

**RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS**

**Financial Statements for the
Years Ended November 30, 2022 and 2021
and Independent Auditors' Report**

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

We have audited the accompanying financial statements of Rural Water District No. 2, Miami County, Kansas (the "District"), which comprise the statements of net position as of November 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of November 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

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

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

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2022 and 2021, KPERS computed and published the net pension liability (NPL) as of June 30, 2021 and 2020, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately \$454,000 and \$640,000 at November 30, 2022 and 2021, respectively.

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern

within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Matter: Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

December 22, 2022

Acord Cox + Scott, LLC

**Rural Water District No. 2
Miami County, Kansas**

Management's Discussion and Analysis

This section of the Rural Water District No. 2, Miami County, Kansas annual financial report presents an analysis of the District's financial performance during the years ended November 30, 2022 and 2021. This information is prepared and presented in conjunction with the annual audited financial reports prepared by the District's independent auditing firm.

Rural Water District No. 2 Financial Overview for 2022

- The District's total assets increased by \$2,259,485 from \$26,370,248 in 2021 to \$28,629,733 in 2022.
- The District's total liabilities increased by \$1,574,434 from \$751,078 in 2021 to \$2,325,512 in 2022.
- The District's revenues from water sales increased by \$506,835 from \$3,226,975 in 2021 to \$3,733,810 in 2022.
- The District's costs and operating expenses increased by \$56,140 from \$3,389,583 in 2021 to \$3,445,723 in 2022.
- The District began construction for the plant expansion to 12 million gallons per day in 2021. Phase 1 of the project is substantially complete. Phase 2 of the project will begin in 2023.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended November 30, 2022 and 2021, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provides information about the types and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Activities and Changes in Net Position exhibit the District's revenues and expenses for the years ended November 30, 2022 and 2021. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash flow resulting from operations, investments and financing activities.

Financial Analysis of the District

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

Net Position

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

Table 1
Condensed Statements of Net Position

	2022	2021	Dollar Change	Percent Change
Current Assets	2,010,686	2,652,863	(642,177)	-24.2%
Noncurrent Assets	5,727,946	5,738,894	(10,948)	-0.2%
Capital Assets, net	20,891,101	17,978,491	2,912,610	16.2%
Total Assets	28,629,733	26,370,248	2,259,485	8.6%
Current Liabilities	364,390	751,078	(386,688)	-51.5%
Long-term Debt	1,961,122	-	1,961,122	100.0%
Total Liabilities	2,325,512	751,078	1,574,434	209.6%
Net assets invested in				
capital assets, net of related debt	18,929,979	17,978,491	951,488	5.3%
Unrestricted	7,374,242	7,640,679	(266,437)	-3.5%
Total Net Position	26,304,221	25,619,170	685,051	2.7%

Total assets increased by \$2,259,485 from \$26,370,248 in 2021 to \$28,629,733 in 2022. This is attributed to capital assets. Capital assets are a net result of all fixed assets, including 2022 additions, less accumulated depreciation.

Total liabilities increased by \$1,574,434 from \$751,078 in 2021 to \$2,325,512 in 2022. This is due to the district drawing on the KPWSLF loan to finance costs related to the plant expansion.

Total net position increased by \$685,051 from \$25,619,170 in 2021 to \$26,304,221 in 2022.

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

	2022	2021	Dollar Change	Percent Change
Operating Revenues	3,733,810	3,226,975	506,835	15.7%
Non-operating Revenues (Expense)	63,235	420,894	(357,659)	-85.0%
Total Revenues	3,797,045	3,647,869	149,176	4.1%
Depreciation Expense	810,143	783,137	27,006	3.4%
Other Operating Expense	2,635,580	2,606,446	29,134	1.1%
Total Expenses	3,445,723	3,389,583	56,140	1.7%
Income (Loss) Before Capital Contributions	351,322	258,286	93,036	36.0%
Capital Contributions	333,729	584,807	(251,078)	-42.9%
Changes in Net Position	685,051	843,093	(158,042)	-18.7%
Beginning Net Position	25,619,170	24,776,077	843,093	3.4%
Total Net Position	26,304,221	25,619,170	685,051	2.7%

The Statements of Revenues, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the District had income before capital contributions of \$351,322, and capital contributions of \$333,729. This resulted in a net increase in net position of \$685,051 for the year ended November 30, 2022.

The District's total operating revenues increased by \$506,835 from \$3,226,975 in 2021 to \$3,733,810 in 2022. Total operating expenses increased by \$56,140 from \$3,389,583 in 2021 to \$3,445,723 in 2022. The major contributor to the increase in revenue was related to increased water sales in 2022.

