

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

**Financial Statements for the Years  
Ended October 31, 2021 and 2020**

## **and Independent Auditors' Report**

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

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### 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, Kansas (the "District"), as of October 31, 2021 and 2020, 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, 2021 and 2020, 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 4 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 + Scott, LLC*

November 16, 2021

## **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, 2021. 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 2021**

- The District's total assets increased by \$33,679 from \$4,267,921 in 2020 to \$4,301,600 in 2021.
- The District's total liabilities decreased by \$62,138 from \$1,414,360 in 2020 to \$1,352,222 in 2021.
- The District's revenues from water sales decreased by \$41,697 from \$715,323 in 2020 to \$673,626 in 2021.
- The District's costs and operating expenses increased by \$32,214 from \$616,623 in 2020 to \$648,837 in 2021.

#### **Overview of the Financial Statements**

This report will include the Management's Discussion and Analysis, Financial Statements for the years ended October 31, 2021 and 2020, 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, 2021 and 2020. 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**

	<b>2021</b>	<b>2020</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Current and Other Assets	612,140	476,626	135,514	28.4%
Noncurrent Assets	527,246	521,946	5,300	1.0%
Capital Assets, net	3,141,691	3,250,510	(108,819)	-3.3%
Deferred Outflows of Resources	20,523	18,839	1,684	8.9%
<b>Total Assets and Deferred Outflows</b>	<b>4,301,600</b>	<b>4,267,921</b>	<b>33,679</b>	<b>0.8%</b>
Current Liabilities	146,020	118,140	27,880	23.6%
Long-term Debt	1,145,000	1,235,000	(90,000)	-7.3%
Net Pension Liability	47,017	38,623	8,394	21.7%
Deferred Inflows of Resources	14,185	22,597	(8,412)	-
				37.2%
<b>Total Liabilities and Deferred Inflows</b>	<b>1,352,222</b>	<b>1,414,360</b>	<b>(62,138)</b>	<b>-4.4%</b>
Net assets invested in				
capital assets, net of related debt	1,906,691	1,935,510	(28,819)	-1.5%
Restricted	184,764	183,128	1,636	0.9%
Unrestricted	857,923	734,923	123,000	16.7%
<b>Total Net Position</b>	<b>2,949,378</b>	<b>2,853,561</b>	<b>95,817</b>	<b>3.4%</b>

Total assets increased by \$33,679 from \$4,267,921 in 2020 to \$4,301,600 in 2021. This is a result of an increase in net position in 2021. Capital assets are a net result of all fixed assets, including 2021 additions, less accumulated depreciation.

Total liabilities decreased by \$62,138 from \$1,414,360 in 2020 to \$1,352,222 in 2021. 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 \$95,817 from \$2,853,561 in 2020 to \$2,949,378 in 2021.

**Table 2**

## Condensed Statements of Revenues, Expenses, And Changes in Net Position

	2021	2020	Dollar Change	Percent Change
Operating Revenues	673,626	715,323	(41,697)	-5.8%
Non-operating Revenues	28,710	4,673	24,037	514.4%
<b>Total Revenues</b>	<b>702,336</b>	<b>719,996</b>	<b>(17,660)</b>	<b>-2.5%</b>
Depreciation Expense	175,365	175,333	32	0.0%
Other Operating Expense	473,472	441,290	32,182	7.3%
Non-operating Expense	27,682	58,541	(30,859)	-52.7%
<b>Total Expenses</b>	<b>676,519</b>	<b>675,164</b>	<b>1,355</b>	<b>0.2%</b>
Income (Loss) Before Capital				
Contributions	25,817	44,832	(19,015)	42.4%
Capital Contributions	70,000	63,000	7,000	11.1%
Changes in Net Position	95,817	107,832	(12,015)	-11.1%
Beginning Net Position	2,853,561	2,745,729	107,832	3.9%
<b>Ending Net Position</b>	<b>2,949,378</b>	<b>2,853,561</b>	<b>95,817</b>	<b>3.4%</b>

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 income before capital contributions was \$25,817 with capital contributions of \$70,000, which resulted in a net increase in net position of \$95,817 for the year ended October 31, 2021.

