OSBORNE COUNTY RURAL WATER DISTRICT NO. 2

Osborne County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended February 28, 2023

MAPES & MILLER LLP
Certified Public Accountants
Stockton, Kansas

OSBORNE COUNTY RURAL WATER DISTRICT NO. 2
For the Year Ended February 28, 2023

BOARD OF DIRECTORS

Keith Tatkenhorst – Chairman

Gail Griffin – Vice-President

Ron Murphy – Secretary/Treasurer

Martin Maier

Greg Doty

Rex Schamberger

OSBORNE COUNTY RURAL WATER DISTRICT NO. 2
Osborne County, Kansas
For the Year Ended February 28, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Osborne County Rural Water District No. 2
2610 W 200th Drive
Natoma, KS 67651-9329

Adverse and Unmodified Opinions

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Osborne County Rural Water District No. 2, Osborne County, Kansas as of and for the year ended February 28, 2023 and the related notes to the financial statement.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis 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 Osborne County Rural Water District No. 2, Osborne County, Kansas as of February 28, 2023, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Osborne County Rural Water District No. 2, Osborne County, Kansas as of February 28, 2023, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of *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 Audit of the Financial Statement section of the report. We are required to be independent of the Osborne County Rural Water District No. 2, Osborne County, Kansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements 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 Osborne County Rural Water District No. 2, Osborne County, Kansas 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.

Responsibility of Management for the Financial Statement

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

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Osborne County Rural Water District No. 2, Osborne County, Kansas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit if 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 Osborne County Rural Water District No. 2, Osborne County, Kansas'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt the Osborne County Rural Water District No. 2, Osborne County, Kansas's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and are 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 taken as a whole, on the basis of accounting described in Note 1.

Mapes & Miller LLP

Certified Public Accountants

September 6, 2023
Stockton, Kansas

OSBORNE COUNTY RURAL WATER DISTRICT NO. 2
Osborne County, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
Regulatory Basis
For The Year Ended February 28, 2023

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund:							
Water Utility Fund	$ (369,922) *	$ 2,774	$ 595,202	$ 105,847	$ 122,207	$ 29,599	$ 151,806

COMPOSITION OF CASH:	
Southwind Bank	
Natoma, KS	
Checking Account	$ 151,806

*** See Note 4**

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

OSBORNE COUNTY RURAL WATER DISTRICT NO. 2
Osborne County, Kansas
NOTES TO THE FINANCIAL STATEMENT
For the Year Ended February 28, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The district was organized on May 14, 1984. Osborne County Rural Water District No. 2 was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes. The purpose of the district is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the district, and to others as authorized by the by-laws.

Regulatory Basis Fund Types

The following regulatory basis fund types comprise the financial activities of the district for the year ended February 28, 2023:

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

Regulatory Basis of Accounting and Departure 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.

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 district has no other policies that would further limit interest rate risk.

2. DEPOSITS AND INVESTMENTS (Cont.)

K.S.A. 12-1675 limits the district's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

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%. All deposits were legally secured as of February 28, 2023.

At February 28, 2023, the District's carrying amount of deposits was $151,806 and the bank balance was $162,157. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $162,157 was covered by federal depository insurance.

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

3. KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT LOAN

On February 11, 2020 the district entered into a loan agreement with the Kansas Department of Health and Environment not to exceed $500,000. The interest rate on the loan was set at 1.62% per annum. The loan proceeds were used for new distribution lines, gate valves, flush hydrants, water meters, construction of a new rechlorination building, engineering expense and administrative expenses. The district used $497,509 of the loan proceeds.

Certain loans may be awarded principal forgiveness if the entity is designated as a Disadvantaged Community by the Kansas Department of Health and Environment. The final loan distribution was made on February 17, 2023 the district paid interest and service fee amounts of $672 over the life of the loan with the loan balance of $497,509 being forgiven.

4. COMPLIANCE WITH KANSAS STATUTES

The district had a negative unencumbered cash balance as of February 28, 2022 of $369,922. K.S.A. 12-1664 provides an exception from the cash basis law for funds spent with the expectation of monies to be reimbursed to the district under the conditions of a loan agreement.

The district was not aware of any noncompliance with Kansas statutes.

5. RISK MANAGEMENT

Osborne County Rural Water District No. 2 is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The district continues to carry commercial insurance coverage to cover these risks. The district has had no significant reduction in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

6. VARIOUS AGREEMENTS

LATCF Fund

The district received $20,000 from Osborne County from the LATCF fund. These funds will be used to purchase a telemetry system for the district.

COVID Relief Funds

The district received $43,200 from Osborne County from their COVID Relief Funds. This money will be used to purchase a Jet Mixer and a south master leak detection meter.

7. SUBSEQUENT EVENTS

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

OSBORNE COUNTY RURAL WATER DISTRICT NO. 2

REGULATORY-REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED FEBRUARY 28, 2023

OSBORNE COUNTY WATER DISTRICT NO. 2
Osborne County, Kansas
BUSINESS FUND **Schedule 1**
SCHEDULE OF RECEIPTS AND EXPENDITURES
Regulatory Basis
For The Year Ended February 28, 2023

WATER UTILITY FUND

Receipts:		
Operating Receipts		
Water Sales	$	45,275
Minumum Charge		36,128
Benefit Units		4,000
Miscellaneous Income		2,455
Total Operating Receipts		87,858
Non-Operating Income		
Interest Income		169
Grant Income		63,200
KDHE Loan Proceeds		443,975
Total Non-Operating Receipts		507,344
Total Receipts		595,202
Expenditures:		
Water Cost		42,649
Wages		5,163
Audit Expense		4,000
REA		3,827
Maintenance & Insurance		20,151
Water Protection & Social Security Tax		529
State Taxes		53
Contract Labor		1,500
Miscellaneous		5,939
Loan Interest & Administration Expense		536
Machinery & Equipment		21,500
Total Expenditures		105,847
Receipts Over (Under) Expenditures		489,355
Unencumbered Cash, Beginning		(369,922) *
Prior Year Cancelled Encumbrance		2,774
Unencumbered Cash, Ending	$	122,207

*** See Note 4**