Rural Water District No. 2, Dickinson County, Kansas

Financial Statements
As of December 31, 2024 and 2023
and For the Years Then Ended

With Report by Independent Auditors

KIENTZ & PENICK
CPAs, LLC

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KIENTZ & PENICK
CPAs, LLC

To the Board of Directors of
Rural Water District No. 2, Dickinson County, Kansas
804 S. Buckeye
Abilene, KS 67410

July 18, 2025

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Dickinson County (the District), as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Auditing and Accounting Guide*. Our responsibilities under those standards are further described below in the *Auditor's 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 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 audit opinion.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basis financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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.

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Auditor's 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 auditor's 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 834,037	$ 833,049
Accounts receivable	60,052	60,538
Inventory	52,305	43,545
Total Current Assets	946,394	937,132
Noncurrent Assets		
Capital assets, net	2,444,819	2,521,109
Certificate of deposit restricted for bond reserve	35,730	35,477
Cash equivalent restricted for loan reserve	103,772	103,772
Total Noncurrent Assets	2,584,321	2,660,358
Total Assets	$ 3,530,715	$ 3,597,490
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ -	$ 101,302
Accrued liabilities	15,670	15,402
Current portion of bond and loan payables	65,762	64,550
Total Current Liabilities	81,432	181,254
Noncurrent Liabilities		
Bond payable, net of bond discount	215,245	229,788
Loan payable	581,134	631,896
Total Noncurrent Liabilities	796,379	861,684
Total Liabilities	877,811	1,042,938
Net Position		
Net investment in capital assets	1,582,678	1,594,875
Restricted – bond reserve	35,730	35,477
Restricted – loan reserve	103,772	103,772
Unrestricted	930,724	820,428
Total Net Position	2,652,904	2,554,552
Total Liabilities and Net Position	$ 3,530,715	$ 3,597,490

	2024	2023
Operating Revenues		
Water sales	$ 354,717	$ 367,115
Monthly minimums	388,348	385,945
Total Operating Revenues	743,065	753,060
Operating Expenses		
Salaries	185,503	183,860
Payroll taxes	14,269	14,255
Employee benefits	3,710	3,622
Repairs and maintenance	78,971	104,154
Utilities	35,463	30,270
Water purchased	121,803	113,296
Office expense	33,436	15,151
Depreciation	170,043	169,836
Insurance	37,628	30,772
Lab expense	1,981	1,043
Clean water fee	1,695	1,727
Miscellaneous expense	2,543	2,343
Professional fees	14,318	12,089
Training	4,053	3,147
Total Operating Expenses	705,416	685,565
Net Operating Income	37,649	67,495
Nonoperating Revenue (Expense)		
Interest income	25,737	5,694
Other charges	22,241	13,962
Gain on disposal of assets	-	6,665
Interest expense	(18,384)	(24,397)
Debt service fee	(2,342)	-
Other expense	(1,549)	(480)
Total Nonoperating Income	25,703	1,444
Net Income Before Contributions	63,352	68,939
Capital Contributions		
Benefit unit sales	35,000	-
Change in Net Position	98,352	68,939
Net Position – Beginning	2,554,552	2,485,613
Net Position – Ending	$ 2,652,904	$ 2,554,552

	2024	2023
Cash Flows from Operating Activities		
Cash received from customers	$ 743,551	$ 751,600
Cash paid to suppliers	(441,685)	(214,523)
Cash paid to employees	(203,482)	(201,737)
Net Cash Provided by Operating Activities	98,384	335,340
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(93,753)	(238,895)
Payments on long term debt	(64,550)	(63,368)
Other capital activities	20,692	13,482
Change in reserves	(253)	(248)
Interest and service fees paid on bond and loan payables	(20,269)	(23,940)
Capital contributions	35,000	-
Net Cash Used in Capital and Related Financing Activities	(123,133)	(312,969)
Cash Flows from Investing Activities		
Interest income	25,737	5,694
Net Increase in Cash and Cash Equivalents	988	28,065
Cash and Cash Equivalents – Beginning	833,049	804,984
Cash and Cash Equivalents – Ending	$ 834,037	$ 833,049
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net operating income	$ 37,649	$ 67,495
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	170,043	169,836
Gain on disposal of assets	-	6,665
Decrease (increase) in accounts receivable	486	(1,460)
Decrease (increase) in inventory	(8,760)	(8,310)
Increase (decrease) in accounts payable	(101,302)	101,302
Increase (decrease) in accrued liabilities	268	(188)
Net Cash Provided by Operating Activities	$ 98,384	$ 335,340

