

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

**Financial Statements for the
Years Ended October 31, 2018 and 2017
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)	2-5
FINANCIAL STATEMENTS:	
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9-17

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 4
Franklin County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 4, Franklin County (the "District") as of October 31, 2018 and 2017, 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 audit 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of October 31, 2018 and 2017, 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 2 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 consider 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.

November 21, 2018

Rural Water District No. 4 Franklin County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 4, Franklin County, Kansas annual financial report presents an analysis of the District's financial performance during the year ended October 31, 2018. 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. 4 Financial Overview for 2018

- The District's total assets decreased by \$85,389 from \$4,450,363 in 2017 to \$4,364,974 in 2018.
- The District's total liabilities decreased by \$90,997 from \$1,752,148 in 2017 to \$1,661,151 in 2018.
- The District's revenues from water sales increased by \$57,886 from \$605,593 in 2017 to \$663,479 in 2018.
- The District's costs and operating expenses decreased by \$12,703 from \$647,898 in 2017 to \$635,195 in 2018.

Overview of the Financial Statements

This report will include the Management's Discussion and Analysis, Financial Statements for the year ended October 31, 2018 and 2017, and the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in the 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 includes information on the District's assets and liabilities and provide information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses, and Changes in Net Position exhibit the District's revenues and expenses for the years ended October 31, 2018 and 2017. The Statements of Cash Flows presents 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 Revenues, Expenses, 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 by an increase in net position.

Net Position

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

Table 1
Condensed Statements of Net Position

	2018	2017	Dollar Change	Percent Change
Current and Other Assets	316,548	346,861	(30,313)	-8.7%
Noncurrent Assets	722,907	713,560	9,347	1.3%
Capital Assets, net	3,316,697	3,373,952	(57,255)	-1.7%
Deferred Outflows of Resources	8,822	15,990	(7,168)	-44.8%
Total Assets and Deferred Outflows	4,364,974	4,450,363	(85,389)	-1.9%
Current Liabilities	111,597	113,739	(2,142)	-1.9%
Long-term Debt	1,485,000	1,560,000	(75,000)	-4.8%
Net Pension Liability	33,083	64,619	(31,536)	-48.8%
Deferred Inflows of Resources	31,471	13,790	17,681	128.2%
Total Liabilities and Deferred Inflows	1,661,151	1,752,148	(90,997)	-5.2%
Net assets invested in				
capital assets, net of related debt	1,756,697	1,738,952	17,745	1.0%
Restricted	247,538	243,424	4,114	1.7%
Unrestricted	699,588	715,839	(16,251)	-2.3%
Total Net Position	2,703,823	2,698,215	5,608	0.2%

Total assets decreased by \$85,389 from \$4,450,363 in 2017 to \$4,364,974 in 2018. This is a result of depreciation expense and reduction of liabilities in 2018. Capital assets are a net result of all fixed assets, including 2018 additions, less accumulated depreciation.

Total liabilities decreased by \$90,997 from \$1,752,148 in 2017 to \$1,661,151 in 2018. During the year, the District continued to make payments on outstanding bonds payable that were obtained for the construction of the new water tower. Accounts payable decreased by \$4,635 and accrued liabilities increased by \$2,493. In 2015, the District implemented GASB 68 and GASB 71, resulting in the recognition of the District's long-term obligation for pension benefits as a liability on the statement of net position.

Total net position increased by \$5,608 from \$2,698,215 in 2017 to \$2,703,823 in 2018.

