

LEAVENWORTH WATERWORKS BOARD

FINANCIAL STATEMENTS

DECEMBER 31, 2018



**DANA F. COLE
& COMPANY** LLP
CERTIFIED PUBLIC ACCOUNTANTS

LEAVENWORTH WATERWORKS BOARD
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**DANA F. COLE
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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Leavenworth Waterworks Board
Leavenworth, Kansas

Report on the Financial Statements

We have audited the accompanying statement of net position of Leavenworth Waterworks Board as of December 31, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*. These 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 auditor's 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 entity'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 entity'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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leavenworth Waterworks Board as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8, the schedule of employer's required contributions on page 32, and the schedule of the employer's proportionate share of the net pension liability page 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed on pages 34 - 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information on pages 34 - 37 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2019, on our consideration of the Leavenworth Waterworks Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to not provide an opinion on internal control of financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Leavenworth Waterworks Board's internal control over financial reporting and compliance.


Dana F. Cole + Company, LLP

Overland Park, Kansas
May 10, 2019

LEAVENWORTH WATERWORKS BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Leavenworth Waterworks Board's (the Board) financial performance provides a narrative overview of the Board's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the accompanying financial statements which begin on page 9.

HISTORY AND OVERVIEW OF LEAVENWORTH WATER DEPARTMENT

The Water Department provides potable water to nearly 55,000 people in the City of Leavenworth and seven rural water districts (as authorized by K.S.A. 13-2418) in Leavenworth and Jefferson Counties (RWD-1, -2, -5, -8, -12, Consolidated No. 1, and Lan-Del). The total number of equivalent single-family taps served by the Board is around 15,000 in the water-service area.

The Water Department diverts water from the Missouri River at two locations. A direct intake connection is located near the northeast corner of the City (at the North Plant Intake) and indirectly through nine wells constructed in the alluvial aquifer located adjacent to the Missouri River southeast of the City (called the South Plant Well Field). Ground water pumped from the alluvial wells is tributary to the Missouri River. In addition, the Water Department also owns, operates, and maintains two water treatment plants, high-service pumps, a booster pumping station, a water-storage facility, and a complex network of water transmission, distribution, service lines, meters, valves, and fire hydrants.

FORMATION OF THE WATERWORKS BOARD AND WATER DEPARTMENT

The Leavenworth City and Fort Leavenworth Water Company, a private company, constructed the original municipal waterworks system in 1881 - 1882. In 1921, the City of Leavenworth, Kansas purchased the waterworks system from The Leavenworth City and Fort Leavenworth Water Company. For the next sixteen years, the City of Leavenworth, Kansas, operated the waterworks system. In 1932, Fort Leavenworth constructed a water treatment facility and began operating a separate water system for the Fort.

In September 1937 the citizens of the City of Leavenworth, Kansas, voted to establish an independent governing board and water-supply utility that were separate from the City's Commission and public-works services. The intent of this vote was to ensure that the Waterworks would be operated in a business manner and that revenues from water sales were to be used only for the operation and improvement of the water system. Thus, the Leavenworth Waterworks Board was established and a separated Water Department continues to operate today pursuant to K.S.A. 13-2414 through K.S.A. 2429.

ADMINISTRATION AND OPERATIONS

The Board employs 36 staff members who are involved with water treatment, distribution, and administration. These employees all work efficiently to meet the Board's goals of quality, abundant drinking water, friendly customer service, and economical water rates. Day-to-day operations are coordinated by the Manager of Production and Distribution and the Manager of Collections and Accounts.

Administrative staff members oversee all billing and collections related to the sale of water to customers based on monthly meter reads of individual customers. Through a Joint Operations agreement with the City of Leavenworth, the administrative staff also provides billing and collection services to the City for their wastewater treatment and refuse-collection services.

LEAVENWORTH WATERWORKS BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

WATERWORKS FACILITIES

North Plant

The original water treatment plant was replaced with a four-million gallon per day (MGD) capacity water-filtration plant and high-service pumping station. The Pilot Knob Reservoir was also covered to protect the water quality. Two large settling basins from the original treatment plant were retained and are currently used today. The source of supply was, and continues to be, a direct diversion from the Missouri River. Since 1938, raw water has been diverted from the west bank of the Missouri River about two blocks south of the water treatment plant (at the western extent of Dakota Street). Treated water from the plant is pumped into the water-transmission and distribution system as well as the Pilot Knob Reservoir.

Over the years, significant capital improvements have been made to the North Water Treatment Plant in order to improve water quality and increase capacity. Today, the rated capacity of the North Plant is approximately 6 MGD with a single-day peak capacity of 5.5 MGD.

South Plant

In 1977, it was determined that in order to meet increasing water demands and replace the aging North Plant, another treatment plant was necessary. Construction of the South Plant started in 1977 and was completed in the next year. The water source for this facility is alluvial ground water pumped from nine different wells. Currently its rated capacity is also approximately 6 MGD with a single-day peak capacity of 5.5 MGD. The South Plant has been designed for expansion up to 12 MGD.

Distribution System

The Board's water distribution system includes 192 miles of raw water transmission, treated water transmission, and distribution mains; the size of these mains range from 2 to 24 inches. The system has approximately 11,000 customer meters and one booster pump station. In order to operate and maintain the Board's infrastructure, the staff maintains an inventory of water distribution materials held for the replacement of aging infrastructure.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and supplementary information.

The notes to the financial statements provide additional information and more detailed data about some of the information reported in the basic financial statements.

One of the most important questions asked about the Board's finances is, "Is the Board as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Board as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash was received or paid.

LEAVENWORTH WATERWORKS BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

These two statements report the Board's net position and changes in it. You can think of the Board's net position - the difference between assets and liabilities - as one way to measure the Board's financial health, or financial position. Over time, increases or decreases in the Board's net position are one indicator of whether its financial health is improving or deteriorating.

The Board operates as a proprietary fund or business enterprise. Revenues consist of fees charged to customers for services provided and expenses consist of the cost incurred to provide those services.