Note 1: Summary of Significant Accounting Policies

Organization

The Rural Water District No. 2, Dickinson County, Kansas (the District), was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the area of the District. The District is governed by a seven-member board of directors. The following is a summary of the District's significant accounting policies.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District. The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation

Government-wide statements. The *statements of net position* and the *statements of revenues, expenses, and changes in net position* display information about the primary government, the District. These statements show that the financial activities of the overall government business-type activities are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The District reports the following proprietary (business-type enterprise) fund:

Water Fund - This business-type enterprise fund accounts for the operation and maintenance of the water system of the District. All activities and balances of the entity are accounted for in this fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include special assessments, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

Cash and Cash Equivalents

The District considers all highly liquid deposits with original maturities of twelve months or less to be cash and cash equivalents. This includes investments in money market and checking accounts.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts due from customers for water use. All receivables are current and, therefore, due within one year.

Allowance for Doubtful Accounts

The District bills customers monthly. Invoices not paid by the 16th day of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. As most customers pay before they are disconnected and there have been no amounts written off in the past three years. Management has evaluated all receivables and determined that the allowance for doubtful accounts should be $0 as of December 31, 2024 and 2023.

Inventory

Inventory is valued at the lower of cost or market and consists of pipe, valves, meters and other items needed to repair or add water lines.

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 $1,000 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: water distribution system – 40 to 50 years, buildings – 20 to 40 years, machinery and equipment – 5 to 20 years, vehicles – 5 to 7 years, office equipment – 5 to 10 years.

Net Position

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

Net Investment in Capital Assets – 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 net investment in capital assets. 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 does not meet the definition of "restricted" or "net investment in capital assets."

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. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

Income Taxes

The District is a quasi-municipality and, as such, it is not subject to income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1: Summary of Significant Accounting Policies (Continued)

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 capital contribution that was originally recorded.

Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund types used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

Subsequent Events

Management has evaluated subsequent events through July 18, 2025 which is the date the financial statements were available to be issued.

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 fund 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.

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 the District. Kansas statutes require the District's deposit 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%.

December 31, 2024

On December 31, 2024, the District's carrying amount of deposits was $869,767 and the bank balance was $869,767. The bank balance was held by four banks. Of the bank balance, $611,892 was covered by federal depository insurance and $257,875 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

December 31, 2023

On December 31, 2023, the District's carrying amount of deposits was $868,526 and the bank balance was $870,953. The bank balance was held by four banks. Of the bank balance, $550,000 was covered by federal depository insurance and $320,953 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2024 was as follows:

	Balance on December 31, 2023	Additions	Retirements	Balance on December 31, 2024
Nondepreciable Capital Assets				
Construction in progress	$ 183,932	$ -	$ 183,932	$ -
Depreciable Capital Assets				
Water distribution system	5,899,545	274,655	-	6,174,200
Buildings	255,993	-	-	255,993
Machinery and equipment	134,851	3,030	8,085	129,796
Vehicles	118,935	-	-	118,935
Office equipment	28,231	-	-	28,231
Total Depreciable Capital Assets	6,437,555	277,685	8,085	6,707,155
Accumulated depreciation	(4,100,378)	(170,043)	(8,085)	(4,262,336)
Total Depreciable Capital Assets, Net	2,337,177	107,642	-	2,444,819
Capital Assets, Net	$ 2,521,109	$ 107,642	$ 183,932	$ 2,444,819

Capital asset activity for the year ended December 31, 2023 was as follows:

	Balance on December 31, 2022	Additions	Retirements	Balance on December 31, 2023
Nondepreciable Capital Assets				
Construction in progress	$ -	$ 183,932	$ -	$ 183,932
Depreciable Capital Assets				
Water distribution system	5,851,579	47,966	-	5,899,545
Buildings	255,993	-	-	255,993
Machinery and equipment	134,851	-	-	134,851
Vehicles	111,938	6,997	-	118,935
Office equipment	28,231	-	-	28,231
Total Depreciable Capital Assets	6,382,592	54,963	-	6,437,555
Accumulated depreciation	(3,930,542)	(169,836)	-	(4,100,378)
Total Depreciable Capital Assets, Net	2,452,050	(114,873)	-	2,337,177
Capital Assets, Net	$ 2,452,050	$ 69,059	$ -	$ 2,521,109

Note 4: Long-Term Debt

The following is a schedule of long-term debt activity for the year ended December 31, 2024

