

**Rural Water District No. 4,  
Pottawatomie County, Kansas**

**FINANCIAL STATEMENTS**

For the years ended December 31, 2019 and 2018

And

**INDEPENDENT AUDITOR'S REPORT**

**Rural Water District No. 4,  
Pottawatomie County, Kansas**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water District No. 4,  
Pottawatomie County, Kansas

I have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 4, Pottawatomie County, Kansas as of and for the year ended December 31, 2019 and the related notes to the financial statements as listed in the table of contents.

### ***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.

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my 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. 4, Pottawatomie County, Kansas as of December 31, 2019 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Comparative Information***

The comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it was derived. An unqualified opinion was issued on those financial statements in a report dated March 5, 2019.

### ***Other Matters***

The District has omitted management's discussion and analysis and the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

*Huddlin CPA, LLC*

Lawrence KS  
March 03, 2020

Rural Water District No. 4,  
Pottawatomie County, Kansas

STATEMENTS OF NET POSITION  
As of December 31, 2019 and 2018

ASSETS

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 693,082	\$ 758,598
Accounts receivable	59,429	57,663
Inventory	2,940	2,940
Total current assets	<u>755,451</u>	<u>819,201</u>
Non-Current Assets		
Restricted cash	297,683	294,779
Capital assets - net	5,681,100	5,897,354
Total Non-Current Assets	<u>5,978,783</u>	<u>6,192,133</u>
Total Assets	<u><u>\$ 6,734,234</u></u>	<u><u>\$ 7,011,334</u></u>

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts payable	\$ 9,534	\$ 34,260
Accrued payroll	2,072	1,947
Accrued interest	46,489	47,425
Compensated absences	3,692	2,253
Deposits	3,688	3,787
Current maturities of long term debt	135,855	120,510
Total current liabilities	<u>201,330</u>	<u>210,182</u>
Long term liabilities		
Net pension liability	56,007	63,292
Notes payable, less current portion	4,022,252	4,155,047
Total long term liabilities	<u>4,078,259</u>	<u>4,218,339</u>
Deferred inflows (outflows) of resources - pensions	29,637	22,352
Total liabilities and deferred inflows of resources	<u>4,309,226</u>	<u>4,450,873</u>
Net Position		
Invested in capital assets, net of related debt	1,522,993	1,621,797
Restricted	297,683	294,779
Unrestricted	604,332	643,885
Total Net Position	<u>2,425,008</u>	<u>2,560,461</u>
Total Liabilities and Net Position	<u><u>\$ 6,734,234</u></u>	<u><u>\$ 7,011,334</u></u>

The accompanying notes are an integral part of the financial statements.

Rural Water District No. 4,  
Pottawatomie County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION  
For the years ended December 31, 2019 and 2018

	2019	2018
Revenues		
Water sales	\$ 661,212	\$ 677,606
Reimbursed income	4,711	19,855
Other charges	8,507	9,094
Total operating revenues	<u>674,430</u>	<u>706,555</u>
Operating expenses		
Salaries	88,282	96,710
Payroll taxes	6,729	7,567
Employee benefits	7,954	3,126
Depreciation	253,244	250,574
Amortization	3,072	3,072
Utilities	68,175	73,600
Contract Labor	63,803	38,966
Insurance	32,912	31,875
Repairs and maintenance	58,126	28,909
Chemicals and supplies	65,032	76,472
Professional fees	8,646	7,778
Vehicle expenses	7,975	4,451
Office supplies	3,336	4,800
Licenses, permits and fees	320	844
Miscellaneous	2,451	2,067
Reimbursed expenses	776	739
Freight	4,604	2,795
Total operating expenses	<u>675,437</u>	<u>634,345</u>
Income (loss) from operations	<u>(1,007)</u>	<u>72,210</u>
Non-Operating revenues (expenses)		
Interest income	18,547	13,596
Interest expense	(155,993)	(158,885)
Total non-operating income (expense)	<u>(137,446)</u>	<u>(145,289)</u>
Net income (loss) before contributions	<u>(138,453)</u>	<u>(73,079)</u>
Capital contributions		
Capital contributions from members	<u>3,000</u>	<u>39,000</u>
Change in net position	(135,453)	(34,079)
Net position - beginning of year	<u>2,560,461</u>	<u>2,594,540</u>
Net position - end of year	<u>\$ 2,425,008</u>	<u>\$ 2,560,461</u>

The accompanying notes are an integral part of the financial statements.

