

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

**Financial Statements for the
Years Ended November 30, 2017 and 2016
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

We have audited the accompanying statements of net position of Rural Water District No. 2, Miami County, Kansas (the "District") as of November 30, 2017 and 2016, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 6 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 2017 and 2016, KPERs computed and published the net pension liability (NPL) as of June 30, 2016 and 2015, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately \$469,000 and \$387,000 at November 30, 2017 and 2016, respectively.

Qualified Opinion

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, 2017 and 2016, 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.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 3 through 5 is presented to supplement the basic financial statements. Such 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. 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.

Acord Cox + Co.

December 14, 2017

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, 2017 and 2016. 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 2017

- The District's total assets increased by \$279,136 from \$23,484,792 in 2016 to \$23,763,928 in 2017.
- The District's revenues from water sales increased by \$50,118 from \$2,621,888 in 2016 to \$2,672,006 in 2017.
- The District's costs and operating expenses increased by \$2,489 from \$2,679,259 in 2016 to \$2,681,748 in 2017.
- The District completed the next phase of filter valve replacement/repairs and finished the installation of the Louisburg Interconnect.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended November 30, 2017 and 2016, 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, 2017 and 2016. 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

	2017	2016	Dollar Change	Percent Change
Current Assets	3,852,663	3,479,452	373,211	10.7%
Noncurrent Assets	6,084,152	5,773,008	311,144	5.4%
Capital Assets, net	13,827,113	14,232,332	(405,219)	-2.8%
Total Assets	23,763,928	23,484,792	279,136	1.2%
Current Liabilities	244,908	254,447	(9,539)	-3.7%
Total Liabilities	244,908	254,447	(9,539)	-3.7%
Net assets invested in				
capital assets, net of related debt	13,827,113	14,232,332	(405,219)	-2.8%
Unrestricted	9,691,907	8,998,013	693,894	7.7%
Total Net Position	23,519,020	23,230,345	288,675	1.2%

Total assets increased by \$279,136 from \$23,484,792 in 2016 to \$23,763,928 in 2017. This is attributed to net operating income in the current year. Capital assets are a net result of all fixed assets, including 2017 additions, less accumulated depreciation.

Total liabilities decreased by \$9,539 from \$254,447 in 2016 to \$244,908 in 2017. This is a result of a reduction in payables; the district had an approximate \$30,000 account payable for construction in progress at November 30, 2016.

Total net position increased by \$288,675 from \$23,230,345 in 2016 to \$23,519,020 in 2017.

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

	2017	2016	Dollar Change	Percent Change
Operating Revenues	2,672,006	2,621,888	50,118	1.9%
Non-operating Revenues (Expense)	84,093	77,283	6,810	8.8%
Total Revenues	2,756,099	2,699,171	56,928	2.1%
Depreciation Expense	789,403	765,535	23,868	3.1%
Other Operating Expense	1,892,345	1,913,724	(21,379)	-1.1%
Total Expenses	2,681,748	2,679,259	2,489	0.1%
Income Before Capital Contributions	74,351	19,912	54,439	273.4%
Capital Contributions	214,324	158,090	56,234	35.6%
Changes in Net Position	288,675	178,002	110,673	62.2%
Beginning Net Position	23,230,345	23,052,343	178,002	0.8%
Total Net Position	23,519,020	23,230,345	288,675	1.2%

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, income before capital contributions was \$74,351 with capital contributions of \$214,324, which resulted in a net increase in net position of \$288,675 for the year ended November 30, 2017.

The District's total operating revenues increased by \$50,118 from \$2,621,888 in 2016 to \$2,672,006 in 2017. Total operating expenses increased by \$2,489 from \$2,679,259 in 2016 to \$2,681,748 in 2017. The major contributor to the increase in expenses was related to an increase in depreciation expense.

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 P.O. Box 186, Hillsdale, KS 66036.