The District's total operating revenues decreased by \$41,697 from \$715,323 in 2020 to \$673,626 in 2021. Total expenses increased by \$1,355 from \$675,164 in 2020 to \$676,519 in 2021. The major contributor to the increase in expenses were related to repairs and maintenance.

### 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, 2021 AND 2020**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES CURRENT</b>		<b>2021</b>	<b>2020</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$	466,547	\$ 338,659
Accounts receivable		59,390	73,500
Prepaid expenses and other current assets		23,821	17,279
Inventory		62,382	47,188
Total current assets		612,140	476,626
<b>NONCURRENT ASSETS</b>			
Certificates of deposit		342,482	338,818
Loan reserve fund		184,764	183,128
Total noncurrent assets			
527,246	521,946		
<b>CAPITAL ASSETS</b>			
Nondepreciable capital assets		14,400	14,400
Depreciable capital assets		6,112,988	6,046,442
Less accumulated depreciation		(2,985,697)	(2,810,332)
Depreciable capital assets, net		3,127,291	3,236,110
Total capital assets, net		3,141,691	3,250,510
Total assets		4,281,077	4,249,082
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		20,523	18,839
Total assets and deferred outflows of resources	\$	<u>4,301,600</u>	\$ <u>4,267,921</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES CURRENT</b>			
<b>LIABILITIES</b>			
Current portion of long-term debt	\$	90,000	\$ 80,000
Accounts payable		33,680	20,185
Accrued liabilities		22,340	17,955
Total current liabilities		146,020	118,140
LONG-TERM DEBT, less current portion		1,145,000	1,235,000
NET PENSION LIABILITY		47,017	38,623
Total liabilities			
1,338,037		1,391,763	
<b>DEFERRED INFLOWS OF RESOURCES</b>		14,185	22,597
<b>NET POSITION</b>			
Invested in capital assets, net of related debt		1,906,691	1,935,510
Restricted		184,764	183,128



Unrestricted

	857,923		734,923
Total net position	\$ 2,949,378	\$	2,853,561
Total liabilities and deferred inflows of resources	1,352,222		1,414,360

See notes to financial statements.

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED OCTOBER 31, 2021 AND 2020**

	2021	2020
WATER SALES	\$ 6 73,626	\$ 7 15,283
COST OF WATER PURCHASED	169,922	160,709
GROSS PROFIT	503,704	554,574
COSTS AND OPERATING EXPENSES		
Personnel costs	119,608	114,981
Repairs and maintenance	67,631	56,390
Office supplies and telephone	14,540	14,412
Utilities	33,466	32,300
Insurance	21,083	14,528
Professional fees	13,632	5,876
Water analysis and testing	7,333	11,083
Water protection fee	2,697	2,329
Vehicle expense	7,948	10,134
Dues and subscriptions	11,576	11,103
Mileage	8 09	1,701
Board expense	2,820	3,000
Depreciation and amortization	175,365	175,333
Miscellaneous	4 07	2,704

	<u>478,915</u>	<u>455,874</u>
INCOME FROM OPERATIONS	<u>24,789</u>	<u>98,700</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	5,867	10,331
Other income (expense)	22,843	(5,658)
Interest expense	(27,682)	<u>(58,541)</u>
	<u>1,028</u>	<u>(53,868)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>25,817</u>	<u>44,832</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>70,000</u>	<u>63,000</u>
INCREASE (DECREASE) IN NET POSITION	95,817	107,832
NET POSITION, BEGINNING OF YEAR	2,853,561	2,745,729
NET POSITION, END OF YEAR	\$ 2,949,378	\$ 2,853,561
	<u><u>          </u></u>	<u><u>          </u></u>

See  
notes to financial statements.