Rural Water District No. 4,  
Pottawatomie County, Kansas

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash receipts from customers	\$ 672,665	\$ 706,615
Cash payments for goods and services	(355,664)	(255,394)
Cash payments to employees for services	(86,718)	(101,487)
Interest received	18,547	13,596
Interest paid	(156,929)	(159,640)
Net cash provided (used) by operating activities	91,901	203,690
Cash flows from investing activities		
Changes in certificates of deposits	(2,904)	(2,904)
Net cash provided(used) by investing activities	(2,904)	(2,904)
Cash flows from capital and related financing activities		
Purchase of capital assets	(36,991)	(29,736)
Payments on notes payable	(120,522)	(110,185)
Proceeds from the sale of benefit units	3,000	39,000
Net cash provided (used) by capital and related financing activities	(154,513)	(100,921)
Net increase(decrease) in cash and cash equivalents	(65,516)	99,865
Cash and cash equivalents - beginning of the year	758,598	658,733
Cash and cash equivalents - end of the year	<u>\$ 693,082</u>	<u>\$ 758,598</u>
Reconciliation of operating income (loss) to net cash provided(used) by operating activities		
Operating income (loss)	\$ (138,453)	\$ (73,079)
Adjustments to reconcile operating activities to net cash provided by operating activities		
Depreciation and amortization	256,316	253,646
Changes in assets and liabilities		
(Increase)decrease accounts receivable	(1,765)	60
(Increase)decrease inventory	-	-
Increase(decrease) accounts payable	(24,726)	28,495
Increase(decrease) other liabilities	529	(5,432)
Net cash provided by operating activities	<u>\$ 91,901</u>	<u>\$ 203,690</u>
Supplementary Information		
Interest paid	<u>\$ 156,929</u>	<u>\$ 159,640</u>

The accompanying notes are an integral part of the financial statements.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 Summary of Significant Accounting Policies**

**Reporting Entity**

Rural Water District No. 4, Pottawatomie County Kansas (the District) was organized under Kansas law in 2002 with the purpose and objective to acquire water and water rights, and to build and acquire pipelines for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons located within the District in Pottawatomie, Jackson, Wabaunsee and Shawnee Counties.

**Basis of Accounting**

The District's financials are prepared in accordance with generally accepted accounting principles (GAAP) for an enterprise fund. The District does not have any component units, i.e. there are not separate entities for which the District is financially accountable.

The District has elected under GASB Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB). For December 31, 2015 and subsequent years, the District has adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions see Note 7 KPERS. A reclassification was made for the change in net pension liability on the Statements Net Position.

The accounts of the District are presented as a business type activity. The activities of the District are accounted for within the accounts that comprise the District's assets, liabilities, net position, revenues and expenses.

Basis of accounting refers to when revenues, expenses and related assets and liabilities are recognized in the accounts and reported in the financial statements. The financial statements are reported using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

**Statement of Net Position**

This statement is designated to display the financial position of the District. The net assets of the District will be classified into three categories: 1) invested in capital assets net of depreciation, net of related debt; 2) restricted; and 3) unrestricted. Net position represents the difference between assets and liabilities. Net position is reported as being restricted when there are limitations imposed on its use through board action or external restrictions.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**Budget**

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

**Cash and Cash Equivalents**

For the purpose of the financial statements the District defines cash and cash equivalents as demand deposits and certificates of deposit.

**Investments**

The investments represent certificates of deposit. The certificates of deposit are recorded at cost because they are not affected by market rate changes. All certificates of deposit are recorded as cash on the financial statements.

**Accounts Receivable**

The District offers unsecured credit for water services and the collection of accounts receivable is generally current with very few uncollectible accounts. Uncollectible accounts are written off in the period in which they become uncollectible.

