RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

FINANCIAL STATEMENTS

For the Years Ending December 31, 2022 and 2021

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RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

Financial Statements
For the Years Ending December 31, 2022 and 2021

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements:	
Statement of Net Position - Proprietary Fund	6
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	7
Statement of Cash Flows - Proprietary Fund	8
Notes to Financial Statements	9 - 19
Supplementary Information:	
Budgetary Comparison	20

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 5
Lawrence, Kansas

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 5 Douglas County (the District), as of and for the years ending December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Rural Water District No. 5 Douglas County as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years ending in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve, collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Other Matters

Required Supplementary Information

Management has omitted the schedule of the District's proportionate share of the net pension liability and the schedule of the District's contributions to KPERS that accounting principles generally accepted in the United States of America require be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB , who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the District's financial statements as a whole. The budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. That schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

March 2, 2023

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion of the financial performance of Rural Water District No. 5, Douglas County, Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2022 and comparative data for the years ended December 31, 2022 and December 31, 2021. This information is presented in conjunction with the audited financial statements that follow this section.

The financial statements presented in this report consist of the *statements of net position, statements of activities and changes in net position,* and the *statement of cash flows.* The statement of net position provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statement of activities and changes in net position. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing and investing.

Financial Highlights

The District's total assets decreased by $30,731 from December 31, 2021, to December 31, 2022. This was principally due to an increase in accumulated depreciation in 2022.

The District's net position decreased by $76,522 from December 31, 2021, to December 31, 2022. This was principally due increased operating expenses during 2022.

The District had a loss from operations of $235,439 after recognizing depreciation and amortization expense of $207,254 in 2022 compared to a loss from operations of $284,423, after recognizing depreciation and amortization expense of $218,946 in 2021.

The District's expense from non-operating revenues [expenses] was $100,517, after recognizing bond payments of $[348,000], management fees of $442,093 and interest income of $6,424 in 2022 compared to revenues from non-operating revenues [expenses] of $[119,827] after recognizing bond payments of $[348,000], management fees of $218,327, and interest income of $9,846 in 2021.

Total cash on hand as of December 31, 2022 was $1,352,593 which was an increase of $112,052 over the cash on hand amount of $1,240,541 on December 31, 2021.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the figures provided in the financial statements. The notes to basic financial statements can be found on pages 9-19 of this report.

Net Position

The District's net investment in capital assets (e.g., land, buildings and equipment), less any related debt outstanding used to acquire those assets decreased by $153,870 in 2022 when compared to 2021. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors.

Current Assets

The District's current assets increased by $123,139 in 2022 compared to 2021.

Capital Assets

The District's capital assets, net of accumulated depreciation, for its business-type activities as of December 31, 2022 and 2021 was $2,633,458and $2,787,328 respectively. This includes land, buildings, facilities and equipment.

Additional information on the District's capital assets can be found in Note 2.E on page 12-13 of this report.

Current Liabilities

The District's current liabilities increased by $540 in 2022. This is principally due an increase in compensated absences at the end of 2022.

Long Term Debt

The District does not currently have any debt for the years ended December 31, 2022 and 2021.

Economic Factors and Next Year's Budget and Rates

The annual budget outlines Management's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the customers the District serves.

As a product of an ongoing examination of how the District conducts its business, the budget seeks to assure that the District has the necessary funds to accomplish its objectives, while ensuring that the rates and charges remain as competitive as possible.

Continued slow growth within the District is anticipated. The potential consolidation with a surrounding district and cities is a factor that could have an impact on operations, the Board of Directors continues to monitor and participate in that process.

Requests for Information

This financial report is designed to provide citizens, customers, investors and creditors with a general overview of the District's finances, and to demonstrate the District's financial accountability. If you have any questions about this report or desire any additional information, contact the general manager at 946 E. 650 Road, Lawrence, KS 66047.