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

	2018	2017	Dollar Change	Percent Change
Operating Revenues	663,479	605,593	57,886	9.6%
Non-operating Revenues	33,869	27,813	6,056	21.8%
Total Revenues	697,348	633,406	63,942	10.1%
Depreciation Expense	158,811	158,374	437	0.3%
Other Operating Expense	476,384	489,524	(13,140)	-2.7%
Non-operating Expense	63,545	64,945	(1,400)	-2.2%
Total Expenses	698,740	712,843	(14,103)	-2.0%
Income (Loss) Before Capital Contributions	(1,392)	(79,437)	78,045	98.2%
Capital Contributions	7,000	28,000	(21,000)	-75.0%
Changes in Net Position	5,608	(51,437)	57,045	110.9%
Beginning Net Position	2,698,215	2,749,652	(51,437)	-1.9%
Ending Net Position	2,703,823	2,698,215	5,608	0.2%

The Statements of Revenue, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the loss before capital contributions was \$1,392 with capital contributions of \$7,000, which resulted in a net increase in net position of \$5,608 for the year ended October 31, 2018.

The District's total operating revenues increased by \$57,886 from \$605,593 in 2017 to \$663,479 in 2018. Total expenses decreased by \$14,103 from \$712,843 in 2017 to \$698,740 in 2018. The major contributor to the decrease in expenses were related to repairs and maintenance.

Debt

In 2010, the District issued \$1,989,970 in revenue bonds to assist with the construction of the new water tower. The outstanding balance is \$1,560,000 at October 31, 2018, of which, \$1,485,000 is classified as long term.

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. 4, Franklin County, KS Office Manager at 1506 Old Hwy 50 Williamsburg, KS 66095.

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF NET POSITION
OCTOBER 31, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and cash equivalents
KRWFA deposit
Accounts receivable
Prepaid expenses and other current assets
Inventory

Total current assets

NONCURRENT ASSETS

Certificates of deposit
Loan reserve fund

Total noncurrent assets

CAPITAL ASSETS

Nondepreciable capital assets
Depreciable capital assets
Less accumulated depreciation
Depreciable capital assets, net

Total capital assets, net

Total assets

DEFERRED OUTFLOWS OF RESOURCES

Total assets and deferred outflows of resources

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

CURRENT LIABILITIES

Current portion of long-term debt
Accounts payable
Accrued liabilities

Total current liabilities

LONG-TERM DEBT, less current portion

NET PENSION LIABILITY

Total liabilities

DEFERRED INFLOWS OF RESOURCES

Total liabilities and deferred inflows of resources

NET POSITION

Invested in capital assets, net of related debt
Restricted
Unrestricted

Total net position

	2018	2017
	\$	\$
Cash and cash equivalents	126,257	152,050
KRWFA deposit	102,829	102,449
Accounts receivable	50,170	55,728
Prepaid expenses and other current assets	14,695	14,037
Inventory	22,597	22,597
Total current assets	316,548	346,861
Certificates of deposit	475,369	470,136
Loan reserve fund	247,538	243,424
Total noncurrent assets	722,907	713,560
Nondepreciable capital assets	14,400	14,400
Depreciable capital assets	5,772,832	5,671,276
Less accumulated depreciation	(2,470,535)	(2,311,724)
Depreciable capital assets, net	3,302,297	3,359,552
Total capital assets, net	3,316,697	3,373,952
Total assets	4,356,152	4,434,373
	8,822	15,990
Total assets and deferred outflows of resources	\$ 4,364,974	\$ 4,450,363
Current portion of long-term debt	\$ 75,000	\$ 75,000
Accounts payable	20,842	25,477
Accrued liabilities	15,755	13,262
Total current liabilities	111,597	113,739
LONG-TERM DEBT, less current portion	1,485,000	1,560,000
NET PENSION LIABILITY	33,083	64,619
Total liabilities	1,629,680	1,738,358
	31,471	13,790
Total liabilities and deferred inflows of resources	1,661,151	1,752,148
Invested in capital assets, net of related debt	1,756,697	1,738,952
Restricted	247,538	243,424
Unrestricted	699,588	715,839
Total net position	\$ 2,703,823	\$ 2,698,215

