Rural Water District No. 2
Wabaunsee County, Kansas

Financial Statements

Year Ended December 31, 2022 and 2021

VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Manhattan, Kansas 66502

Rural Water District No. 2
Wabaunsee County, Kansas
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Director
Rural Water District No. 2, Wabaunsee County

Unmodified Opinion

We have audited the accompanying financial statements of Rural Water District No. 2, Wabaunsee County, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in members equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the financial position of Rural Water District No. 2, Wabaunsee County as of December 31, 2022 and 2021, and the results of its operations 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Rural Water District No. 2, Wabaunsee County, 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.

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 the financial statements that is 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 Rural Water District No. 2, Wabaunsee County'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 Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is 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 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 statements.

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 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 Rural Water District No. 2, Wabaunsee County'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 Rural Water District No. 2, Wabaunsee County'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.

Required Supplementary Information

Management has omitted the 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 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. Our opinions on the basic financial statements are not affected by this missing information.

VonFeldt, Bauer & VonFeldt, Chtd.

VONFELDT, BAUER & VONFELDT, CHARTERED
Certified Public Accountants
Manhattan, Kansas

September 15th, 2023

Rural Water District No. 2
Wabaunsee County, KS
Balance Sheet
December 31, 2022 and 2021

	2022		2021	
Assets				
Current Assets				
Cash and Cash Equivalents		$ 338,577.81		$ 204,177.32
Accounts Receivable - Trade and Other		48,856.33		2,766.84
A/R Prairie South Addition - Current Portion		8,475.48		8,475.48
A/R Kaw Project - Current Portion		9,324.72		9,324.72
A/R Newburry Addition - Current Portion		4,587.12		4,587.12
Investments - Other		420,176.08		417,442.33
Inventories		35,386.05		27,254.07
Total Current Assets		865,383.59		674,027.88
Noncurrent Assets				
A/R Prairie South Additon - Net of Current Portion		112,679.10		123,219.12
A/R Kaw Project - Net of Currrent Portion		77,834.42		89,317.64
A/R Newburry Addition - Net of Current Portion		28,046.90		32,940.62
Property, Plant and Equipment				
Buildings, Standpipes, Telementary	705,284.95		627,584.95	
Land	83,946.00		83,946.00	
Office Furniture & Equipment	26,278.26		26,278.26	
Skid #3	222,475.00		222,475.00	
Tank Project	199,588.00		199,588.00	
Vehicles	21,783.00		21,783.00	
Water System - Newbury	91,542.00		91,542.00	
Water System - Kaw	218,938.00		218,938.00	
Water System Phase 1	1,877,150.00		1,877,150.00	
Water System Phase 2	2,516,459.00		2,427,463.00	
Water System Phase 3	1,217,620.00		1,217,620.00	
Water System Prairie South	176,864.00		176,864.00	
Well #1 Project	49,878.00		49,878.00	
Well #2 Project	59,492.32		59,492.32	
Accumulated Depreciation	(4,423,587.66)		(4,222,433.44)	
Net Property, Plant and Equipment		3,043,710.87		3,078,169.09
Total Noncurrent Assets		3,262,271.29		3,323,646.47
Total Assets		$ 4,127,654.88		$ 3,997,674.35

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

Rural Water District No. 2
Wabaunsee County, Kansas
Balance Sheet
December 31, 2022 and 2021

	2022	2021
Liabilities and Members' Equity		
Current Liabilities		
Accounts Payable - Trade	$ 98,879.87	$ 9,940.00
Interest Payable	4,032.00	5,120.00
Unearned Revenues	2,057.53	1,153.86
Payroll Liabilities	3,593.48	3,081.52
Current Portion of Bond	173,000.00	170,000.00
Total Current Liabilities	281,562.88	189,295.38
Long term Liabilities		
Bond - Net of Current Portion	457,000.00	630,000.00
	457,000.00	630,000.00
Total Liabilities	738,562.88	819,295.38
Members' Equity		
Retained Earnings	3,178,378.97	3,099,504.73
Net Income (Loss)	210,713.03	78,874.24
Total Members' Equity	3,389,092.00	3,178,378.97
Total Liabilities and Members' Equity	$4,127,654.88	$ 3,997,674.35