Additional Financial Information

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

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
NOVEMBER 30, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash	\$ 1,194,108	\$ 1,675,217
Accounts receivable	192,335	159,120
Accounts receivable - wholesale	84,702	75,947
Contract receivables	125,325	431,599
Interest receivable	5,415	1,193
Prepaid expenses	82,891	70,828
Inventory	325,910	238,959
Total current assets	<u>2,010,686</u>	<u>2,652,863</u>
NONCURRENT ASSETS		
Loan reserve fund	196,112	-
Funds designated for capital improvement	1,279,522	1,516,901
Certificates of deposit	4,252,312	4,221,993
Total noncurrent assets	<u>5,727,946</u>	<u>5,738,894</u>
CAPITAL ASSETS		
Nondepreciable capital assets	8,228,286	4,782,384
Depreciable capital assets	31,653,163	31,386,784
Less accumulated depreciation	(18,990,348)	(18,190,677)
Depreciable capital assets, net	12,662,815	13,196,107
Total capital assets, net	<u>20,891,101</u>	<u>17,978,491</u>
Total assets	<u>\$ 28,629,733</u>	<u>\$ 26,370,248</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 138,272	\$ 572,676
Other accrued liabilities	118,825	118,201
Line extension deposit	66,293	2,701
Advance benefit unit payments	41,000	57,500
Total current liabilities	<u>364,390</u>	<u>751,078</u>
LONG-TERM DEBT	<u>1,961,122</u>	<u>-</u>
Total liabilities	<u>2,325,512</u>	<u>751,078</u>
NET POSITION		
Invested in capital assets, net of related debt	18,929,979	17,978,491
Unrestricted	7,374,242	7,640,679
Total net position	<u>\$ 26,304,221</u>	<u>\$ 25,619,170</u>

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2022 AND 2021

	2022	2021
WATER SALES	\$ 3,733,810	\$ 3,226,975
COSTS AND OPERATING EXPENSES:		
Personnel costs	1,161,828	1,085,580
Depreciation and amortization	810,143	783,137
Chemical expense	341,989	289,571
Plant expense	109,959	266,487
Line maintenance	123,262	144,011
Water purchased	158,148	150,171
Water samples	3,873	5,633
Sales and use tax	5,626	4,117
Utilities	329,580	302,654
Contract meter reading	77,244	67,351
Professional services	14,887	20,108
Vehicle upkeep	92,130	75,114
Office supplies	86,418	76,591
Insurance	52,785	55,859
Dues	24,272	16,062
Miscellaneous	33,354	29,016
Water plan tax	10,276	9,353
Bad debts	315	-
Clean drinking water fee	9,634	8,768
	<u>3,445,723</u>	<u>3,389,583</u>
INCOME (LOSS) FROM OPERATIONS	<u>288,087</u>	<u>(162,608)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	53,669	29,695
Interest expense	(10,545)	-
Miscellaneous	15,111	900
Litigation settlement	-	382,510
Gain (loss) on disposal of fixed assets	5,000	7,789
	<u>63,235</u>	<u>420,894</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>351,322</u>	<u>258,286</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>333,729</u>	<u>584,807</u>
INCREASE IN NET POSITION	<u>685,051</u>	<u>843,093</u>
NET POSITION, BEGINNING OF YEAR	<u>25,619,170</u>	<u>24,776,077</u>
NET POSITION, END OF YEAR	<u><u>\$ 26,304,221</u></u>	<u><u>\$ 25,619,170</u></u>

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 4,040,984	\$ 3,053,790
Cash payments to suppliers for goods and services	<u>(3,168,374)</u>	<u>(2,172,422)</u>
Net cash provided by operating activities	<u>872,610</u>	<u>881,368</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of fixed assets	5,000	18,850
Additions to capital assets	(3,722,753)	(3,673,512)
Contributions - Benefit units and aid-in construction	333,729	584,807
Interest paid	(10,545)	-
Advances on long term debt	<u>1,961,122</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(1,433,447)</u>	<u>(3,069,855)</u>
NON-CAPITAL FINANCING ACTIVITIES:		
Other non-operating receipts	<u>15,111</u>	<u>900</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	207,060	(290,277)
Change in reserve funds	(196,112)	-
Interest received	<u>53,669</u>	<u>29,695</u>
Net cash provided by (used in) investing activities	<u>64,617</u>	<u>(260,582)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(481,109)</u>	<u>(2,448,169)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,675,217</u>	<u>4,123,386</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,194,108</u></u>	<u><u>\$ 1,675,217</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 288,087	\$ (162,608)
Adjustments to reconcile operating income (loss)		
to net cash provided by operating activities:		
Depreciation and amortization	810,143	783,137
Litigation settlement	-	382,510
Changes in:		
Accounts receivable	(41,970)	8,368
Contract receivables	306,274	(431,599)
Inventories	(86,951)	(29,616)
Prepaid expenses	(12,063)	(3,072)
Interest receivable	(4,222)	1,785
Accounts payable and accrued liabilities	(433,780)	466,712
Line extension deposits	63,592	(112,249)
Advanced benefit unit payments	<u>(16,500)</u>	<u>(22,000)</u>
Net cash provided by operating activities	<u><u>\$ 872,610</u></u>	<u><u>\$ 881,368</u></u>

