Years
Machinery	7 Years
Plant and Equipment	15 to 50 Years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

Fixed Asset	Beginning Balance	Additions	Deletion	Ending Balance
Materials & Construction	$ 2,812,216.72	$ 69,058.20	$ -	$ 2,881,274.92
Office Building	127,329.81	-	-	127,329.81
Plant Equipment	207,379.15	-	(133,348.38)	74,030.77
Engineering Fees	162,607.55	50,579.50	-	213,187.05
Inspection Fees	33,637.09	-	-	33,637.09
Easements	7,020.05	-	-	7,020.05
Automobile	53,370.00	-	(53,370.00)	-
Office Equipment	26,796.82	-	-	26,796.82
Legal & Title	32,480.46	-	-	32,480.46
	$ 3,462,837.65	$ 119,637.70	$ (186,718.38)	$ 3,395,756.97
Accumulated Depreciation	$ (2,280,094.48)	$ (72,243.45)	$ 96,929.87	$ (2,255,408.06)

7. ECONOMIC DEPENDENCY

The District purchases water for resale to District members from PWWSD #13. Water purchased totaled $359,675.56.

8. NOTES PAYABLES

The District had two capital notes that were paid off in 2021. The District has an interim line of credit note with a local financial institution to finance the USDA project to install new lines and add customers as discussed in Note 11 "Subsequent Events." The note is for $2,101,000 and will eventually be paid off with the USDA loan when the project is completed. The line of credit requires monthly interest payments at 1.25% interest. The balance at December 31, 2021 was $59,582.84.

8. NOTES PAYABLES (Continued)

Changes in long-term liabilities for the District for the year ended December 31, 2021, were as follows:

Note	Balances Beginning of Year	Additions/ New Debt	Reductions/ Principal Paid	Balances End of Year	Interest Paid
Long-Term Debt Payable					
Ditch Witch Note	$ 5,982.98	$ -	$ 5,982.98	$ -	$ 317.59
Wells Fargo Note	24,800.85	-	24,800.85	-	1,316.49
Labette Bank					
USDA Interim Fianancing	-	59,582.84	-	59,582.84	-
Total	$ 30,783.83	$ 59,582.84	$ 30,783.83	$ 59,582.84	$ 1,634.08

Current maturities of the loan payable and interest for the next five years and in five-year increments through maturity are as follows:

December 31,	PRINCIPAL	INTEREST	TOTAL
2021	$ 16,243.10	$ 1,201.26	$ 17,444.36
2022	10,810.09	504.11	11,314.20
2023	3,730.64	40.76	3,771.40
2024	-	-	-
2025	-	-	-
TOTAL	$ 30,783.83	$ 1,746.13	$ 32,529.96

9. LONG-TERM OBLIGATIONS

The District entered into a 40 year water purchase contract with PWWSD #13 on July 19, 2005. Litigation with PWWSD #13 was settled during 2016. The District is now obligated to purchase at least 55.2 million gallons of water from PWWSD #13 each year

10. RETIREMENT PLAN

The District matches 50 percent of employees' contributions, up to three percent of the employees' salary, to employees' individual retirement accounts (IRA) with Oppenheimer Financial. The Plan covers full and part time employees who open an IRA with Oppenheimer Financial. The District's contributions for 2021 totaled $2,192.69.

11. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2021 through February 10, 2022, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement, except as follows:

USDA Rural Development Loan

The District has been awarded a USDA Rural Development Loan of $1,516,000 to assist in installing lines and pumps to add numerous customers to the District. The total cost of the project is estimated to be $1,676,000. The loan will be at 1.125% interest with a maturity in 40 years.

The District was awarded an additional USDA Rural development loan of $74,000 for additional work on the project along with a grant for $360,000. The loan will be at 1.375% interest with a 40 year maturity.

The project has began and is expected to be completed by the end of 2022 or early 2023.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT #2, INc.
LINN COUNTY, KANSAS
WATER UTILITY FUND
Schedule of Regulatory Basis Receipts and Expenditures - Actual
For the Year Ended December 31, 2021
With Comparative Actual Amounts for the Year Ended December 31, 2020

	2020 Actual	2021 Actual
Cash Receipts		
Operating Receipts		
Metered water sales	$ 727,867.18	$ 725,752.77
Penalties	14,552.57	16,114.76
Nonoperating Receipts		
Interest income	2,026.94	1,156.36
Miscellaneous income	41,510.49	21,951.26
Proceeds from notes payable	-	59,582.84
Benefit Unit deposits	43,400.00	160,987.08
Total Cash Receipts	829,357.18	985,545.07
Expenditures		
Operating Expenditures		
Water Purchased	323,341.08	359,675.56
Repairs and maintenance	11,898.94	10,440.09
Operating expenses	69,090.57	156,114.24
Utilities and telephone	7,540.62	6,281.60
Office supplies	11,724.02	10,199.16
Insurance	17,478.00	7,898.36
Salaries	138,066.55	73,089.94
Payroll taxes	11,559.61	7,358.36
Employee benefits	8,027.27	2,192.69
Dues and subscriptions	4,876.30	7,310.45
Professional fees	5,677.50	11,642.50
Water testing	-	-
Mileage and travel	14,793.25	3,064.33
Miscellaneous expense	4,203.76	4,561.43
Nonoperating Expenditures		
Equipment sold	-	(42,970.00)
Principal paid on notes	16,533.39	30,783.83
Interest paid on notes	2,089.65	1,634.08
Capital Outlay additions	50,004.96	119,637.70
Total Expenditures	696,905.47	768,914.32
Receipts Over (Under) Expenditures	132,451.71	216,630.75
Unencumbered Cash, Beginning	178,837.58	311,289.29
Unencumbered Cash, Ending	$ 311,289.29	$ 527,920.04