ANALYSIS OF THE FINANCIAL STATEMENTS

As of December 31, 2018, the Board's net position at year end increased \$2,027,232, or 4.9% from the prior year to result in a balance of \$43,172,488.

Statement of Net Position

	2018	2017	% Change 2018 - 2017
ASSETS			
Current and other assets	13,073,430	12,499,260	4.6
Capital assets	33,608,743	32,052,281	4.9
Total assets	<u>46,682,173</u>	<u>44,551,541</u>	<u>4.8</u>
DEFERRED OUTFLOW OF RESOURCES	<u>301,547</u>	<u>247,954</u>	<u>21.6</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>46,983,720</u>	<u>44,799,495</u>	<u>4.9</u>
LIABILITIES			
Current liabilities	2,069,183	1,950,505	6.1
Long-term liabilities	1,641,912	1,577,643	4.1
Total liabilities	<u>3,711,095</u>	<u>3,528,148</u>	<u>5.2</u>
DEFERRED INFLOWS OF RESOURCES	<u>100,137</u>	<u>126,091</u>	<u>(20.6)</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>3,811,232</u>	<u>3,654,239</u>	<u>4.3</u>
NET POSITION			
Net investment in capital assets	33,608,743	32,052,281	4.9
Unrestricted	<u>9,563,745</u>	<u>9,092,975</u>	<u>5.2</u>
TOTAL NET POSITION	<u>43,172,488</u>	<u>41,145,256</u>	<u>4.9</u>

LEAVENWORTH WATERWORKS BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

Current and Other Assets - Total current and other assets increased approximately \$574 thousand. The majority of this increase is attributable to an increase in cash and investments.

Capital Assets - Capital assets, net of accumulated depreciation increased more than \$1.55 million as system improvements were more than current year depreciation expense.

Other Liabilities - Current and other liabilities increased from the prior year by \$118 thousand or 6.1%. The majority of this decrease is attributable to a reduction in accrued expenses.

Net Position - Net position increased by more than \$2 million from the prior year.

Statement of Activities

	2018	2017	% Change 2018 - 2017
REVENUES			
Water sales	8,019,643	6,677,331	20.1
City services billing	283,718	298,771	(5.0)
Reconnection and service fees	85,919	88,912	(3.4)
Plumbing supply sales	5,598	7,019	(20.2)
Nonoperating	123,658	77,690	59.2
Total revenues	<u>8,518,536</u>	<u>7,149,723</u>	<u>19.1</u>
EXPENSES			
Production	3,063,408	2,835,212	8.1
Distribution	1,555,833	1,408,679	10.3
Administration	817,602	669,411	22.1
Depreciation	1,293,878	1,262,192	2.5
Nonoperating	55,046	39,605	39.0
Total expenses	<u>6,785,767</u>	<u>6,215,099</u>	<u>9.2</u>
REVENUES OVER EXPENSES PRIOR TO CAPITAL CONTRIBUTIONS	<u>1,732,769</u>	<u>934,624</u>	<u>85.4</u>
CAPITAL CONTRIBUTIONS	<u>294,463</u>	<u>109,179</u>	<u>169.7</u>
INCREASE IN NET POSITION	<u>2,027,232</u>	<u>1,043,803</u>	<u>94.2</u>
NET POSITION, beginning	<u>41,145,256</u>	<u>40,101,453</u>	<u>2.6</u>
NET POSITION, ending	<u><u>43,172,488</u></u>	<u><u>41,145,256</u></u>	<u><u>4.9</u></u>

LEAVENWORTH WATERWORKS BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues - Overall, revenues increased more than \$1.3 million or 19.1% from the prior year. The increase is mainly attributable to additional water sales as the Board started providing water to Fort Leavenworth.

Expenses - Expenses increased from the prior year by more than \$570 thousand or 9.2%. This increase is mainly attributable to increased production costs due to increase demand.

Capital Contributions - Within the year, the Board recognized \$294,463 in capital contributions. These funds were used for meter upgrades, new services, main extensions, and system development/improvement fees.

CAPITAL ASSETS

	2018	2017	% Change 2018 - 2017
Capital assets, not being depreciated	<u>2,585,352</u>	<u>2,891,727</u>	<u>(10.6)</u>
Capital assets, net of accumulated depreciation			
Administrative	1,301,202	1,301,202	
Distribution	31,206,346	28,180,181	10.7
North Plant	10,196,178	10,092,820	1.0
South Plant	12,842,110	12,827,450	0.1
Hwy 5 Building and equipment	<u>8,050</u>	<u>8,050</u>	
Total capital assets, being depreciated	<u>55,553,886</u>	<u>52,409,703</u>	<u>6.9</u>
Accumulated depreciation			
Administrative	1,193,958	1,160,988	2.8
Distribution	8,258,274	7,737,548	6.7
North Plant	6,782,656	6,436,588	5.3
South Plant	8,289,090	7,908,657	4.8
Hwy 5 Building	<u>6,517</u>	<u>5,367</u>	<u>21.4</u>
Total accumulated depreciation	<u>24,530,495</u>	<u>23,249,148</u>	<u>5.5</u>
Net capital assets, being depreciated	<u>31,023,391</u>	<u>29,160,555</u>	<u>7.9</u>
Net capital assets	<u><u>33,608,743</u></u>	<u><u>32,052,282</u></u>	<u><u>4.9</u></u>

LEAVENWORTH WATERWORKS BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPTIAL ASSETS (Continued)

Please refer to Note 8 for more detailed information regarding capital asset activity during the year ended December 31, 2018.

ANALYSIS OF THE BUDGETARY COMPARISON SCHEDULE

The Board does not have a budgetary requirement. Budgetary comparison schedules are presented as supplementary information on page 36 of the financial statements.

ECONOMIC FACTORS

The Board remains committed to its mission and employs the following strategy statement:

- To provide the highest quality and best value water available in Leavenworth County.
- Invest in infrastructure improvements to meet the increasing water demands of water districts and developments throughout Leavenworth County.
- Establish partnerships and participate in cooperative efforts with neighboring water departments and other agencies.
- Improve economies of scale and maintain economical water rates for both current and future customers.