RURAL WATER DISTRICT NO. 2

MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2022 AND 2021

1. DESCRIPTION OF ENTITY

- a. Organization and Description of Operations – The Rural Water District (the “District”) was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at November 30, 2022 and 2021 were 3,967 and 3,927.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- c. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers, but not yet received by the District is recorded as accounts receivable and water sales.
- d. Inventories – Inventories consist primarily of meters, line maintenance material, and chemicals. Inventories are stated at the lower of cost or market. During fiscal year 2022, the District changed the method at which cost is determined from the first-in, first-out method to the average cost method.

- e. Capital Assets – The cost of additions to the District’s plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and if applicable, interest on borrowed funds to finance construction. The District did not capitalize interest during the fiscal years 2021 or 2022. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses, and changes in net position.

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

- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members’ costs, which approximate fair value, and recorded as capital contributions when received.
- h. Net Position – Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

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

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

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

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

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2020	Additions	Transfers/ Disposals	2021
Nondepreciable capital assets:				
Land and easements	88,610	1,446	-	90,056
Construction in progress	2,601,712	3,240,897	(1,150,281)	4,692,328
	<u>2,690,322</u>	<u>3,242,343</u>	<u>(1,150,281)</u>	<u>4,782,384</u>
Depreciable capital assets:				
Plant and intake	9,420,779	5,280	843,958	10,270,017
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	18,052,127	-	612,521	18,664,648
Pumps and motors	361,648	11,770	-	373,418
Office furniture and equipment	377,513	1,080	-	378,593
Vehicles	303,227	41,861	(33,168)	311,920
Equipment	259,565	55,846	-	315,411
	<u>29,847,636</u>	<u>115,837</u>	<u>1,423,311</u>	<u>31,386,784</u>
Less accumulated depreciation	<u>(17,438,781)</u>	<u>(783,137)</u>	<u>31,241</u>	<u>(18,190,677)</u>
Depreciable capital assets, net	<u>12,408,855</u>	<u>(667,300)</u>	<u>1,454,552</u>	<u>13,196,107</u>
Total capital assets, net	<u>15,099,177</u>	<u>2,575,043</u>	<u>304,271</u>	<u>17,978,491</u>

	2021	Additions	Transfers/ Disposals	2022
Nondepreciable capital assets:				
Land and easements	90,056	3,695	-	93,751
Construction in progress	4,692,328	3,557,157	(114,950)	8,134,535
	<u>4,782,384</u>	<u>3,560,852</u>	<u>(114,950)</u>	<u>8,228,286</u>
Depreciable capital assets:				
Plant and intake	10,270,017	-	114,950	10,384,967
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	18,664,648	6,771	104,678	18,776,097
Pumps and motors	373,418	3,915	-	377,333
Office furniture and equipment	378,593	20,644	-	399,237
Vehicles	311,920	-	-	311,920
Equipment	315,411	25,893	(10,472)	330,832
	<u>31,386,784</u>	<u>57,223</u>	<u>209,156</u>	<u>31,653,163</u>
Less accumulated depreciation	<u>(18,190,677)</u>	<u>(810,143)</u>	<u>10,472</u>	<u>(18,990,348)</u>
Depreciable capital assets, net	<u>13,196,107</u>	<u>(752,920)</u>	<u>219,628</u>	<u>12,662,815</u>
Total capital assets, net	<u>17,978,491</u>	<u>2,807,932</u>	<u>104,678</u>	<u>20,891,101</u>

In 2021, the District entered into an agreement with the Kansas Department of Transportation (KDOT) to relocate certain water lines (the "Project"). KDOT will reimburse the District for Project costs incurred, not to exceed amounts defined by the agreement. From inception through the year ended November 30, 2022, the District incurred \$2,876,276 of costs related to the project, of which KDOT reimbursed \$1,977,736. As of November 30, 2022 and 2021, unreimbursed expenditures due from KDOT amounted to \$125,325 and \$431,599, which are reported as Contract receivables in the accompanying Statements of

Net Position. Expenditures on the Project that exceed amounts reimbursable under the agreement are funded by the District.

4. CASH AND INVESTMENTS

Deposits – At November 30, 2022 and 2021, the District’s deposits were covered by federal depository insurance or by collateral held by the District’s agent in the District’s name.