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017**

	2018	2017
WATER SALES	\$ 663,479	\$ 605,593
COST OF WATER PURCHASED	<u>221,364</u>	<u>189,448</u>
GROSS PROFIT	<u>442,115</u>	<u>416,145</u>
 COSTS AND OPERATING EXPENSES		
Personnel costs	86,477	94,136
Repairs and maintenance	67,568	105,238
Office supplies and telephone	10,882	13,782
Utilities	35,414	33,439
Insurance	14,519	14,831
Professional fees	13,734	10,537
Water analysis and testing	2,763	3,354
Water protection fee	2,153	1,774
Vehicle expense	8,235	8,560
Dues and subscriptions	2,251	1,012
Mileage	1,316	2,015
Board expense	3,878	5,840
Depreciation and amortization	158,811	158,374
Miscellaneous	5,830	5,558
	<u>413,831</u>	<u>458,450</u>
INCOME FROM OPERATIONS	<u>28,284</u>	<u>(42,305)</u>
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	9,444	8,522
Other income (expense)	24,425	19,291
Interest expense	(63,545)	(64,945)
	<u>(29,676)</u>	<u>(37,132)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(1,392)</u>	<u>(79,437)</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>7,000</u>	<u>28,000</u>
INCREASE (DECREASE) IN NET POSITION	<u>5,608</u>	<u>(51,437)</u>
NET POSITION, BEGINNING OF YEAR	<u>2,698,215</u>	<u>2,749,652</u>
NET POSITION, END OF YEAR	<u>\$ 2,703,823</u>	<u>\$ 2,698,215</u>

**RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017**

	2018	2017
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 669,037	\$ 606,076
Cash payments to suppliers for goods and services	<u>(485,871)</u>	<u>(501,673)</u>
Net cash provided by operating activities	<u>183,166</u>	<u>104,403</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and line extensions	7,000	28,000
Change in long-term debt	(75,000)	(70,000)
Interest paid	(63,545)	(64,945)
Change in KRWFA deposit	(380)	(359)
Acquisition and construction of fixed assets	<u>(101,556)</u>	<u>(48,599)</u>
Net cash used in capital and related financing activities	<u>(233,481)</u>	<u>(155,903)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	(5,233)	(4,460)
Change in loan reserve	(4,114)	(1,793)
Interest received	<u>33,869</u>	<u>27,813</u>
Net cash provided by investing activities	<u>24,522</u>	<u>21,560</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,793)	(29,940)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>152,050</u>	<u>181,990</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 126,257</u>	<u>\$ 152,050</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 28,284	\$ (42,305)
Adjustments to reconcile operating income to net cash provided by used in operating activities:		
Depreciation and amortization	158,811	158,374
Changes in:		
Accounts receivable	5,558	483
Inventories	-	(4,431)
Deferred outflows of resources for pension contribution	7,168	(5,868)
Prepaid insurance and other current assets	(658)	(20)
Accounts payable and accrued liabilities	(2,142)	(5,409)
Net pension liability	(31,536)	3,484
Deferred inflows of resources	<u>17,681</u>	<u>95</u>
Net cash provided by operating activities	<u>\$ 183,166</u>	<u>\$ 104,403</u>

RURAL WATER DISTRICT NO. 4

FRANKLIN COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2018 AND 2017

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 October 31, 2018 and 2017 were 884 and 883.

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, 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 statements 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 and liabilities and 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. Inventories - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.
- d. Capital Assets - Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- e. Income Taxes - The District is a quasi-governmental unit, not subject to federal or state income taxes.

- f. 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. Benefit units, currently \$7,000, are recorded as contributions when received.
- g. 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 accrued water sales.
- h. Net position - Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position are 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 has concluded that there are no subsequent events that materially impact the financial statements.