In January 2018, the Board began providing water to Fort Leavenworth in response to source-water contamination by PFAS chemicals on the Fort. The sale of this water significantly impacted the bottom line in 2018. Although an agreement was reached to supply the Fort until July 2028, Fort Leavenworth continues to explore ways to return to a self-supplied system.

Over the next three to five years, approximately 31% of the Board's current employees will be eligible for retirement. The Board is working to plan ahead for this but it could potentially impact the department.

The Board is continuously investigating ways to improve the system and reduce costs. Ever-changing water treatment regulations will impact both operating and capital improvement costs.

Within the year ending December 31, 2018, the Board of Directors approved moving forward with a loan from the Kansas Public Water Supply Loan Fund through the Kansas Department of Health and Environment for the construction of a Horizontal Collector Well as an alternate water source for the South Plant. Construction on this project is expected to start within the next year and be completed in 2020.

REQUEST FOR INFORMATION

This report is intended to provide the citizens, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the revenues received and funds spent. Questions about the report, and requests for additional information, should be directed to the Chair of the Waterworks Board or the Board's Manager of Collections and Accounts, 601 Cherokee, Leavenworth, Kansas 66048.

LEAVENWORTH WATERWORKS BOARD
STATEMENT OF NET POSITION
DECEMBER 31, 2018

ASSETS

Current assets

Cash and cash equivalents	3,229,061
Certificates of deposit	5,732,127
Accounts receivable	909,800
Accrued interest receivable	31,857
Inventory	620,097
Prepaid expenses	178,430
Total current assets	<u>10,701,372</u>

Noncurrent assets

Certificates of deposit	2,372,058
Capital assets, net of accumulated depreciation	<u>33,608,743</u>
Total noncurrent assets	<u>35,980,801</u>

TOTAL ASSETS

46,682,173

DEFERRED OUTFLOWS OF RESOURCES

Resources to be recognized in future pension expense	<u>301,547</u>
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TOTAL ASSETS AND DEFERRED
OUTFLOWS OF RESOURCES

46,983,720

LIABILITIES

Current Liabilities

Accounts payable	609,522
Accrued employee benefits	483,354
Meter deposits	498,504
Accrued interest on meter deposits	39,358
Accrued sludge removal	198,485
Accrued well treatments	196,305
Other accrued expenses	39,155
Terminated service fees	4,500
Total current liabilities	<u>2,069,183</u>

LEAVENWORTH WATERWORKS BOARD
STATEMENT OF NET POSITION
DECEMBER 31, 2018

LIABILITIES (Continued)	
Noncurrent liabilities	
Net pension liability	<u>1,641,912</u>
TOTAL LIABILITIES	<u>3,711,095</u>
DEFERRED INFLOWS OF RESOURCES	
Resources to be recognized in future pension expense	<u>100,137</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>3,811,232</u>
NET POSITION	
Invested in capital assets, net of related debt	33,608,743
Unrestricted	<u>9,563,745</u>
TOTAL NET POSITION	<u><u>43,172,488</u></u>

See accompanying notes to financial statements.

LEAVENWORTH WATERWORKS BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES	
Water sales	8,019,643
City services billing fees	283,718
Reconnect and service fees	85,919
Plumbing supply sales	<u>5,598</u>
Total operating revenues	<u>8,394,878</u>
OPERATING EXPENSES	
Production	3,063,408
Distribution	1,452,277
Administration	795,861
Bad debt	8,130
Public relations	21,741
Inventory	103,556
Depreciation	<u>1,293,878</u>
Total operating expenses	<u>6,738,851</u>
OPERATING INCOME	<u>1,656,027</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	99,895
Miscellaneous expense	(39,048)
Rent income	23,763
Interest expense on meter deposits	<u>(7,868)</u>
Total nonoperating revenues (expenses)	<u>76,742</u>
REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS	1,732,769
CAPITAL CONTRIBUTIONS	<u>294,463</u>
INCREASE IN NET POSITION	2,027,232
NET POSITION, beginning of year	<u>41,145,256</u>
NET POSITION, end of year	<u>43,172,488</u>

See accompanying notes to financial statements.

LEAVENWORTH WATERWORKS BOARD
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	8,341,041
Cash payments to employees	(2,416,736)
Cash payments to suppliers	<u>(2,769,418)</u>
Net cash provided by operating activities	<u>3,154,887</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(2,850,340)
Capital contributions	294,463
Rent income	23,763
Other payments	<u>(51,557)</u>
Net cash used in noncapital financing activities	<u>(2,583,671)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in certificates of deposit	2,148,077
Interest received	<u>92,338</u>
Net cash provided by investing activities	<u>2,240,415</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,811,631
CASH AND CASH EQUIVALENTS, beginning of year	<u>417,430</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>3,229,061</u></u>

LEAVENWORTH WATERWORKS BOARD
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating income	<u>1,656,027</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,293,878
(Increase) decrease in assets:	
Accounts receivable	(35,000)
Prepaid expenses	65,627
Inventory	66,314
Deferred outflows	(53,593)
Increase (decrease) in liabilities:	
Accrued expenses	(78,126)
Accounts payable	145,363
Accrued employee benefits	21,326
Meter deposits	34,756
Net pension liability	64,269
Deferred inflows	<u>(25,954)</u>
Net adjustments	<u>1,498,860</u>
Net cash provided by operating activities	<u><u>3,154,887</u></u>

See accompanying notes to the financial statements.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Leavenworth Waterworks Board, as provided in the Kansas Statutes Annotated 13-2414 through 13-2428, has full control of the municipal water plant of Leavenworth, Kansas. The Governing Board is comprised of five members; each elected to serve for a term of four years, by the voters of the City of Leavenworth, Kansas. Elections are held every two years with alternating positions being voted upon. In the case of a vacancy, the remaining members shall appoint a successor to serve out the term until the next ensuing city election (K.S.A. 13-2416). By resolution of the Board, officers are to be elected from its membership at the first meeting in May of each year. The Governing Board establishes, under Kansas Statutes, all rules and procedures concerning the Leavenworth Waterworks Board.