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

Rural Water District No. 2
Wabaunsee County, Kansas
Statement of Operations
For the Year Ended December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Sale of Water	$ 593,084.73	$ 558,214.39
Members Contributions	154,420.00	57,000.00
Reimbursements	39,947.43	76,733.86
Miscellaneous Income	1,385.82	5,446.05
Total Operating Revenues	788,837.98	697,394.30
Operating Expenses		
Salaries	141,754.03	135,682.94
Engineering	4,035.60	3,122.50
Depreciation	201,154.22	190,720.69
Testing	641.38	987.00
Insurance	16,546.52	20,264.05
Bank Charges and Fees	37.40	3,810.00
Legal and Accounting	6,110.45	5,685.00
Mileage	2,339.48	1,904.01
Miscellaneous	5,500.06	9,177.55
Office Supplies	3,921.11	9,927.99
Printing and Postage	6,552.45	6,169.51
Payroll Tax	10,540.09	10,280.41
Health Insurance	7,304.60	5,579.64
Retirement	2,441.89	2,463.74
Reimbursed Expenses	8,120.52	17,218.00
Maintenance and Repairs	34,267.54	57,613.04
Sales Tax	13,009.10	15,168.25
Supplies	13,353.47	13,097.52
Travel, Conference, Memberships	3,905.29	3,603.09
Telephone	4,121.35	4,177.57
Electric	78,041.93	76,057.85
Vehicle Expense	4,079.62	4,953.64
Total Operating Expenses	567,778.10	597,663.99
Income (Loss) from Operations	221,059.88	99,730.31
Other Income (Expenses)		
Interest Income	3,925.15	6,267.77
Interest Expense	(14,272.00)	(17,560.09)
Loss of Disposition of Assets	0.00	(9,563.75)
Total Other Income (Expenses)	(10,346.85)	(20,856.07)
Net Income (Loss)	$ 210,713.03	$ 78,874.24

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

Rural Water District No. 2
Wabaunsee, Kansas
Statements of Changes in Members' Equity
December 31, 2022 and 2021

	Total
Members' Equity Balance as Restated on December 31, 2020	$ 3,099,504.73
Net Income (Loss)	78,874.24
Members' Equity Balance at December 31, 2021	3,178,378.97
Net Income (Loss)	210,713.03
Members Equity Balance at December 31, 2022	$ 3,389,092.00

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

Rural Water District No. 2
Wabaunsee County, Kansas
Statement of Cash Flows
December 31, 2022 and 2021

	2022	2021
Cash Flow From Operating Activities		
Net Income (Loss)	$ 210,713.03	$ 78,874.24
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	201,154.22	190,720.69
(Gain) Loss on Sale of Asset	0.00	9,563.75
(Increase) Decrease in Assets:		
Accounts Receivables	(19,172.53)	24,176.69
Inventory	(8,131.98)	3,939.45
Investments - Other	(2,733.75)	(5,566.30)
Increase (Decrease) in Liabilities:		
Accounts Payable - Trade	88,939.87	(953.89)
Interest Payable	(1,088.00)	(1,068.80)
Unearned Revenue	903.67	(2,346.78)
Payroll Liabilities	511.96	(844.18)
Net Cash Provided By (Used In) Operating Activities	471,096.49	296,494.87
Cash Flow From Investing Activities		
Purchase of Fixed Assets	(166,696.00)	(140,692.10)
Proceeds from Sale of Fixed Assets	0.00	0.00
Net Cash Provided By (Used In) Investing Activities	(166,696.00)	(140,692.10)
Cash Flow From Financing Activities		
Principal Payments on Bonds	(170,000.00)	(167,000.00)
Net Cash Provided By (Used In) Financing Activities	(170,000.00)	(167,000.00)
Net Increase (Decrease) in Cash	134,400.49	(11,197.23)
Cash at Beginning of Year	204,177.32	215,374.55
Cash at End of Year	$ 338,577.81	$ 204,177.32
Supplemental Cash Flow Information:		
Cash Payments Made for Interest	$ 14,272.00	$ 17,560.09

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

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Rural Water District No. 2, Wabaunsee County (the District) is located in Wabaunsee County, Kansas and is organized and established under the provisions of K.S.A 82a-612 of the Kansas Statutes. The District is a quasi-governmental governed by an elected seven-member board. The District provides for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District. The District has no legally separate organizations for which elected officials of the District are financially accountable or for which exclusion from these financial statements would cause them to be misleading or incomplete.