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF NET POSITION
NOVEMBER 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash	\$ 3,396,708	\$ 3,085,048
Accounts receivable	141,156	147,833
Accounts receivable - wholesale	81,753	54,479
Interest receivable	4,126	3,691
Prepaid expenses	52,958	48,656
Inventory	175,962	139,745
Total current assets	3,852,663	3,479,452
NONCURRENT ASSETS		
Funds designated for capital improvement	2,785,029	2,511,171
Certificates of deposit	3,299,123	3,261,837
Total noncurrent assets	6,084,152	5,773,008
CAPITAL ASSETS		
Nondepreciable capital assets	630,040	394,906
Depreciable capital assets	28,453,135	28,329,642
Less accumulated depreciation	(15,256,062)	(14,492,216)
Depreciable capital assets, net	13,197,073	13,837,426
Total capital assets, net	13,827,113	14,232,332
Total assets	\$ 23,763,928	\$ 23,484,792
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 87,797	\$ 119,656
Other accrued liabilities	58,801	82,991
Line extension deposit	55,310	4,300
Advance benefit unit payments	43,000	47,500
Total current liabilities	244,908	254,447
NET POSITION		
Invested in capital assets, net of related debt	13,827,113	14,232,332
Unrestricted	9,691,907	8,998,013
Total net position	\$ 23,519,020	\$ 23,230,345

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

	2017	2016
WATER SALES	\$ 2,672,006	\$ 2,621,888
COSTS AND OPERATING EXPENSES:		
Personnel costs	726,345	761,748
Depreciation and amortization	789,403	765,535
Chemical expense	212,241	206,987
Plant expense	99,366	90,297
Line maintenance	141,436	142,892
Water purchased	119,355	115,697
Water samples	6,347	4,442
Sales and use tax	3,500	3,921
Utilities	302,131	292,308
Contract meter reading	64,717	64,409
Professional services	10,079	10,655
Vehicle upkeep	49,768	46,029
Office supplies	61,990	72,640
Insurance	31,591	30,715
Tower maintenance	13	1,225
Dues	24,910	28,324
Miscellaneous	21,015	20,890
Water plan tax	8,658	8,645
Bad debts	766	3,795
Clean drinking water fee	8,117	8,105
	<u>2,681,748</u>	<u>2,679,259</u>
INCOME FROM OPERATIONS	<u>(9,742)</u>	<u>(57,371)</u>
NON-OPERATING REVENUES:		
Interest income	84,093	69,083
Gain (loss) on disposal of fixed assets	-	8,200
	<u>84,093</u>	<u>77,283</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	74,351	19,912
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>214,324</u>	<u>158,090</u>
INCREASE IN NET POSITION	288,675	178,002
NET POSITION, BEGINNING OF YEAR	<u>23,230,345</u>	<u>23,052,343</u>
NET POSITION, END OF YEAR	<u><u>\$ 23,519,020</u></u>	<u><u>\$ 23,230,345</u></u>

RURAL WATER DISTRICT NO. 2
MIAMI COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 2,697,919	\$ 2,673,456
Cash payments to suppliers for goods and services	<u>(1,989,348)</u>	<u>(1,995,854)</u>
Net cash provided by operating activities	<u>708,571</u>	<u>677,602</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of fixed asset	-	8,200
Additions to capital assets	(384,184)	(225,979)
Contributions - Benefit units and aid-in construction	<u>214,324</u>	<u>158,090</u>
Net cash used in capital and related financing activities	<u>(169,860)</u>	<u>(59,689)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	(311,144)	(328,634)
Interest received	<u>84,093</u>	<u>69,083</u>
Net cash used in investing activities	<u>(227,051)</u>	<u>(259,551)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	311,660	358,361
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,085,048</u>	<u>2,726,687</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>3,396,708</u>	\$ <u>3,085,048</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (9,742)	\$ (57,371)
Adjustments to reconcile operating income (loss)		
to net cash provided by operating activities:		
Depreciation and amortization	789,403	765,535
Changes in:		
Accounts receivable	(20,597)	15,768
Inventories	(36,217)	23,258
Prepaid expenses	(4,302)	(799)
Interest receivable	(435)	(860)
Accounts payable and accrued liabilities	(56,049)	(103,729)
Line extension deposits	51,010	4,300
Advanced benefit unit payments	<u>(4,500)</u>	<u>31,500</u>
Net cash provided by operating activities	<u>\$ 708,571</u>	<u>\$ 677,602</u>

RURAL WATER DISTRICT NO. 2

MIAMI COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2017 AND 2016

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, 2017 and 2016 were 3,770 and 3,724.