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2017	Additions	Disposals & Transfers	2018
Nondepreciable capital assets:				
Land	14,400			14,400
	14,400	-	-	14,400
Depreciable capital assets:				
Other equipment	181,442	4,024		185,466
Line extensions and tower	4,962,619	91,063		5,053,682
Office equipment	106,230	6,469		112,699
Pumps and motors	91,367			91,367
Building	68,035			68,035
Radio equipment	219,199			219,199
Vehicle	42,384			42,384
	5,671,276	101,556	-	5,772,832
Less accumulated depreciation	(2,311,724)	(158,811)		(2,470,535)
Depreciable capital assets, net	3,359,552	(57,255)		3,302,297
Total capital assets, net	3,373,952	(57,255)		3,316,697

	2016	Additions	Disposals & Transfers	2017
Nondepreciable capital assets:				
Land	14,400			14,400
	14,400	-	-	14,400
Depreciable capital assets:				
Other equipment	180,842	600		181,442
Line extensions and tower	4,918,777	43,842		4,962,619
Office equipment	102,073	4,157		106,230
Pumps and motors	91,367			91,367
Building	68,035			68,035
Radio equipment	219,199			219,199
Vehicle	42,384			42,384
	5,622,677	48,599	-	5,671,276
Less accumulated depreciation	(2,153,350)	(158,374)		(2,311,724)
Depreciable capital assets, net	3,469,327	(109,775)		3,359,552
Total capital assets, net	3,483,727	(109,775)		3,373,952

4. CASH AND INVESTMENTS

Deposits - At October 31, 2018 and 2017, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The District's investments at October 31, 2018 and 2017 were carried at cost which is the same as market value.

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.

5. LONG-TERM DEBT

	2018	2017
KRWFA Revenue Bonds, Series B, interest due in semi-monthly installments commencing on April 1, 2012 at rates ranging from 1.0% to 4.45% that matures in October of 2031.	\$ 1,560,000	\$ 1,635,000
Less current portion	<u>75,000</u> \$ <u>1,485,000</u>	<u>75,000</u> \$ <u>1,560,000</u>

The District is required to establish and fund, a bond reserve account with a balance equal to \$164,509. The balance in the reserve account as of October 31, 2018 and 2017 was \$247,538 and \$243,424, respectively.

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

Interest expense on long-term debt totaled \$63,545 and \$64,945 for the years ended October 31, 2018 and 2017.

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

Total long-term debt, beginning	\$ 1,635,000
Advances	-
Principal payments	<u>(75,000)</u>
Total long-term debt, ending	1,560,000
Less current portion	<u>75,000</u>
Noncurrent portion	\$ <u>1,485,000</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>KRWFA Interest</u>	<u>Total</u>
2019	75,000	61,670	134,945
2020	80,000	59,795	139,795
2021	85,000	57,395	142,395
2022	90,000	54,845	144,845
2023	95,000	51,695	146,695
2024-2028	550,000	200,562	750,562
2029-2031	585,000	60,278	645,278
	<u>\$ 1,560,000</u>	<u>\$ 546,240</u>	<u>\$ 2,104,515</u>

Debt Service Coverage Ratio Calculation:

Increase (decrease) in Net Position	\$ 5,608
Add:	
Depreciation and amortization	158,811
Interest expense	63,545
Income available for debt service	<u>\$ 227,964</u>
Debt service	
Interest expense	\$ 63,545
Principal payments	75,000
	<u>\$ 138,545</u>
Debt service coverage ratio	<u>1.65</u>

6. PENSION PLAN

Description of Pension Plan

The District participates in a cost-sharing multiple-employer pension plan ("Pension Plan"), administered by the Kansas Public Employees Retirement System ("KPERS"). KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

Public employees, which includes:

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

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the District are included in the local employee group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at www.kpers.org.

Benefits

Benefits are established by statute and may only be changed by the Legislature. Members 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 service, or whenever a member's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and 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.

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. 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 contribution rates 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 rates be determined based on the results of an annual actuarial valuation. 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. 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 for the fiscal year ended June 30, 2017.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.46% and 8.46%, respectively. Member contribution rates as a percentage of eligible compensation in fiscal year 2017 are 6.00% for local government employees. The contribution requirement for the years ended October 31, 2018 and 2017 was \$3,682 and \$6,712, which consisted of \$1,535 and \$2,657 from employees and \$2,147 and \$3,813 from the District, respectively.