Basis of Accounting

The financial statements of the District are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all significant receivables, payables and other liabilities, accordingly.

Estimates

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers cash equivalents to include cash and all highly liquid debt instruments having original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable represents deposits made by customers during the following January plus estimated amounts due on delinquent accounts. The water district takes a reading of customer's water meters on the first day of each month and bills the customer by the fifth day of the month. Customers then remit payment for prior month's water usage to the District no later than the 16th day of the month. Late charges, debt service fees and other fees are included in the sale of water. Meter amounts are verified by the District staff annually. If customer accounts become a month or more overdue, customers are issued a final notice and have to appear at hearing at the next board meeting. If payment is not received in full including 10% interest by that board meeting, water supply is shut off. Accounts receivable over 45 days totaled $0 for December 31, 2022 and 2021. An allowance for receivables is computed based upon the likelihood of future uncollectible accounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. For the year ended December 31, 2022 and 2021 management considered all accounts fully collectible.

Accounts Receivable - KAW Project

In 2013, the District entered into an agreement with 9 residents that currently lived outside of the District's water system. The agreement stated the District would pay the upfront costs to annex these residents into the District and the residents will pay the District back for a portion of the costs. The District engaged Bartlett and West to bid the project. The total cost of the project was bid at $192,256 with the residents responsible for $165,781 of the total cost. This balance will be paid by the residents in monthly costs over 20 years. There is no interest being collected on this receivable. Because the residents agreed to pay as a group, the District feels that there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

Note 1 – Summary of Significant Accounting Policies, continued

Accounts Receivable – KAW Project, continued

The minimum amount due in future years as of December 31st for the Kaw Project is as follows:

Year Ended December 31st	Amount Due
2023	$9,324.72
2024	9,324.72
2025	9,324.72
2026	9,324.72
2027	9,324.72
Thereafter	40,535.54
Totals	**$87,159.14**

Accounts Receivable – Prairie South Project

In 2016, the District entered into an agreement with 13 residents that currently lived outside of the District's water system. The agreement stated District would pay the upfront costs of the project to annex the residents into the District and the residents will pay the District back for the costs. The District engaged Bartlett and West to bid the contract at a total cost of $169,498.25. The residents are responsible for the entire project cost. This balance will be paid by the residents in monthly installments over 20 years. There is no interest being collected on the receivable. Because the residents of the new addition agreed to pay as a group, the District feels there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

The minimum amount due in future years as of December 31st for the Prairie South Project is as follows:

Year Ended December 31st	Amount Due
2023	$8,475.48
2024	8,475.48
2025	8,475.48
2026	8,475.48
2027	8,475.48
Thereafter	78,777.18
Totals	**$121,154.58**

Accounts Receivable – Newbury Project

In 2010, the District entered into an agreement with 22 residents that currently live outside of the District's water system. The agreement stated that the District would pay the upfront costs to annex the residents into the District and the residents will pay the District back for the costs. The District engaged Bartlett and West to bid the contract at a total cost of $133,800. The residents are responsible for the entire project cost. This balance will be paid by the residents in monthly installments over 20 years. There is no interest being collected on the receivable. Because the residents of the new addition agreed to pay as a group, the District feels there is no need to calculate an allowance for bad debt as it is extremely unlikely that all of the residents would default.

The minimum amount due in future years as of December 31st for the Newbury Project is as follows:

Year Ended December 31st	Amount Due
2023	$4,587.12
2024	4,587.12
2025	4,587.12
2026	4,587.12
2027	4,587.12
Thereafter	9,698.42
Totals	**$32,634.02**

Note 1 – Summary of Significant Accounting Policies, continued

Advertising

The District expenses advertising costs when they are incurred. Advertising expense totaled $0.00 for the year ended December 31, 2022 and 2021.

Compensated Absences

Employees of the District were entitled to PTO depending on length of service and other factors. All accumulated PTO can be carried over to the subsequent year. Employees are not required to be reimbursed for unused PTO upon termination. Since PTO is paid out at end of employment at management discretion, no accrual is necessary.

Property and Equipment

Property and equipment is recorded at cost. The District's threshold for capitalization is $2,500. Depreciation is computed using the straight-line method based on estimated useful lives of the related assets ranging from five to thirty-nine years.

Ordinary maintenance and repairs of property and equipment are charged to operations when incurred. Upon retirement, sale or other disposition of property and equipment, the cost and related accumulated depreciation are eliminated from the account and any resulting gain or loss is included in operations.