The same statutes establish the positions of Manager of Production and Distribution and Manager of Collections and Accounts. Persons in those positions serve at the direction of the Governing Board and manage the Waterworks Board's daily operations. The Governing Board also has authorization to appoint other positions such as Engineer or Operations manager to supplement positions established by state statutes.

B. GOVERNMENT-WIDE AND FUND FINANCIAL ACCOUNTING

The government-wide financial statements (e.g. the statement of net position and the statement of activities) report all information on the activities of the Board.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers who purchase, use, or directly benefits from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment.

The Board only has one category of fund; a proprietary or business-type fund.

Proprietary funds are used to account for activities that are financed and operated in a manner similar to private business enterprises - where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or removed primarily through user charges - or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management controls, accountability, or other purposes. Amounts reported as program revenues include (1) charges to customers or applications for goods, services, or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL ACCOUNTING (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, producing and delivering goods in connection with the fund's principal ongoing operation.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The government-wide/proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

This system of accounting is in compliance with the applicable laws of the state of Kansas.

D. EQUITY CLASSIFICATIONS

Equity is classified as net position and displayed in three components:

Net investment in capital assets consists of capital assets, including any restricted 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.

Restricted net position consists of net position with constraints placed on the use either by external groups, such as through debt covenants, grantors, contributors, or laws and regulations of other governments, or by law through constitutional provisions, or enabling legislation. As of the year ending December 31, 2018, the Board did not have any restricted net position.

Unrestricted net position does not meet the definition of restricted or "invested in capital assets." The Board has designated a portion of its unrestricted net position to be used for continuing education.

E. STATEMENT OF CASH FLOWS

A statement of cash flows has been presented in accordance with Governmental Accounting Standards Board Statement No. 9 for the proprietary fund. For purposes of the statement of cash flows, demand deposits and all highly liquid investments (including restricted assets) with a maturity date of three months or less when purchased are considered cash equivalents.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. CASH AND INVESTMENTS

At December 31, 2018, the Board's cash was deposited in demand accounts, certificates of deposits, and money market funds held by different financial institutions. The Board records investments in money market interests, including certificates of deposit, at cost plus any accrued interest.

G. PREPAID ITEMS

Prepaid balances are for payments made by the Board in the current year to provide services occurring in the subsequent year.

H. CAPITAL ASSETS

The Board has amassed various capital assets that are being capitalized and amortized over their useful lives. Purchases are recorded at their actual value, estimated historical cost based on appraisals, or deflated current replacement cost. Contributed capital assets are reported at their estimated fair value at the time received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Property, plant, and equipment are depreciated by the Board using the straight-line method over the following estimated useful lives:

Building and plants	10 - 100	years
Water distribution system	10 - 100	years
Wells	20 - 50	years
Tools and equipment	5 - 15	years
Office furniture and equipment	3 - 25	years
Vehicles	3 - 5	years
Computer system	3 - 5	years

I. USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant of these estimates are related to the depreciation of capital assets.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. REVENUES

Billings for water revenues, along with charges for City services, are rendered monthly. Under an agreement with the City of Leavenworth, Kansas, the Board bills and collects sewer and refuse charges from water customers as a part of their billing procedures for the City. Under the terms of this agreement, a fee is charged to the City for said billing and collection services. This fee is calculated on an annual basis and collected over the course of the year.

K. ACCOUNTS RECEIVABLE

Accounts receivable consist of accounts due to the Board and unbilled revenues. During the year, customer water meters are read and bills rendered throughout the monthly periods. Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at year end to match revenues with related expenses.

The Board has adopted a policy to write-off directly all accounts that are 12-months overdue. With the current software capability, in management's opinion, direct write-offs are an accurate method of determining the loss due to bad debts. Management considers all remaining accounts receivable to be collectible. Accordingly, there is no allowance for doubtful accounts factored into the presentation of accounts receivable.

L. COMPENSATED ABSENCES

All full-time employees are granted 8 hours of vacation each month from their first year through their fifth year of service. The vacation allowance increases to 10 hours per month at the beginning of an employee's sixth year of service. There is a 200 hour maximum accumulation at the end of any year with 100% vesting upon an employee's retirement or death.

All full-time employees are granted eight hours of sick leave a month with no maximum limitation on accumulation. Upon retirement or death, employees will be paid for 40% of their accumulated, unused sick leave.

As of December 31, 2018, the Board's liability for accumulated compensated absences totaled \$ 483,354. This balance is reported as accrued employee benefits on the statement of net position.

M. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the statement of net financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Board has calculations related to its pension plan that qualify for reporting in this category.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (Continued)

In addition to liabilities, the statement of net financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Board has calculations related to its pension plan that qualify for reporting in this category.

N. INVENTORY

Inventories consisting of materials and supplies are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) basis.

O. CAPITAL CONTRIBUTIONS

Contributions in aid to construction were not capitalized prior to the year ended April 30, 1975. It was the opinion of management that the amounts by which the financial statements might change, if these items were included, were not material to the financial statements.

P. BUDGETS

The Board is not subject to statutory budget requirements. Accordingly, budgetary comparison schedules have not been included with as required supplementary information. The Board is not legally required to establish a budget; however, for monitoring purposes, the Board creates and utilizes operating budgets for operations control and compliance with debt service requirements.

NOTE 2. RISK MANAGEMENT

The Board is exposed to various risks of losses related to tortes; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has purchased commercial insurance to offset these certain risks. The Board reviews insurance coverage annually to determine that insurance policies in effect are appropriate and written with insurance companies authorized to transact business in the state of Kansas. The Board has insurance coverage for property, fire, and theft.