**Inventory**

The District's inventory is valued at cost, it consists primarily of materials and supplies used for maintaining the water distributions system. Inventory on hand is limited, inventory is ordered on an as needed basis.

**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 in income for the period. Depreciation expense totaled \$253,244 and \$250,574 for the years ended December 31, 2019 and 2018, respectively.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**Benefit Units**

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$3,000 per meter.

**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.

**Reimbursed Income**

Reimbursed income represents revenue from the customers for line extensions to provide water service to the benefit unit holder. All costs and related charges for new meters must be paid for in advance.

**Net Position**

The District's net position are classified as follows:

Invested in capital assets, net of related debt and accumulated depreciation, this represents the District's total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position - the District's restricted position is comprised of a loan reserve account that is required by the indebtedness to Rural Development Administration and Kansas Revenue Bonds. The letter of conditions from Rural Development Administration requires a reserve equal of \$242.04 per month up to \$29,045, which will be reached in the year 2020 as currently scheduled. The bond agreement for the Kansas Revenue Bonds requires a bond reserve in the amount of \$270,579. A corresponding amount of net assets restricted for debt service at December 31, 2018 and 2017 was \$297,683 and \$294,779.

Unrestricted net position - These resources can be used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet the current requirements and needs of the District.

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 Summary of Significant Accounting Policies (continued)**

**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.

The District's payroll tax returns for the years ending 2019, 2018, and 2017 are subject to examination by the IRS, generally returns are subject to review for three years after they were filed.

**NOTE 2 Cash and Cash Equivalents**

Cash and cash equivalents consist of the following:

	<u>2019</u>	<u>2018</u>
Cash in Bank and CD's	\$ 990,765	\$ 1,053,377
Less Restricted Cash	<u>(297,683)</u>	<u>(294,779)</u>
	<u>\$ 693,082</u>	<u>\$ 758,598</u>

**NOTE 3 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 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.

K.S.A. 12-1675 limits the District's investments 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. All deposits were secured at December 31, 2019 and 2018.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 4 Accounts Receivable**

Accounts receivable are carried at original billed amount. Management determines bad debts which have become uncollectible and writes them off in the period the accounts become uncollectible.

**NOTE 5 Risk Management**

The District is exposed to various risks of loss related to torts, damage to and destruction of assets; business interruptions; errors and omissions; employee injuries 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.

**NOTE 6 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. District management noted no violations of Kansas statutes during the year ended December 31, 2019 and 2018.

**NOTE 7 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 or the System), a body corporate and an instrumentality of the State of Kansas. KPERS provides pension benefits 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 employees' 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).

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 7 Defined Benefit Pension Plan – Continued**

**Benefits** - Benefits are established by statute and may only be changed by the State 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 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.

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 member 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 age 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 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 contribution and assets of all groups are deposited into 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 increased over the prior year contribution rate is 1.2% of total payroll.

The actuarially determined employer contribution rate and the statutory contribution rates for Local government employees are 8.89% and 8.89%, respectively. Member contribution rates as a percentage of eligible compensation for the fiscal year 2019 are 6.00% for Local government employees.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 7 Defined Benefit Pension Plan – Continued**

**Employer and Nonemployer Allocations**

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

State/School  
Local  
Police and Firemen  
Judges

To facilitate the separate (sub) actuarial valuations, the System 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 each group as of June 30, 2019, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the fiscal years ended June 30, 2019.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. The employer allocation percentages have been rounded for presentation purposes. Therefore, use of these percentages to recalculate individual employer amounts presented in the schedule of pension amounts by employer and nonemployer may result in immaterial differences due to rounding.

**Net Pension Liability** - At June 30, 2019 and 2018 the District reported a liability of \$56,007 and \$63,292 for its proportionate share of the net pension liability.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 7 Defined Benefit Pension Plan – Continued**

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2018 which was rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry age normal
Inflation	2.75 percent
Salary increases	3.50 to 12.00 percent including price inflation
Investment Rate of Return	7.75 percent compounded annually, net of Investment expenses, including price Inflation.