	Beginning Balance	Additions	Retirements	Ending Balance
Water Revenue Bonds	$ 250,000	$ -	$ 15,000	$ 235,000
Kansas Water Supply Loan	681,446	-	49,550	631,896
Total Long-Term Debt	$ 931,446	$ -	$ 64,550	$ 866,896

The following is a schedule of long-term debt activity for the year ended December 31, 2023

	Beginning Balance	Additions	Retirements	Ending Balance
Water Revenue Bonds	$ 265,000	$ -	$ 15,000	$ 250,000
Kansas Water Supply Loan	729,814	-	48,368	681,446
Total Long-Term Debt	$ 994,814	$ -	$ 63,368	$ 931,446

Long-term debt consists of the following on December 31, 2024 and 2023:

	2024	2023
Water Revenue Bonds. On June 15, 2012, the District issued $420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and mature in 2035.	$ 235,000	$ 250,000
Kansas Water Supply Loan. On December 21, 2011, the District entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) for a Kansas Public Water Supply Loan not to exceed $1,100,742, for the purpose of furnishing a public water supply project. Funding of the loan was provided by the Environmental Protection Agency through a Capitalization Grant for Drinking Water State Revolving Fund. Interest on the loan is 2.43% per annum. The first amendment to the loan agreement was effective September 16, 2014 and established the future payment schedule of the loan. The second amendment to the loan agreement was effective September 2, 2015 and decreased the original loan amount by $63,018 bringing the new loan balance to $1,037,724 and established a revised future payment schedule. Interest payments are due semi-annually on February 1 and August 1 and principal payments are due starting on February 1, 2016 and maturing in 2035.	631,896	681,446
Total Long-Term Debt	866,896	931,446
Less: Current portion of long-term debt	(65,762)	(64,550)
Less: Unamortized bond discount	(4,755)	(5,212)
Long-Term Debt, Net of Current Portion and Discount	$ 796,379	$ 861,684

Note 4: Long-Term Debt (Continued)

Future maturities of long-term debt are as follows:

Due in Year(s)	Principal	Interest	Service Fee	Total
2025	$ 65,762	$ 21,851	$ 2,167	$ 89,780
2026	67,003	20,339	1,989	89,331
2027	73,274	18,801	1,806	93,881
2028	74,577	16,986	1,618	93,181
2029	75,911	15,144	1,426	92,481
2030-2034	405,739	46,045	4,078	455,862
2035	104,630	2,690	170	107,490
Total	$ 866,896	$ 141,856	$ 13,254	$ 1,022,006

The Series 2012 bonds were issued for $420,000, which included a $10,500 discount. This discount is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was $457 of bond amortization expense for each of the years ending December 31, 2024 and 2023.

Note 5: Debt Service Ratio

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25. The following represents the debt service ratio calculation for the years ending December 31,:

	2024	2023
Change in net position	$ 98,352	$ 68,939
Interest expense	18,384	24,397
Depreciation	170,043	169,836
Capital contributions	(35,000)	-
Total Revenue Available for Debt Service	$ 251,779	$ 263,172
Debt service payments	$ 87,421	$ 87,644
Debt service ratio	2.88	3.00

Note 6: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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. The District did not experience losses related to these risks during the years ended December 31, 2024 and 2023.

Note 7: Retirement Plan

The District provides a Savings Investment Match Plan for Employees (SIMPLE IRA) to eligible employees who earn over $5,000 during the year. The District contributes 2% of the employee's annual salary to their SIMPLE IRA. In 2024 and 2023, the District contributed $3,710 and $3,622, respectively, to the retirement plan.

Note 8: Compensated Absences Policy

Sick Leave: The District provides sick leave for their eligible full-time employees at a rate of two days per month. These days may be carried forward to future years up to a maximum of 90 days. If employment is terminated, the sick leave is lost. However, an employee with a 90-day accumulation can elect upon retirement to use sick leave to retire one month early with pay.

Note 8: Compensated Absences Policy (Continued)

Vacation Leave: Upon completion of one year of continuous employment, a regular full-time employee earns vacation days as follows: After one year, five days are earned; after two years, ten days are earned; and, after three years, ten days plus one day for each year of employment after the third year. Employees cannot earn more than three weeks of vacation (15 days per year), in a single year. A maximum of one-half of earned vacation can be carried over to the following calendar year. Employees are paid all earned vacation upon termination of employment. At December 31, 2024 and 2023, the value of accrued vacation was $4,536 and $3,846, respectively and this amount has been reported on the statements of net position as part of accrued liabilities.