NOTE 3. FIDELITY BONDS

Fidelity bonds of elective and appointed officials were in effect on December 31, 2018. These bonds met statutory requirements and were approved by the Board.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 4. COMPLIANCE WITH KANSAS STATUTES

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

NOTE 5. CASH AND INVESTMENTS

The designation of depositories for public funds is detailed within K.S.A 9-1401. This statute states the Governing Board shall designate by official action the financial institutions which will serve as depositories of funds. The statute also details for a bank, savings and loan association, and/or savings bank to be eligible to hold the Board's funds, there must be a main or branch office within the county in which the Board is located, or in an adjoining county if such institution has been designated as an official depository. The depository bank is required to provide an acceptable rate of return on deposited funds and also required to secure, pledge collateral, for the funds deposited in excess of the Federal FDIC coverage.

Investment of public moneys is also subject to K.S.A. 12-1675 which limits the Board's investment of idle funds in certain types of accounts. Allowable investments include temporary notes or no-fund warrants; saving deposits, demand deposits, time deposits, open accounts and certificates of deposits with allowable financial institutions with maturities of not more than two years; in repurchase agreements; in direct obligations of or obligations that are insured as to principal and interest for the United States or any agency thereof (not including mortgage-backed securities) but not exceeding two years; and in the Kansas Municipal Investment Pool established in K.S.A. 12-1677a.

At December 31, 2018, the Board's carrying amount of cash and investments (including money market accounts and certificates of deposit totaled \$8,782,873. The bank balance of \$8,919,001 was held by five different financial institutions resulting in a concentration of credit risk.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure, the Board's deposits may not be returned to it. State statutes require that the Board funds deposited in financial institutions be entirely covered by federal depositor insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. As of December 31, 2018, all of the Board's deposits with financial institutions were fully insured or collateralized by securities held in the Board's name.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

State statutes place no limits on the amount the Board may invest/entrust in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Board's allocation of investments as of December 31, 2018, are as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage</u>
Certificates of deposit		
Exchange Bank & Trust	Not Available	5.7%
Mutual Savings Association	Not Available	11.0%
Citizens Savings & Loan Assoc.	Not Available	15.8%
Commerce Bank	Not Available	9.7%
Country Club Bank	Not Available	33.9%
Kansas Municipal Investment Pool	S&P AAf/S1+	23.9%

At December 31, 2018, the Board had funds totaling \$2,540,416 invested in the Kansas Municipal Investment Pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The Kansas Municipal investment Pool Board is comprised of the State Treasurer and four additional members appointed by the Governor of Kansas. The Kansas Municipal investment Pool Board reports annually to the Kansas legislature. State pooled moneys may be invested in direct obligations of, or obligations that are insured as to principal and interest by the U.S. Government or any agency thereof, with maturities up to four years. No more than ten percent (10%) of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that in the event of the failure of the issuer or counterparty, the Board would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

At December 31, 2018, the Board had the following investments and maturities, including certificates of deposits.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
Certificates of deposit			
Exchange Bank & Trust	603,442	603,442	
Mutual Savings Association	1,167,638	1,167,638	
Citizens Savings & Loan Assoc.	1,685,743	1,059,086	626,657
Commerce Bank	1,037,526	515,932	521,594
Country Club Bank	3,609,836	2,386,030	1,223,806
Kansas Municipal Investment Pool	2,540,416	2,540,416	
Total	10,644,601	8,272,544	2,372,057

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN

The Board participates in a cost sharing multiple-employer defined benefit pension plan (Pension Plan), as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and instrumentality of the state of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, Article 49:

- Public employees include:
 - State/School employees
 - Local Employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. The state of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Board are included in the local employee's group.

Pension Plan Availability

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website of <http://www.kpers.org>.

Benefits

Benefits are established by statute and may only be changed by the Legislature. Members within the Local Employees group with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited services, or whenever a member's combined age and years of service equal 85. There are different retreatment benefits for Police and Firemen. As the Board does not have any such employees, the details of those plans are not disclosed within this report but are available in the KPERS stand-alone report.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdrawal their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights of privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Benefits (Continued)

Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum.

Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the state of Kansas.

The 2012 Legislature made changes affecting new hires, current members, and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with 5 years of service or 60 with 30 years of service. Early retirement is available at age 55 with 10 years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74.4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined based on the results of an annual actuarial valuation for each of the three state wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers, which includes the state and school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll.

The actuarially determined employer contribution rates and the statutory contribution rates for local employees is 8.39%. Member contribution rates as a percentage of eligible compensation in fiscal year 2018 are 6.00% for public employees.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Employer and Nonemployer Allocations

Although KPERS administers one cost sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group.

Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State
- School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, the Pension Plan maintains separate accounts to identify additions, deductions, and fiduciary net positions applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

The allocation percentages for each group as of June 30, 2018, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the fiscal year ended June 30, 2018. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. The employer allocation percentages have been rounded for presentation purposes. Therefore, use of these percentages to recalculate individual employer amounts presented in the schedules of pension amounts by employer and nonemployer may result in immaterial differences due to rounding.

The contributions used for determining allocation percentages for the state/school group exclude the \$56 million transfer from the State General Fund to KPERS on June 30, 2018. This transfer was made per conditions set forth in House Substitute for Senate Bill No. 109, Section 47(d). Please reference the table on page 94 of the Kansas Public Employees Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan Schedules of Employer and Nonemployer Allocations, *Supplemental Schedule of Nonemployer Contributions - State/School Group (unaudited)*.

At June 30, 2018, the Board's proportion was 0.117802%.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Assumptions</u>	<u>Rate</u>
Actuarial Cost Method	Entry age normal
Inflation	2.75 percent
Salary Increase	3.50 to 12.00 percent, including price inflation
Investment Rate of Return	7.75 percent compounded annually, net of investment expense, including price inflation

Mortality rates were based on the RP 2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2017, valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class as of the more recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.85%
Fixed Income	13.00%	1.25%
Yield Driven	8.00%	6.55%
Real Return	11.00%	1.71%
Real Estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-Term Investments	2.00%	(0.25)%
Total	<u>100.00%</u>	

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate was based on member and employer contributions. In KPERS, the State/School and Local groups do not necessarily contribute the full actuarial determined rate. Based on legislation first passed in 1993 and subsequent legislation, the employer contribution rates certified by the Board may not increase by more than that statutory cap.