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. Cost is determined using the first-in, first-out 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 2016 or 2017. 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:

	2015	Additions	Transfers/ Disposals	2016
Nondepreciable capital assets:				
Land and easements	84,845	319	-	85,164
Construction in progress	387,324	140,350	(217,932)	309,742
	<u>472,169</u>	<u>140,669</u>	<u>(217,932)</u>	<u>394,906</u>
Depreciable capital assets:				
Plant and intake	8,694,813	8,414	151,407	8,854,634
Towers and standpipe	1,047,195	21,895	3,687.00	1,072,777
Transmission and distribution	17,326,974	1,250	62,838	17,391,062
Pumps and motors	224,001	3,255	-	227,256
Office furniture and equipment	316,167	36,124	-	352,291
Vehicles	259,327	-	-	259,327
Equipment	157,922	14,373	-	172,295
	<u>28,026,399</u>	<u>85,311</u>	<u>217,932</u>	<u>28,329,642</u>
Less accumulated depreciation	<u>(13,726,681)</u>	<u>(765,535)</u>		<u>(14,492,216)</u>
Depreciable capital assets, net	<u>14,299,718</u>	<u>(680,224)</u>	<u>217,932</u>	<u>13,837,426</u>
Total capital assets, net	<u>14,771,887</u>	<u>(539,555)</u>	<u>-</u>	<u>14,232,332</u>

	2016	Additions	Transfers/ Disposals	2017
Nondepreciable capital assets:				
Land and easements	85,164	698	-	85,862
Construction in progress	309,742	234,436	-	544,178
	<u>394,906</u>	<u>235,134</u>	<u>-</u>	<u>630,040</u>
Depreciable capital assets:				
Plant and intake	8,854,634	31,311	-	8,885,945
Towers and standpipe	1,072,777	-	-	1,072,777
Transmission and distribution	17,391,062	23,322	-	17,414,384
Pumps and motors	227,256	18,387	-	245,643
Office furniture and equipment	352,288	6,467	-	358,755
Vehicles	259,327	20,094	(25,557)	253,864
Equipment	172,295	49,472	-	221,767
	<u>28,329,639</u>	<u>149,053</u>		<u>28,453,135</u>
Less accumulated depreciation	<u>(14,492,216)</u>	<u>(789,403)</u>	<u>25,557</u>	<u>(15,256,062)</u>
Depreciable capital assets, net	<u>13,837,426</u>	<u>(640,350)</u>	<u>-</u>	<u>13,197,073</u>
Total capital assets, net	<u>14,232,332</u>	<u>(405,216)</u>	<u>-</u>	<u>13,827,113</u>

4. CASH AND INVESTMENTS

Deposits – At November 30, 2017 and 2016, 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, 2017 and 2016 are summarized below:

	2017		2016		Category
	Carrying Value	Market Value	Carrying Value	Market Value	
Investments:					
Certificates of Deposit	\$ 3,299,123	\$ 3,299,123	\$ 3,261,837	\$ 3,261,837	1
Funds Designated for					
Capital Improvement:					
Certificates of Deposit	\$ 2,785,029	\$ 2,785,029	\$ 2,511,171	\$ 2,511,171	1

5. 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.

6. PENSION PLAN

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 \$504,780 and \$526,718 in 2017 and 2016.

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 8.46% to 9.18% and 9.18% to 10.18% in 2017 and 2016. The contribution requirement for the years ended November 30, 2017 and 2016 was \$74,344 and \$82,129, which consisted of \$30,287 and \$31,603 from employees and \$44,058 and \$50,526 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 \$469,000 and \$387,000 at November 30, 2017 and 2016, respectively, for its proportionate share of the net pension liability.

Defined Contribution Plan

The District has a 457 deferred compensation plan. Under the Plan the District matches employee contributions at rates from 2.50% to 4.50% depending upon years of service. For the years ended November 30, 2017 and 2016 the District's contribution to the Plan totaled \$18,324 and \$19,456.

7. 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 \$43,000 and \$47,500 at November 30, 2017 and 2016.

8. 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, 2017 and 2016 amounted to \$41,071 and \$40,597, respectively.

9. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is an affiliate of a company that was paid \$0 and \$12,941 in 2017 and 2016 for maintenance and construction services. In November 2017, the District entered into a remodel agreement with the company for \$218,700 with construction to begin in 2018.

10. 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, 2017 and 2016.

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