Depreciation expense for the years ended December 31, 2022 and 2021 totaled $201,154.22 and $190,720.69 respectively.

Impairment of Long-Lived Assets

The District reviews long lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. No impairment loss was recognized for the years ended December 31, 2022 and 2021.

Prepaid Customer Accounts

Prepaid customer accounts are comprised of overpayments by water customers as of December 31, 2022. Such overpayments represent unearned revenue and are classified as a current liability. Prepaid customer accounts at December 31, 2022 and 2021 totaled $2,057.53 and $1,153.86 respectively.

Date of Management's Review

Management has evaluated subsequent events through September 15th, 2023, the date on which the financial statements were available to be issued.

In February 2023, the district closed out a CD at Stockgrowers Bank in the amount of $80,419.65 and used that money to open a new 1-year CD at KS State Bank with a 4.37% interest rate.

In May 2023, the district approved the Larson Construction bid of $320,086.00 for the Phillips Creek Rd. water pipeline project.

Note 1 – Summary of Significant Accounting Policies, continued

Inventories

Inventory consists primarily of parts and supplies and are stated at the lower of cost (first in, first out) or market.

Note 2 – Uninsured Cash

The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to $250,000. When balances regularly exceed the FDIC coverage limit, pledged securities can be obtained to increase the coverage limit. As of December 31, 2022 and 2021, the District had balances of $0.00 and $40,766.95, respectively, in excess of the secured coverage limits. There may also be times during the year that the District's balances are in excess of the secured coverage limit.

Note 3 – Compliance with Kansas Statutes

Management is not aware of any statutory violations for the period covered by the audit.

Note 4 – Investments – Other

Certificates of deposit held for investment that are not debt securities are included in "investments-other". Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short term investments. The District held certificates of deposits at December 31, 2022 and 2021 totaling $420,176.08 and $417,442.33 respectively, bear interest at rates ranging from 0.74% to 2.75% and have remaining maturities ranging from six months to one year, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 5 – Risk Management

The District is exposed to various risks of loss related to torts; theft of; damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years.

Note 6 – Related Parties

All District board members are also water benefit unit owners and customers.

Note 7 – Sales Tax

Sales tax is imposed on the District by Wabaunsee County in the State of Kansas. The District collects that sales tax from water customers and remits the entire amount to the State. The District's policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Note 8 - Revenue from Contracts with Customers

Revenue is measured based on the sale of water, which establishes a contract with District customers. All customers reside in the District. The District also has a wholesale contract to serve the City of Paxico. The District recognizes revenue when it satisfies its performance obligation, i.e. when water is available and use of water occurs. A transaction price of $6.50 per thousand gallons of water used is charged upon water usage as well as a minimum fee of $35 per customer per month. Sale of water occurs at the point of time when water is used and totaled $593,084.73 and $558,214.39 as of December 31, 2022 and 2021 respectively.

Note 9 – Long-Term Debt

Changes in long-term liabilities for the District for the year ended December 31, 2022, were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Maturity	Beginning Balance 1/1/2022	Additions	Reductions/ Payments	Net Change	Ending Balance 12/31/2022
Revenue Bonds:									
Series 2016	1.92%	8/31/2016	$1,603,000	9/1/2026	$800,000	-	$170,000	$(170,000)	$630,000
Total Long-Term Debt									**$630,000**

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

	12/31/2023	12/31/2024	12/31/2025	12/31/2026	Total
PRINCIPAL:					
Series 2016	173,000	177,000	180,000	100,000	630,000
Total Principal	**173,000**	**177,000**	**180,000**	**100,000**	**630,000**
INTEREST:					
Series 2016	12,096.00	8,774.40	5,376.00	1,920.00	43,526.40
Total Interest	**12,096.00**	**8,774.40**	**5,376.00**	**1,920.00**	**43,526.40**
TOTAL PRINCIPAL & INTEREST	**$185,096.00**	**$185,774.40**	**$185,376.00**	**$101,920.00**	**$673,526.40**

Note 10 – Inventories

Inventory is stated at the lower of cost (determined on the first-in, first-out basis) or market. Inventories consisted of the following:

	2022	2021
Parts and Supplies	35,386.05	27,254.07
Total Inventory	**$35,386.05**	**$27,254.07**