In recent years, the Legislature has made several changes to statutory rates that deviate from the schedule contribution increases set under the caps established in 2012 for the State/School group. Under 2015 SB 4, the previously certified State/School statutory rate for fiscal year 2015 of 11.27 percent was reduced to 8.65 percent for the last half of the fiscal year as part of the Governor's allotment. The same session, SB 228 recertified statutory rates for the State/School group to 10.91 percent for fiscal year 2017 and 10.81 percent for fiscal year 2017 in anticipation of the issuance of \$1 billion in pension obligation bonds. Legislation in the 2016 session (SB 161) provided for the delay of up to \$100 million in State and School contributions to the Pension Plan. Legislation passed by the 2017 Legislature removed the repayment provisions included in SB 161.

In addition, 2017 Senate Sub for Sub HB 2052 delayed \$64.1 million in fiscal year 2017 State/School contributions, to be repaid over 20 years in level dollar installments. The first year payment of \$6.4 million was paid in full at the beginning of fiscal year 2018, and appropriations for fiscal year 2018 were made at the statutory contribution rate of 12.01 percent for the State/School group. Additional legislation in the 2017 Session (S Sub for HB 2002) provided for a reduction of \$194 million from the previously certified contribution rate of 13.21 percent in the State/School contributions for fiscal year 2019. Like the fiscal year 2017 reduction, it is to be paid back over a 20 year period beginning in fiscal year 2020. Therefore, both reductions will be accounted for as long-term receivables by the Pension Plan. The 2018 Legislature passed House Sub for Sen Bill 109, that provided additional funds for the school group of \$56 million in fiscal year 2018 and \$138 million in fiscal year 2019.

Based on employer contribution history as described above, it is a reasonable estimate that the State/School group's contribution rate may not be certified at the statutory rate. It has been assumed that contribution rates will be made within the same range as have been seen in the past few years between 11 to 12 percent. Using this assumption actuarial modeling indicates that employer contribution rates for the State/School group are sufficient to avoid a depletion date.

The local Kansas Police, Firemen, and Judges groups are contributing at the full actuarial contribution rate.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability

The following table presents the net pension liability of the Pension Plan as of June 30, 2018, calculated using the discount rate of 7.75 percent, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

<u>1 % Decrease</u> <u>(6.75%)</u>	<u>Discount Rate</u> <u>(7.75%)</u>	<u>1 % Increase</u> <u>(8.75%)</u>
2,408,104	1,641,912	994,411

Deferred Outflows and Inflows of Resources

The balances of deferred outflows and inflows of resources to be recognized in future pension expense consist of the following:

Deferred Outflows of Resources

Difference between expected and actual experience	5,928
Net difference between projected and actual earnings on pension plan investments	38,409
Changes in assumptions	71,102
Changes in proportion	105,855
Contributions subsequent to the measurement date	<u>80,253</u>
Total	<u>301,547</u>

Deferred Inflows of Resources

Differences between expected and actual experience	46,524
Changes in assumptions	7,907
Changes in proportion	<u>45,706</u>
Total	<u>100,137</u>
Net deferred outflows (inflows) of resources	<u>201,410</u>

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 6. DEFINED BENEFIT PENSION PLAN (Continued)

Deferred Outflows and Inflows of Resources (Continued)

An amount of \$80,253 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized within the balance for the year ending December 31, 2019.

Net deferred outflows (inflows) of resources by year to be recognized in future pension expenses are as follows:

Year Ending December 31,	Net deferred outflows (inflows) of resources
2019	149,823
2020	44,479
2021	(15,066)
2022	17,159
2023	<u>5,015</u>
Total	<u>201,410</u>

Pension Expense

For the year ended December 31, 2018, the Board recognized pension expense of \$168,039. This figure includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows and deferred inflows of resources for the current period.

NOTE 7. ACCRUED SLUDGE REMOVAL AND WELL TREATMENT EXPENSE

Accrued Sludge Removal

Water is softened at both water treatment plants to remove carbonate hardness and organics from the water. The by-product of the treatment process is lime sludge, which is largely the chemical equivalent of limestone and water. Since 1948, lime sludge generated at the North Plant has been discharged directly into the Missouri River at a point just east of the treatment plant.

Lime sludge generated by the South Plant is temporarily stored in four lagoons (ponds) near the plant. When each lagoon is filled, and following a period of settlement and drying, the sludge is excavated from the filled lagoons and transported periodically to nearby agricultural land where it is applied as a soil amendment to promote commercial crop production.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 7. ACCRUED SLUDGE REMOVAL AND WELL TREATMENT EXPENSE (Continued)

To provide for these costs and charge current operations, the Board has established an accrued expense liability entitled Accrued Sludge Removal. The Board believes this amount is reasonable for future sludge removal costs.

At December 31, 2018, the accrued sludge removal expenses totaled \$198,485.

Well Treatment Expenses

At December 31, 2018, accrued well treatment expenses were \$196,305.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Capital assets, not being depreciated				
Real estate	810,616			810,616
Construction in progress	2,037,006	1,966,386	(2,740,692)	1,262,700
Other assets	44,105	467,931		512,036
	<u>2,891,727</u>	<u>2,434,317</u>	<u>(2,740,692)</u>	<u>2,585,352</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated				
Administrative				
Office building	586,072			586,072
Furniture and equipment	119,603			119,603
Office computer system	574,426			574,426
Administrative car	21,101			21,101
Distribution				
System	25,853,111	2,977,749		28,830,860
Center	614,789			614,789
Booster station	228,093			228,093
Pilot Knob Cottage	49,696	8,265		57,961
Tools and equipment	1,146,803	26,314		1,173,117
Trucks	283,032	26,368	(12,531)	296,869
Furniture and equipment	2,420			2,420
Computer system	2,237			2,237

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 8. CAPITAL ASSETS (Continued)