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

STATEMENT OF NET POSITION
As of December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	$ 318,579	$ 223,703
Short-term investments	1,034,014	1,016,838
Accounts receivable	104,105	100,310
Prepaid	58,196	54,599
Inventory	55,118	51,423
Total current assets	1,570,012	1,446,873
Noncurrent assets:		
Capital assets, nondepreciable		
Land	53,353	53,353
Capital assets, depreciable		
Property, plant, and equipment	7,464,604	7,411,220
Less: accumulated depreciation	[4,884,499]	[4,677,245]
Total noncurrent assets	2,633,458	2,787,328
Total assets	4,203,470	4,234,201
Deferred outflows of resources		
Pensions	186,909	145,824
Total assets and deferred outflows of resources	$ 4,390,379	$ 4,380,025
Liabilities		
Current liabilities:		
Accounts payable	$ [3,549]	$ -
Accrued payroll	51,839	54,321
Compensated absences payable	42,367	35,796
Total current liabilities	90,657	90,117
Noncurrent liabilities:		
KPERS net pension liability	504,148	308,305
Total noncurrent liabilities	504,148	308,305
Total liabilities	594,805	398,422
Deferred inflows of resources		
Pensions	4,546	114,053
Total liabilities and deferred inflows of resources	$ 599,351	$ 512,475
Net position:		
Net investment in capital assets	$ 2,633,458	$ 2,787,328
Unrestricted	1,157,570	1,080,222
Total net position	$ 3,791,028	$ 3,867,550

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

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2022 and 2021

	2022	2021
Operating revenues		
Water sales	$ 1,316,143	$ 1,233,525
Reimbursements	1,763	1,800
Late charges	12,278	12,119
Other fees	12,171	3,861
Total operating revenues	1,342,355	1,251,305
Operating expenses		
Water purchases	409,508	373,030
Wages	557,250	554,227
Payroll taxes	47,053	41,602
Water protection fees	4,063	3,944
Contract services	7,016	11,052
Health Insurance	75,468	83,958
KPERS	98,540	65,461
Insurance	26,561	28,553
Utilities	17,272	15,926
Telephone, internet and radio	3,026	3,683
Office supplies and postage	24,435	24,556
Vehicle expenses	24,816	23,284
Professional fees	4,525	4,143
Inventory purchases	31,984	48,465
Depreciation	207,254	218,946
Repairs and maintenance	24,631	25,790
Engineering	333	1,433
Bank fees	4,436	3,178
Dues	1,140	1,160
Miscellaneous	8,483	3,337
Total operating expenses	1,577,794	1,535,728
Operating income [loss]	[235,439]	[284,423]
Non-operating revenues [expenses]		
Interest income	6,424	9,846
Management fee	442,093	218,327
Bond payments for PWWSD 25 - Note 3.D	[348,000]	[348,000]
Total nonoperating revenues [expenses]	100,517	[119,827]
Net income [loss] before contributions	[134,922]	[404,250]
Capital contributions		
Benefit units and aid in construction	58,400	97,415
Change in net position	[76,522]	[306,835]
Net position - beginning of year	3,867,550	4,174,385
Net position - end of year	$ 3,791,028	$ 3,867,550

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

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	$ 1,338,560	$ 1,252,580
Cash payments for goods and services	[824,131]	[770,468]
Cash payments to employees for services	[507,910]	[527,161]
Net cash provided by [used in] operating activities	6,519	[45,049]
Cash flows from investing activities		
Interest income	6,424	9,846
Net cash provided by [used in] investing activities	6,424	9,846
Cash flows from capital and related financing activities		
Bond payments for PWWSD 25 - Note 3.D	[348,000]	[348,000]
Proceeds from the sale of benefit units/contribution in aid	58,400	97,415
Cash receipts from management fee	442,093	218,327
Purchase of capital assets	[53,384]	[17,350]
Net cash provided by [used in] capital and related financing activities	99,109	[49,608]
Net increase [decrease] in cash and cash equivalents	112,052	[84,811]
Cash and cash equivalents, January 1	1,240,541	1,325,352
Cash and cash equivalents, December 31	$ 1,352,593	$ 1,240,541
Reconciliation of operating income [loss] to net cash provided by [used in] operating activities		
Operating income [loss]	$ [235,439]	$ [284,423]
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities		
Depreciation expense	207,254	218,946
[Increase] decrease in accounts receivable	[3,795]	1,275
[Increase] decrease in inventory	[3,597]	[3,291]
[Increase] decrease in prepaid expenses	[3,695]	[3,189]
[Increase] decrease in deferred outflows - pensions	[41,085]	14,126
Increase [decrease] in accounts payable	[3,549]	[1,433]
Increase [decrease] in accrued payroll	[2,482]	3,654
Increase [decrease] in compensated absences payable	6,571	5,761
Increase [decrease] in net pension liability	195,843	[110,528]
Increase [decrease] in deferred inflows - pensions	[109,507]	114,053
Net cash provided by [used in] operating activities	$ 6,519	$ [45,049]

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

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ending December 31, 2022 and 2021

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Rural Water District No. 5, Douglas County (the District) was organized under Kansas law with the purpose and objective to acquire water rights, and to build and acquire pipelines for the purpose of furnishing water for domestic, agriculture, and/or other purposes to rural customers. The District provides services to patrons located within the District. The benefit units in service as of December 31, 2022 and 2021 was 1,300 and 1,294.