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

### **STATEMENTS OF CASH FLOWS**

	<b>2021</b>	<b>2020</b>
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 687,736	\$ 695,949
Cash payments to suppliers for goods and services	(479,030)	(446,830)
Net cash provided by operating activities	208,706	249,119
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and line extensions	70,000	63,000
Change in long-term debt	(80,000)	(170,000)
Interest paid	(27,682)	(58,541)
Acquisition and construction of fixed assets	(66,546)	(54,969)
Net cash used in capital and related financing activities	(104,228)	(220,510)
INVESTING ACTIVITIES:		
Change in certificates of deposit	(3,664)	126,768

Change in loan reserve	(1,636)	70,094
Interest and other income received	28,710	4,673

**FOR THE YEARS ENDED OCTOBER 31, 2021 AND 2020**

Net cash provided by investing activities	23,410	201,535	NET CHANGE IN		
CASH AND CASH EQUIVALENTS	127,888	230,144	CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
338,659	108,515				
CASH AND CASH EQUIVALENTS, END OF YEAR			\$	466,547	\$ 338,659

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	24,789	\$	98,700
Adjustments to reconcile operating income to net cash provided by used in operating activities:				
Depreciation and amortization Changes in:		175,365		175,333
Accounts receivable		14,110		(19,334)
Inventories		(15,194)		(1,601)
Deferred outflows of resources for pension contribution		(1,684)		(13,800)
Prepaid insurance and other current assets		(6,542)		(2,584)
Accounts payable and accrued liabilities		17,880		2,778
Net pension liability		8,394		19,612
Deferred inflows of resources		(8,412)		(9,985)
Net cash provided by operating activities	\$	208,706	\$	249,119

See notes to financial statements.

# **RURAL WATER DISTRICT NO. 4**

## **FRANKLIN COUNTY, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED OCTOBER 31, 2021 AND 2020**

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#### **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, 2021 and 2020 were 877 and 870.

#### **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) is segregated into invested in capital assets, net of related debt; restricted; 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. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.
- i. Net position - Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:
  - Invested in Capital Assets, Net of Related Debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
  - Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
  - Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
- j. 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:

	<b>Disposals &amp;</b>		
<b>2020</b>	<b>Additions</b>	<b>Transfers</b>	<b>2021</b>
14,400	-	-	14,400
14,400	-	-	14,400
197,071	-	-	197,071
5,253,107	62,341	-	5,315,448
115,961	4,205	-	120,166
117,284	-	-	117,284
68,035	-	-	68,035
219,199	-	-	219,199
75,785	-	-	75,785
6,046,442	66,546	-	6,112,988
(2,810,332)	(175,365)	-	(2,985,697)
3,236,110	(108,819)	-	3,127,291
3,250,510	(108,819)	-	3,141,691

	<b>Disposals &amp;</b>		
<b>2019</b>	<b>Additions</b>	<b>Transfers</b>	<b>2020</b>
14,400	-	-	14,400
14,400	-	-	14,400
197,071	-	-	197,071
5,202,937	50,170	-	5,253,107
115,889	72	-	115,961
112,557	4,727	-	117,284
68,035	-	-	68,035
219,199	-	-	219,199
75,785	-	-	75,785
5,991,473	54,969	-	6,046,442
(2,634,999)	(175,333)	-	(2,810,332)
3,356,474	(120,364)	-	3,236,110
3,370,874	(120,364)	-	3,250,510

Nondepreciable capital assets:

Land

Depreciable capital assets:

Other equipment

Line extensions and tower

Office equipment

Pumps and motors

Building

Radio equipment

Vehicle

Less accumulated depreciation

Depreciable capital assets, net

Total capital assets, net

Nondepreciable capital assets:

Land

Depreciable capital assets:

Other equipment

Line extensions and tower

Office equipment

Pumps and motors

Building

Radio equipment

Vehicle

Less accumulated depreciation

Depreciable capital assets, net

Total capital assets, net

#### 4. CASH AND INVESTMENTS

Deposits - At October 31, 2021 and 2020, 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, 2021 and 2020 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

### *Series 2020 Revenue Bonds*

In July 2020 all debt remaining at the time on the 2011 KRWFA Revenue Bonds discussed below was refinanced with the issuance of Series 2020 Revenue Bonds in the amount of \$1,315,000. The average net interest rate of the bond issue is 1.915% with a final bond maturity scheduled for October 1, 2031. The bond issue funded refinancing of existing debt only. There were no additional asset purchases associated with this bond issue. This bond issue represents the districts' total outstanding debt. Per the agreement, the District is required to establish and fund a bond reserve account with a balance equal to \$131,500. The balance in the reserve account as of October 31, 2021 and 2020 was \$184,764 and \$183,128, respectively.