Mortality rates were based on the RP 2014 Combined 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, 2018 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 actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study:

Price inflation assumption was lowered from 3.00 percent to 2.75 percent  
Investment return assumption was lowered from 8.00 percent to 7.75 percent  
General wage growth assumption was lowered from 4.00 percent to 3.50 percent  
Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

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 addition 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:

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 7 Defined Benefit Pension Plan – Continued**

<u>Asset Class</u>	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.85%
Fixed Income	13.00%	1.25%
Yield driven	8.00%	6.55%
Real return	11.00%	1.71%
Real estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-term investments	<u>2.00%</u>	(.25%)
Total	<u>100.00%</u>	

**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 outline below: In KPERS, the State/School and Local groups do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993 and subsequent legislation, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap for Fiscal year 2019 was 1.2 percent.

**Sensitivity 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%)
\$83,647	\$56,007	\$32,886

**Pension Expense** For the year ended December 31, 2019 and 2018, the District recognized pension expense of \$7,954 and \$8,114.

Deferred Outflows or Resources and Deferred Inflows of Resources will not be presented in these financial statements as they will not have a material effect on the financial statements.

The complete actuarial valuation report is publicly available on the KPERS website at [www.kpers.org](http://www.kpers.org).

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 8 Line Extension and Meter Deposits**

The District requires customers to pay in advance for the cost of constructing lines and renters are required to pay deposits for water services. For December 31, 2019 and 2018 the entire balance of \$3,688 and \$3,787 consisted of renter deposits.

**NOTE 9 Water Contracts**

The District has entered into water purchase contracts with three cities and an electrical supplier for a term of 40 years. Three of these contracts required an initial contribution of 5% of the sellers cost to provide water to the purchaser. In addition, these contracts established a minimum monthly rate and a price per 1,000 gallons for water purchases. In the fourth contract, the City of Belvue elected to make an initial contribution of \$243,784 to avoid paying a minimum monthly rate and instead just be charged for the monthly rate per 1,000 gallons purchased.

**NOTE 10 Property, Plant, and Equipment**

	Balance December 31 2018	Additions	Retirements	Balance December 31 2019
Capital Assets not Being Depreciated				
Land	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	9,640,101	36,990	-	9,677,091
Equipment	38,710	-	-	38,710
Total Other Capital Assets	\$ 9,699,362	\$ 36,990	\$ -	\$ 9,736,352
Less: Accumulated Depreciation				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	3,767,508	253,244	-	4,020,752
Equipment	31,749	-	-	31,749
Total Accumulated Depreciation	\$ 3,819,808	\$ 253,244	\$ -	\$ 4,073,052
Other Capital Assets Net of Accumulated Depreciation	\$ 5,879,554	\$ (216,254)	\$ -	\$ 5,663,300
Capital Assets not Being Depreciated	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets	9,699,362	36,990	-	9,736,352
Total Cost of Capital Assets	\$ 9,717,162	\$ 36,990	\$ -	\$ 9,754,152
Less: Accumulated Depreciation	\$ (3,819,808)	\$ (253,244)	\$ -	\$ (4,073,052)
Capital Assets - Net	\$ 5,897,354	\$ (216,254)	\$ -	\$ 5,681,100

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 10 Property, Plant, and Equipment - Continued**

	Balance December 31 2017	Additions	Retirements	Balance December 31 2018
Capital Assets not Being Depreciated				
Land	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	9,618,313	21,788	-	9,640,101
Equipment	30,762	7,948	-	38,710
Total Other Capital Assets	\$ 9,669,626	\$ 29,736	\$ -	\$ 9,699,362
Less: Accumulated Depreciation				
Vehicles	\$ 20,551	\$ -	\$ -	\$ 20,551
Plant and building	3,519,499	248,009	-	3,767,508
Equipment	29,184	2,565	-	31,749
Total Accumulated Depreciation	\$ 3,569,234	\$ 250,574	\$ -	\$ 3,819,808
Other Capital Assets Net of Accumulated Depreciation	\$ 6,100,392	\$ (220,838)	\$ -	\$ 5,879,554
Capital Assets not Being Depreciated	\$ 17,800	\$ -	\$ -	\$ 17,800
Other Capital Assets	9,669,626	29,736	-	9,699,362
Total Cost of Capital Assets	\$ 9,687,426	\$ 29,736	\$ -	\$ 9,717,162
Less: Accumulated Depreciation	\$ (3,569,234)	\$ (250,574)	\$ -	\$ (3,819,808)
Capital Assets - Net	\$ 6,118,192	\$ (220,838)	\$ -	\$ 5,897,354