B. Government-wide and Fund Financial Statements

The statement of net position and the statement of revenues, expenses, and changes in net position report information on the District as a whole. All activities of the District are business-type activities operated as a single proprietary fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services. All other revenues and expenses not meeting this definition are nonoperating. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

D. Cash and Cash Equivalents

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments (including certificates of deposits) with original maturities of three months or less from the date of acquisition.

The District invests its unrestricted cash in a financial institution in northeast Kansas.

E. Investments

The investments represent certificates of deposit. The certificates of deposit are recorded at cost as they are not affected by market rate changes.

F. Accounts Receivable

The water meters in the District are read the last week of each month, all readings are processed later that week so that monthly billing can the mailed by the end of the month. Payments for water are due the 16th day of the following month or will be subject to a 10% late charge. The base rate charge for 2022 was $36 and usage was billed at $11.00 per 1,000 gallons. The base rate charge for 2021 was $35, and usage was billed at a rate of $10.60 per 1,000.

G. Inventory

The District's inventory is valued at cost. Cost is determined by the average cost method.

H. Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for $6,800 per meter.

I. Aid in Construction

Aid in construction represents contributions from the members for line extensions.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Revenues and expenses

Revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities.

K. Budget

The District prepares its budgeted for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget activity is presented as supplementary information.

L. Property, Plant and Equipment

Property, plant, and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period.

The District's capitalization policies are as follows:

Asset Type	Capitaliation Threshold	Useful Life
Rural water system	$ 5,000	20 - 40 years
Building and improvements	5,000	15 - 40 years
Operating equipment	5,000	5 - 10 years

M. Net Position

The District's net position is displayed in three components as follows:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislations.

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Income Taxes

The District is considered a municipality and is therefore a tax-exempt entity and is not subject to income taxes at either the federal or state level.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Note 2. DETAILED NOTES

A. Cash and Cash Equivalents

Cash and cash equivalents consist of the following for the years ending December 31, 2022 and 2021:

	2022	2021
Demand deposit accounts	$ 318,579	$ 223,703
Certificates of deposit	1,034,014	1,016,838
Total cash and cash equivalents	$1,352,593	$1,240,541

B. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository 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, except during designated ‘peak periods’ when required coverage is 50%.

As of December 31, 2022 and 2021, the District's carrying amount of deposits were $1,352,593 and $1,240,541, respectively, and the bank balance was $1,394,998 and $1,279,238, respectively. Of the bank balance as of December 31, 2022, $815,381 was covered by federal depository insurance, and $702,359 was collateralized with securities held by the pledging financial institutions’ agents in the District’s name, CDARS accounts and insured cash sweep accounts. The remaining $122,742 was unsecured as of December 31, 2022, which is a violation of K.S.A. 9-1402.

Note 2. DETAILED NOTES (Continued)

C. Accounts Receivable

Accounts receivable are carried at original billed amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts.

D. Prepaid Expenses

Prepaid expenses consist of prepaid insurance and prepaid water contracts with the Kansas Water Office.

E. Capital Assets

Capital asset activity for the years ending December 31, 2022 and 2021 was as follows:

	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022
Nondepreciable assets:				
Land	$ 53,353	$ -	$ -	$ 53,353
Depreciable assets:				
Rural water system	6,893,684	10,900	-	6,904,584
Building and improvements	142,211	-	-	142,211
Operating equipment	375,325	42,484	-	417,809
Total capital assets	7,464,573	53,384	-	7,517,957
Less accumulated depreciation for:				
Rural water system	4,260,684	180,037	-	4,440,721
Building and improvements	92,435	3,555	-	95,990
Operating equipment	324,126	23,662	-	347,788
Total accumulated depreciation	4,677,245	207,254	-	4,884,499
Capital assets, net	$ 2,787,328	$ [153,870]	$ -	$ 2,633,458

Note 2. DETAILED NOTES (Continued)

E. Capital Assets (Continued)

	Balance January 1, 2021	Additions	Deletions	Balance December 31, 2021
Nondepreciable assets:				
Land	$ 53,353	$ -	$ -	$ 53,353
Depreciable assets:				
Rural water system	6,876,984	16,700	-	6,893,684
Building and improvements	142,211	-	-	142,211
Operating equipment	374,675	650	-	375,325
Total capital assets	7,447,223	17,350	-	7,464,573
Less accumulated depreciation for:				
Rural water system	4,080,914	179,770	-	4,260,684
Building and improvements	88,880	3,555	-	92,435
Operating equipment	288,505	35,621	-	324,126
Total accumulated depreciation	4,458,299	218,946	-	4,677,245
Capital assets, net	$ 2,988,924	$ [201,596]	$ -	$ 2,787,328

Depreciation expense was $207,254 and $218,946 for the years ended December 31, 2022 and 2021.