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Capital assets, being depreciated (Continued)				
North Plant				
Buildings and equipment	4,499,885	3,779		4,503,664
Softening equipment	576,947	2,580		579,527
Intake building	1,253,600	81,818	(50)	1,335,368
Computer system	737,015	50		737,065
Tools and equipment	101,638			101,638
Trucks	22,732			22,732
Furniture and equipment	3,891			3,891
Purification	2,897,112	15,181		2,912,293
South Plant				
Buildings and equipment	7,381,169	10,617		7,391,786
Lagoons	294,848	2,545		297,393
Wells	1,819,287			1,819,287
Computer system	451,009	1,498		452,507
Tools and equipment	94,553			94,553
Trucks	46,872			46,872
Furniture and equipment	8,033			8,033
Purification	2,464,946			2,464,946
Pumping	123,563			123,563
Softening equipment	143,170			143,170
Hwy 5 Building and equipment	8,050			8,050
Total capital assets, being depreciated	52,409,703	3,156,764	(12,581)	55,553,886
Less accumulated depreciation for:				
Administrative				
Office building	519,994	7,867		527,861
Furniture and equipment	103,262	3,677		106,939
Office computer system	523,313	17,206		540,519
Administrative car	14,419	4,220		18,639
Distribution				
System	6,089,610	420,059		6,509,669
Center	515,924	10,545		526,469
Booster station	195,292	5,429		200,721
Pilot Knob Cottage	45,995	1,457		47,452

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 8. CAPITAL ASSETS (Continued)

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
Distribution (Continued)				
Tools and equipment	662,664	76,411		739,075
Trucks	223,374	19,345	(12,531)	230,188
Furniture and equipment	2,463			2,463
Computer system	2,226	11		2,237
North Plant				
Buildings and equipment	2,885,341	153,485		3,038,826
Softening equipment	392,418	13,519		405,937
Intake building	985,832	34,863		1,020,695
Computer system	378,323	44,821		423,144
Tools and equipment	77,096	6,474		83,570
Trucks	18,673	3,247		21,920
Furniture and equipment	2,673	236		2,909
Purification	1,696,232	89,423		1,785,655
South Plant				
Buildings and equipment	4,508,428	174,506		4,682,934
Lagoons	202,330	4,454		206,784
Wells	1,431,365	63,939		1,495,304
Computer system	91,689	44,749		136,438
Tools and equipment	51,110	6,202		57,312
Trucks	46,872			46,872
Furniture and equipment	8,033			8,033
Purification	1,391,845	76,783		1,468,628
Pumping	91,538	2,120		93,658
Softening equipment	85,447	7,680		93,127
Hwy 5 Building and equipment	5,367	1,150		6,517
Total accumulated depreciation	<u>23,249,148</u>	<u>1,293,878</u>	<u>(12,531)</u>	<u>24,530,495</u>
Total capital assets, being depreciated, net	<u>29,160,555</u>	<u>1,862,886</u>	<u>(50)</u>	<u>31,023,391</u>
Total capital assets, net	<u>32,052,282</u>	<u>4,297,203</u>	<u>(2,740,742)</u>	<u>33,608,743</u>

NOTE 9. COMMITMENTS

The Board has entered into various contracts for infrastructure improvements. As of the year ending December 31, 2018, the balance of these commitments total 1.25 million.

LEAVENWORTH WATERWORKS BOARD
NOTES TO FINANCIAL STATEMENTS

NOTE 10. SUBSEQUENT EVENTS

In March 2018, the Board initiated the process of obtaining a loan for the purpose of constructing a Horizontal Collector Well. The loan was procured through the Kansas Public Water Supply Loan Fund through the Kansas Department of Health and Environment. While initiated in 2018, the loan was not finalized until January 11, 2019.

The total project/loan amount is \$6,900,000. The preliminary cost breakdown was as follows:

Construction costs	5,750,000
Engineering costs	975,000
Loan issuance costs	<u>175,000</u>
Total	<u><u>6,900,000</u></u>

If fully funded, the loan will require annual debt service payments of \$435,610 per year with a stated interest rate of 2.38%. Repayment of the loan will start one year after the completion of the project, or two years after the first draw down. To date, funds have not been disbursed on this loan so payment due dates and the payoff date are unavailable at this time.

In preparing the financial statements, the Board has evaluated events and transactions for potential recognition or disclosure through May 10, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LEAVENWORTH WATERWORKS BOARD
SCHEDULE OF EMPLOYER'S REQUIRED CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2018

Fiscal Year Ending	Actuarially Determined Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2015	174,467	174,467		1,867,358	9.34%
December 31, 2016	182,023	182,023		1,929,999	9.43%
December 31, 2017	170,367	170,367		2,084,524	8.17%
December 31, 2018	177,636	177,636		2,184,946	8.13%

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Data became available with the inception of GASB 68 during 2015. Ten years worth of data is unavailable at this time.

LEAVENWORTH WATERWORKS BOARD
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2018

	2018	2017	2016	2015
Proportionate share of the net pension liability	0.117%	0.109%	0.114%	0.114%
Proportionate share of the net pension liability	1,641,912	1,577,643	1,760,411	1,498,026
Covered-employee payroll	2,184,946	2,084,524	1,929,999	1,867,358
Proportional share of the net pension liability as a percentage of covered payroll	75.15%	75.68%	91.21%	80.22%
Plan fiduciary net position as a percentage of the total pension liability	68.88%	67.12%	65.10%	64.95%