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

The District’s investments are categorized as either (1) insured, registered or securities held by the District or its agent in the District’s name, (2) uninsured and unregistered for which the securities are held by the broker’s or dealer’s trust department or agent in the District’s name (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District’s name. The District’s investments at November 30, 2022 and 2021 are summarized below:

	2022		2021		Category
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>	
Investments:					
Certificates of Deposit	\$ 4,252,312	\$ 4,252,312	\$ 4,221,993	\$ 4,221,993	1
Funds Designated for Capital Improvement:					
Money Market Account	\$ 1,279,522	\$ 1,279,522	\$ 1,516,901	\$ 1,516,901	1
Funds Designated for Loan Reserve Fund:					
KPWSLF Reserve Fund	\$ 196,112	\$ 196,112	\$ -	\$ -	1

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2020

In October 2020 the District entered into a loan agreement with the KPWSLF under which the District can borrow up to \$36,265,903 at an interest rate of 1.51% and service fee rate of 1.16%. The loan is payable in semi-annual installments of \$753,877 beginning February 1, 2024, through maturity on August 1, 2053. As of November 30, 2022 and 2021, the outstanding balance of the loan totaled \$1,961,122 and \$0, respectively.

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

	2021	Additions	Payments	2022	Interest Paid
KPWSLF - 3001	\$ -	1,961,122	-	\$ 1,961,122	\$ 10,545

The District is required to establish and fund a reserve account with a balance of at least ten percent of the outstanding loan balance. The balance in the reserve account is \$196,112 and \$0 as of November 30, 2022 and 2021, respectively.

Interest expense on long-term debt totaled \$10,545 and \$0 for the years ended November 30, 2022 and 2021, respectively.

The amortization schedules for the KPWSLF loan have not been finalized as of November 30, 2022, and therefore, a presentation of the future annual debt service requirements has not been included.

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

Debt Service Coverage Calculation:

Income before contributions	\$ 351,322
Add:	
Depreciation and amortization	810,143
Interest expense	<u>10,545</u>
Income available for debt service	<u>\$ 1,172,010</u>
Debt service	
Interest expense	\$ 10,545
Principal payments	<u>-</u>
	<u>\$ 10,545</u>
Debt service coverage ratio	<u>111.14</u>

6. LONG-TERM WATER SUPPLY CONTRACTS AND AGREEMENTS

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

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

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

In January of 2000, the District entered into a 20-year water supply contract with Rural Water District No. 1 (Miami No. 1), Miami County, Kansas. Under the agreement, the District is required to sell water to Miami No. 1 at rates based on a formula defined in the agreement.

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

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

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

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

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

7. LEASES

In September 2020, the District entered into an operating lease for office equipment which expires in 2026. Lease expenses totaled \$1,680 and \$1,680 for the year ended December 31, 2022 and 2021. The future minimum lease payments are as follows:

2023	\$	1,680
2024		1,680
2025		1,680
2026		140
	\$	<u>5,180</u>

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

2023	\$	5,000
2024		5,000
2025		5,000
2026		5,000
2027		5,000
Thereafter		<u>63,333</u>
	\$	<u>88,333</u>

8. EMPLOYEE BENEFITS

Defined Benefit Plan

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. Total payroll for employees covered by the System was \$876,870 and \$745,929 in 2022 and 2021.

Employees are vested upon hire and are required by state statute to contribute 6% of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The District's monthly contribution rates are defined by the State and ranged from 8.87% to 9.90% and 8.87% to 9.87% in 2022 and 2021. The contribution requirement for the years ended November 30, 2022 and 2021 was

\$134,626 and \$115,002, which consisted of \$52,612 and \$44,756 from employees and \$82,014 and \$70,246 from the District.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

The District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately \$454,000 and \$640,000 at November 30, 2022 and 2021, respectively, for its proportionate share of the net pension liability.

Deferred Compensation Plan

The District has a 457 deferred compensation plan. Under the Plan the District matches employee contributions at rates from 2.50% to 5.50% depending upon years of service. For the years ended November 30, 2022 and 2021 the District's contribution to the Plan totaled \$31,768 and \$30,194.

9. ADVANCE BENEFIT UNIT PAYMENTS

Potential customers desiring water service within the District are required to submit an application for a benefit unit along with a deposit for the cost of a benefit unit. Such payments, refundable only if service cannot be provided, totaled \$41,000 and \$57,500 at November 30, 2022 and 2021.

10. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. The liability for accrued vacation at November 30, 2022 and 2021 amounted to \$71,308 and \$87,208, respectively.

11. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is an affiliate of a company that was paid \$10,500 and \$92,000 in 2022 and 2021 for maintenance and construction services.

12. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the Water District. There were no apparent statutory violations during the years ended November 30, 2022 and 2021.

13. LITIGATION SETTLEMENT

In 2021, the District received a \$382,510 litigation settlement from the Liquid Aluminum Sulfate Antitrust Litigation.

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