Employer 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, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position 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 the District's share of the collective pension amounts as of June 30, 2017 and 2016 are based on the ratio of its contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended June 30, 2017 and 2016.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, the District's proportion was .0023%, which was a decrease of .0019% from its proportion measured at June 30, 2016.

Net Pension Liability

At October 31, 2018 and 2017 the District reported a liability of \$33,083 and \$64,619, for its proportionate share of the net pension liability.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75%
Salary increase	3.5 to 12.00 percent, including price inflation
Long-term rate of return, net of investment expense, and including price inflation	7.75%

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, 2016, 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 and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47.00%	6.80%
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	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate was based on member and employer contributions as outlined below:

In KPERS, the State/School and local groups do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for Fiscal Year 2017 was 1.2 percent.

Based on employer contribution history, 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. Using this assumption actuarial modeling indicates that employer contribution rates for the State/School group are sufficient to avoid a depletion date.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

1% Decrease (6.75%)	Discount rate (7.75%)	1% Increase (8.75%)
\$47,646	\$33,083	\$20,806

Pension Expense

For the years ended October 31, 2018 and 2017, the District recognized pension expense of \$3,682 and \$5,915, which include the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

Deferred Outflows of Resources and Deferred Inflows of Resources

At October 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	160	1,144
Changes of assumptions	1,782	242
Net differences between projected and actual earnings on investments	1,038	-
Changes in proportion	5,842	30,085
	<u>\$ 8,822</u>	<u>\$ 31,471</u>

The following table provides the net deferred outflows/(deferred inflows) of resources that will be recognized in pension expense in future years:

Deferred outflows/(inflows) of resources:	
2018	\$ (6,330)
2019	(4,627)
2020	(3,814)
2021	(5,931)
2022	(1,947)
Thereafter	-
	<u>\$ (22,649)</u>

8. 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 year ended October 31, 2018.

November 21, 2018

Board of Directors
Rural Water District No. 4
Franklin County, Kansas

We have audited the financial statements of Rural Water District No. 4 Franklin County, Kansas, (the "District") for the years ended October 31, 2018 and 2017, and have issued our report thereon dated the date of this letter. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rural Water District No. 4 Franklin County, Kansas are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We have noted no transactions entered into by the District during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has been made aware of the audit adjustments and has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated the date of the Independent Auditors' Report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements of the District as of and for the years ended October 31, 2018 and 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be *significant deficiencies* or *material weaknesses* and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the District's internal control to be *significant deficiencies*:

Control Issues Noted:

Segregation of Duties

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Due to the small size of the District's office staff, the extent of separation of duties is limited. However, there are compensating controls which could be put in place which, when operating effectively, help to mitigate the risk of material misstatement to an inconsequential level. Management and the board of directors should continue to be aware of the risks of lack of segregation of duties and consider the following:

Physical Inventory counts

We recommend the District conduct inventory counts at least annually at year end to improve inventory management and processes. To gain even greater accuracy and efficiency in the taking of physical inventory at year end, the District should consider implementing a cycle counting program to improve its inventory processes.

Review of Monthly Financial Statements and Accounts Receivable Balances

We recommend that the basic financial statements (balance sheet and income statement) be prepared and reviewed by the board of directors on a monthly basis. Unusual fluctuations from expectations should be reviewed to determine nature of fluctuation.

We also recommend that an accounts receivable aging report be prepared and reviewed by the board on a monthly basis. We recommend that any write offs of uncollectible accounts be approved by the board and documented in the meeting minutes.

Cash Disbursements

We noted the board reviews all checks and supporting documentation before signing the checks. This is an excellent control and we suggest this process be maintained. We suggest that the supporting documents reviewed be initialed to evidence the review process.