Note 3. OTHER INFORMATION

A. Commitments and Contingencies Litigation

The District's management and legal counsel anticipate that the potential claims against the District not covered by insurance, if any, would not materially affect the financial position of the District.

B. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded the commercial coverage in any of the three preceding years. There have not been significant reductions in coverage from prior years.

C. Defined Benefit Pension Plan

Description of Pension Plan. The District participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board 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 an 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:

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

- 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 employees 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 State Legislature. Members (except Police and Firemen) 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 service equal 85.

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.

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 five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten 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 rates are 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.

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

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, 2022.

The actuarially determined employer contribution rates (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows:

	Actuarial Employer Rate	Statutory Employer Capped Rate
Local employees	8.90%	8.90%

Member contribution rates as a percentage of eligible compensation for the KPERS fiscal year 2022 is 6.00% for Local employees.

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 December 31, 2022, 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, 2022.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. As of June 30, 2022, the District's proportion for the Local employees group was 0.025%, which was a decrease of .001% from its proportion measured at June 30, 2021.

Net Pension Liability. As of December 31, 2022 and 2021, the District reported a liability of $504,148 and $308,305, respectively, for its total proportionate share of the net pension liability for the Local group.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2022, which was rolled forward to June 30, 2022, using the following actuarial assumptions:

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

Assumptions	Rate
Price inflation	2.75%
Wage inflation	3.50%
Salary increases, including wage increases	3.25% to 12.00%, including inflation
Long-term rate of return, net of investment expense, and including price inflation	7.00%

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, 2022 valuation were based on the results of an actuarial experience study conducted for the period of January 1, 2016 through December 31, 2018. The experience study is dated January 7, 2020.

The long-term expected rate of return of 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 included in the pension plan's target asset allocation as of June 30, 2022 are summarized in the following table:

Asset	Long-Term Allocation	Long-Term Expected Real Rate of Return
U.S Equities	23.50%	5.20%
Non-U.S. Equities	23.50%	6.40%
Private Equity	8.00%	9.50%
Private Real Estate	11.00%	4.45%
Yield Driven	8.00%	4.70%
Real Return	11.00%	3.25%
Fixed Income	11.00%	1.55%
Short Term Investments	4.00%	0.25%
	100.00%	

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers 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 expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen, and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.00%, 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 (6.00%) or 1-percentage point higher (8.00%) than the current rate:

1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
$724,225	$504,148	$320,792

Pension Expense. For the years ending December 31, 2022 and 2021, the District recognized Local pension expense of $90,576 and $48,613, which includes 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. As of December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions for Local group from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	$ 19,069	$ [904]
Differences between projected and actual earnings on investments	42,677	[3,642]
Changes of assumptions	80,585	-
Changes in proportion	44,578	-
Total	$ 186,909	$ [4,546]

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Deferred [Inflows] Outflows Amount
2023	$ 65,430
2024	47,553
2025	22,256
2026	45,516
2027	1,608
Total	$ 182,363

Note 3. OTHER INFORMATION (Continued)

D. Contracts and Commitments

In June of 1974, the District entered into a 40-year contract with an addendum added in May 1975, for treatment of water from the City of Lawrence, Kansas. New contracts were entered into in December 1998 and October 2008.

In 1977, The District entered into a 40-year contract with the State of Kansas, represented by the Kansas Water Resources Board, which allows the District to withdraw 48 million gallons of water from Clinton Lake. The Kansas Water Resources Board has the right to review the contract and determine a new rate every ten years. In 1995, the District entered into an additional 40-year contract with the State of Kansas, Represented by the Kansas Water Resources Board, which allows the District to withdraw 135 million gallons of water from Clinton Lake.

The City of Lawrence and the Tri-District plant treat, process and transport water to Rural Water District No. 5. The extension of the agreement with the Tri-District plant is currently pending.