### *Series 2011 Revenue Bonds*

In 2011, the District issued Series 2011 Revenue Bonds in the amount of \$1,990,000 to assist with the construction of a new water tower. Per the agreement, the District was 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, 2020 was \$253,222. During 2020, the remaining balance of these bonds was refinanced with the issuance of the Series 2020 Revenue Bonds discussed above.

Details of revenue bonds outstanding at October 31, 2021 and 2020 are as follows:

	2021	2020
KRWFA Revenue Bonds, Series B, interest due in semi-monthly installments commencing on April 1, 2021 at rates ranging from 1.6% to 2.0% that matures in October of 2031.	\$ 1,235,000	\$ 1,315,000
Less current portion	\$ 90,000	80,000
	<u>1,145,000</u>	<u>\$ 1,235,000</u>

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 \$27,682 and \$58,541 for the years ended October 31, 2021 and 2020.

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

Total long-term debt, beginning	\$ 1,315,000
Advances	-
Principal payments	<u>(80,000)</u>
Total long-term debt, ending	1,235,000
Less current portion	<u>90,000</u>
Noncurrent portion	\$ <u>1,145,000</u>

Future maturities of long-term debt are as follows:



	Principal	Interest	Total
2022			
2023	90,000	23,600	113,600
2024	95,000	21,800	116,800
2025			
2026	100,000	19,900	119,900
2027-2031			
	\$ 100,000	17,900	117,900
	105,000	15,900	120,900
Debt Service Coverage Ratio Calculation:	745,000	50,250	795,250
	<u>1,235,000</u>	<u>\$ 149,350</u>	<u>\$ 1,384,350</u>
Increase (decrease) in Net Position Add:			\$ 95,817
Depreciation and amortization			175,365
Interest expense			<u>27,682</u>
Income available for debt service			<u>\$ 298,864</u>
Debt service			
Interest expense			\$ 27,682
Principal payments			<u>90,000</u>
			<u>\$ 117,682</u>
Debt service coverage ratio			<u>2.54</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](http://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. 744922.

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.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.61% and 8.61%, respectively. Member contribution rates as a percentage of eligible compensation in fiscal year 2020 are 6.00% for local government employees. The contribution requirement for the years ended October 31, 2021 and 2020 was \$7,754 and \$7,160, which consisted of \$3,134 and \$2,937 from employees and \$4,620 and \$4,223 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, 2020 and 2019 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, 2020 and 2019.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2020 and 2019, the District's proportion was .0027%.

#### *Net Pension Liability*

At October 31, 2021 and 2020 the District reported a liability of \$47,017 and \$38,623, 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, 2019, which was rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75%
Salary increase	3.25 to 11.75 percent, including price inflation
Long-term rate of return, net of investment expense, and including price inflation	7.50%

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, 2019, valuation were based on the results of an actuarial experience study conducted for the period January 1, 2016, through December 31, 2018. The experience study is dated January 7, 2020.

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 January 7, 2020, as provided by KPERS' investment consultant, are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global equity	47.00%	11.60%
Fixed income	11.00	1.55
Yield driven	8.00	4.70

Real return	11.00	3.25
Real estate	11.00	4.45
Private equity	8.00	9.50
Short-term investments	4.00	0.25
<b>Total</b>	<b>100.00</b>	<b>%</b>

#### *Discount Rate*

The discount rate used to measure the total pension liability at the measurement date of June 30, 2020 was 7.50%. The discount rate used to measure the total pension liability at the prior measurement date of June 30, 2019 was 7.75%. The projection of cash flows used to determine the discount rate was based on member and employer contributions.

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

#### *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 7.50%, 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 (6.50%) or 1-percentage point higher (8.50%) than the current rate:

1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
\$66,171	\$47,017	\$30,913

#### *Pension Expense*

For the years ended October 31, 2021 and 2020, the District recognized pension expense of \$7,754 and \$7,160 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, 2021, 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
	785	604
Differences between expected and actual experience	2,832	-
Changes of assumptions		
Net differences between projected and actual earnings on investments	5,486	-
	11,420	13,581
Changes in proportion	<u>\$ 20,523</u>	<u>\$ 14,185</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:

2021	(2,700)
2022	1,373
2023	5,301
2024	2,294
2025	<u>70</u>
	<u><u>6,338</u></u>

\$

7. 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, 2021.

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