OTHER SUPPLEMENTARY INFORMATION

LEAVENWORTH WATERWORKS BOARD
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Production			Admin-	
	North Plant	South Plant	Distribution	istration	Total
Pumping expenses					
Instrumentation and control	23,574	3,765			27,339
Repairs	58,141	66,192			124,333
Total pumping expenses	81,715	69,957			151,672
Purification expenses					
Chemicals	114,614	127,367			241,981
Other expenses	24,209	17,502			41,711
Repairs	17,774	19,650			37,424
Water analysis	16,001	16,929			32,930
Total purification expenses	172,598	181,448			354,046
Softening expenses					
Chemicals	182,188	274,139			456,327
Repairs	11,194	39,985			51,179
Sludge removal - lagoons		132,000			132,000
Total softening expenses	193,382	446,124			639,506
General operating expenses					
Salaries	448,208	438,021	607,038	366,217	1,859,484
Payroll expenses	131,599	163,794	201,374	120,126	616,893
Office expenses	765	650	339	79,537	81,291
Computer expenses		104	2,900	100,263	103,267
Repairs	32,213	45,951	411,938	53,047	543,149
Truck and equipment expense	132	520	44,957		45,609
Insurance	43,313	43,190	43,200	19,423	149,126
Utilities	222,103	291,216	32,327	20,773	566,419
Training, dues, and subscriptions	19,539	11,230	14,476	29,920	75,165
Professional fees				2,463	2,463
Building maintenance and supplies	1,659	1,689	14,475		17,823
Small tools and equipment	1,822	2,184	8,588		12,594
Uniforms	2,296	1,379	6,916		10,591
Terminated service			19,261		19,261
Materials			2,254		2,254
Travel	464	2,287	392	107	3,250
Other	1,687	10,169	41,842	3,985	57,683
Total general operating expenses	905,800	1,012,384	1,452,277	795,861	4,166,322
Total operating expenses	1,353,495	1,709,913	1,452,277	795,861	5,311,546

LEAVENWORTH WATERWORKS BOARD
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDING DECEMBER 31, 2018

	Balance 12/31/17	Net Additions	Balance 12/31/18
Certificates of Deposit	8,059,353	44,832	8,104,185
Kansas Municipal Investment Pool	2,192,909	347,507	2,540,416
Accrued Interest	<u>24,300</u>	<u>7,557</u>	<u>31,857</u>
Total	<u>10,276,562</u>	<u>399,896</u>	<u>10,676,458</u>

LEAVENWORTH WATERWORKS BOARD
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Charges for services			
Water sales	8,277,200	8,019,643	(257,557)
City services billing fees	283,135	283,718	583
Other	96,000	85,919	(10,081)
Plumbing supply sales	(725)		725
Interest revenue	90,000	99,895	9,895
Sale of assets	(1,000)		1,000
Miscellaneous	21,060	37,888	16,828
Total revenues	<u>8,765,670</u>	<u>8,527,063</u>	<u>(238,607)</u>
EXPENDITURES			
Water production			
Pumping	628,380	151,672	476,708
Purification	341,570	354,046	(12,476)
Water softening	656,700	639,506	17,194
General plant expense	1,501,250	1,918,184	(416,934)
Depreciation	726,175	727,652	(1,477)
Total water production	<u>3,854,075</u>	<u>3,791,060</u>	<u>63,015</u>
Distribution and Administrative			
Distribution	1,603,880	1,555,833	48,047
Administration	794,200	817,602	(23,402)
Depreciation	564,085	566,226	(2,141)
Total distribution and administrative	<u>2,962,165</u>	<u>2,939,661</u>	<u>22,504</u>
Nonoperating expenses			
Interest/meter deposits	3,875	7,868	(3,993)
Loss on bad debt	6,000	8,130	(2,130)
Miscellaneous	31,000	47,575	(16,575)
Total nonoperating expenses	<u>40,875</u>	<u>63,573</u>	<u>(22,698)</u>
Total expenditures	<u>6,857,115</u>	<u>6,794,294</u>	<u>62,821</u>
CAPITAL CONTRIBUTIONS		294,463	294,463
INCREASE (DECREASE) IN NET POSITION	<u>1,908,555</u>	2,027,232	<u>(6,965)</u>
FUND BALANCE, beginning of year		<u>41,145,256</u>	
FUND BALANCE, end of year		<u>43,172,488</u>	

See accompanying notes to budgetary comparison schedule.

LEAVENWORTH WATERWORKS BOARD
NOTES TO BUDGETARY COMPARISON SCHEDULE

NOTE 1. BUDGETARY INFORMATION

The Board's budget is prepared and adopted on the accrual basis for their proprietary fund. The Board is not required to have a budget under Kansas State Statutes, but one is prepared for operational purposes.



**DANA F. COLE
& COMPANY^{LLP}**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Leavenworth Waterworks Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Leavenworth Waterworks Board, which comprise the business-type activities as of and for the year ended December 31, 2018, and have issued our report thereon dated May 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leavenworth Waterworks Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency as item 2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leavenworth Waterworks Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Leavenworth Waterworks Board's Response to Findings

The Leavenworth Waterworks Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Leavenworth Waterworks Board's response, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dana F Cole + Company, LLP

Overland Park, Kansas
May 10, 2019

LEAVENWORTH WATERWORKS BOARD
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2018

2018-001 RELIANCE UPON THE AUDITOR

Criteria

As described in our engagement letter, management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of financial statements, including the notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition

Management should possess the ability to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements under this basis of accounting requires that management possess the ability to properly record and classify transactions in a general ledger, reconcile all accounts, measure and record needed adjustments to the accounts, and prepare the financial statements and related disclosures without the assistance from the auditors. During our audit, we compiled a working trial balance from financial records provided by the Board.

Cause

Board personnel do not obtain the expertise necessary to provide the auditors with a trial balance adjusted in accordance with accounting principles generally accepted in the United States of America and to draft the year end financial statements, supplementary information, and notes to the financial statements.

Potential Effect

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Board's internal control.

Recommendation

We recommend that the Board review and approve the proposed auditor adjusting entries and the adequacy of financial statement disclosures prepared by the auditors and apply analytic procedures to the draft financial statements to ensure that all assets and liabilities of the Board are recorded, among other procedures as considered necessary by management.

Views of Responsible Officials and Corrective Action Plan

The Leavenworth Waterworks Board has reviewed the finding of reliance on the auditor in preparing the financial statements. As preparation of the financial statements was a fundamental service delineated in the audit engagement letter, the Board was surprised that the auditor determining that reformatting the financial information provided, for presentation purposes, constituted a significant deficiency. As staff and the Board have reviewed the resulting financial statements for correctness, internal controls appear to be valid. To avoid this situation in the future, staff or an independent accountant will be utilized to reformat the statements for presentation in the audit.

LEAVENWORTH WATERWORKS BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2018

None reported.