The District has also entered into an agreement with Public Wholesale Water Supply District No. 25 (PWWSD) which is a wholesale water utility that provides wholesale domestic water service. PWWSD was organized under authority of State Law, K.S.A. 19-3501 et. seq. Its purpose is to develop and ultimately operate a public water supply system that can deliver water to wholesale members. Its members currently consist of two entities: Rural Water District No. 5, Douglas County, and Rural Water District No. 5, Osage County. Rural Water District No. 5, Douglas County, and Rural Water District No. 5, Osage County, together serve an area located south and west of the City of Lawrence, Kansas. Collectively they provide drinking water to approximately 10,000 persons including farmers, ranchers, homeowners, and small businesses throughout their respective districts.

PWWSD has water purchase contracts with Rural Water District No. 5, Douglas County and Rural Water District No. 5, Osage County, that are 40-year contracts for these member entities to purchase water from the District. These contracts allow both entities to purchase up to 1 million gallons per day and both Douglas No. 5 and Osage No. 5 agree to pay 50% of the debt service costs of the PWWSD. PWWSD started supplying water under this agreement in late 2019.

As part of the agreement with PWWSD, the District is required (as is Osage Rural Water District No. 5) to make payments to PWWSD so that PWWSD can pay its bond and interest obligations. The District's payments to PWWSD under this agreement totaled $348,000 in 2022 and $348,000 in 2021.

For the 2022 calendar year through 2056, additional payments estimated at $348,000 each year will need to be paid by the District to the PWWSD so that the PWWSD can pay its bond and interest obligations.

E. Concentrations of Credit Risk

The District is engagement in the sale of water to customers located in and around Douglas County, Kansas.

F. Line Extensions and Meter Deposits

The District requires benefit holders to pay the cost of extending lines. The charges for these extensions as of December 31, 2022, and 2021, were $4,000 and $9,015, respectively.

Note 3. OTHER INFORMATION (Continued)

G. Compensated Absences (Continued)

Vacation Leave. Only full-time employees of the District earn paid vacation time. Vacation time accumulates depending on the following schedule:

Years of Service	Accumulated Days	Maximum Accumulated Days
1 -5	10	16
6 - 7	12	20
8 - 10	15	24
11 - 15	18	28
16+	20	32

Any employee who separates from service through resignation, layoff, termination, retirement, or death shall be compensated for all unused and accumulated vacation leave.

Sick Leave. Full-time employees of the District earn paid sick leave. Sick leave accumulates at a rate of eight hours per month, with accumulation to a maximum of 1,040 hours. Any employee who separates from service through resignation, layoff, termination, retirement, or death shall be compensated for 25% of unused and accumulated sick leave.

H. Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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. Management is not aware of any violations of Kansas statutes during the year ended December 31, 2022.

I. Subsequent Event Review

Subsequent events for management's review have been evaluated through March 2, 2023, the date the financial statements were available to be issued.

RURAL WATER DISTRICT NO. 5 DOUGLAS COUNTY

BUDGETARY COMPARISON
For the Year Ended December 31, 2022

	2022	Budget	Variance Over [Under]
Revenues			
Water sales	$ 1,316,143	$ 1,350,576	$ [34,433]
Late charges	12,278	13,000	[722]
Interest income	6,424	7,500	[1,076]
Management fee	442,093	-	442,093
Reimbursements	1,763	-	1,763
Benefit units or connection fees	58,400	34,000	24,400
Other fees	12,171	312,772	[300,601]
Total revenues	1,849,272	1,717,848	131,424
Expenses			
Water purchases	409,512	394,616	14,896
Wages	557,250	554,484	2,766
Payroll taxes	47,053	42,491	4,562
Water protection fees	4,063	4,000	63
Contract services	7,016	7,500	[484]
Health insurance	75,468	80,496	[5,028]
KPERS	98,536	51,815	46,721
Insurance	26,561	31,000	[4,439]
Utilities	17,272	11,000	6,272
Telephone, internet and radio	3,026	7,500	[4,474]
Office supplies and postage	24,435	20,000	4,435
Vehicle expenses	24,816	22,000	2,816
Professional fees	4,525	5,000	[475]
Inventory purchases	31,984	40,000	[8,016]
Depreciation	207,254	215,000	[7,746]
Repairs and maintenance	24,631	25,000	[369]
Engineering	333	2,000	[1,667]
Bank fees	4,436	-	4,436
Dues	1,140	7,000	[5,860]
Bond payments for PWWSD 25 - Note 14	348,000	210,740	137,260
Miscellaneous	8,484	3,800	4,684
Total expenses	1,925,795	1,735,442	190,353
Receipts over [under] expenditures	$ [76,523]	$ [17,594]	$ [58,929]

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