The District maintains an account for capital assets, which consists of buildings, wells, water system, standpipes, vehicle, office furniture and equipment. All capital assets are stated at historical cost and are reported on the Statement of Net Position. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. When capital assets are disposed, the cost and the applicable depreciation are removed from the respective accounts and the resulting gain or loss is recorded in that period.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 11 Accrued Liabilities**

Accrued liabilities consisted of accrued interest, accrued payroll, net pension liability and compensated absences as of December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Accrued interest	\$46,489	\$47,425
Accrued payroll	2,072	1,947
Compensated absences	<u>3,692</u>	<u>2,253</u>
Total accrued liabilities	<u>\$ 52,253</u>	<u>\$ 51,625</u>

**NOTE 12 Long Term Debt**

In the normal course of operations, the District has participated in various federal grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with specific conditions of the grant or loan. Any liability for reimbursement which may arise as a result of such audits cannot be reasonably determined at this time, although management is not aware of any audits that are planned and it is believed there would be no such liability should an audit occur.

The District entered into ten loans with USDA Rural Development to finance the construction of the water system. The District was initially required to finance the project with interim financing, and then obtained loans from USDA Rural Development to pay off the interim financing. The loans payable to Rural Development are required to be paid in full within 40 years from the date of the loan. Nine of the ten USDA Rural Development loans were refinanced with the issuance of water revenue bonds issued in 2012.

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 12 Long Term Debt – Continued**

	<u>Beg Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>
Rural Development Administration	\$ 569,439	-	10,522	\$ 558,917
Kansas Water Revenue Bonds	3,765,000	-	110,000	3,655,000
Total	<u>\$ 4,334,439</u>	<u>\$ -</u>	<u>\$ 120,522</u>	<u>\$ 4,213,917</u>

In 2012, the Series B 2012 bonds were issued for \$4,235,000 which included a \$79,106 discount. This discount is amortized over the life of the bonds and recorded as a contra-liability. There was \$3,072 of bond amortization expense for each of the years ended December 31, 2019 and 2018.

Long-term debt consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Rural Development Administration - \$645,000 note payable issued in 2010 and maturing August 19, 2050 bearing interest at 3.25%, monthly principal and interest payments \$2,406.	\$ 558,917	\$ 569,439
Water Revenue Bonds - Series B 2012 - \$4,235,000 bonds payable issued May 15, 2012. The series consists of seventeen separately issued bonds maturing from September 1, 2013 through March 1, 2038 and bearing interest from .70% through 4.25%, interest only payments are due on March 1 and September 1 each year.	<u>3,655,000</u>	<u>3,765,000</u>
Total Long-Term Debt	\$ 4,213,917	\$ 4,334,439
Less: Current portion of long-term debt	(135,855)	(120,510)
Less: Unamortized bond discount	<u>(55,810)</u>	<u>(58,882)</u>
Net Long-Term Debt	<u>\$ 4,022,252</u>	<u>\$ 4,155,047</u>

Rural Water District No. 4,  
Pottawatomie County, Kansas  
NOTES TO FINANCIAL STATEMENTS

**NOTE 12 Long Term Debt - Continued**

Future maturities of long-term debt are as follows as of December 31, 2019:

Year Ending December 31	Principal Due	Interest Due	Total
2020	\$ 135,855	\$ 153,783	\$ 289,638
2021	146,211	150,199	296,410
2022	151,581	146,089	297,670
2023	156,961	141,508	298,469
2024	162,355	136,690	299,045
2025-2029	893,142	599,955	1,493,097
2030-2034	1,050,116	423,017	1,473,133
2035-2039	1,259,199	172,986	1,432,185
2040-2044	110,763	33,597	144,360
2045-2051	147,734	14,354	162,088
Totals	<u>4,213,917</u>	<u>1,972,178</u>	<u>6,186,095</u>

The District was not in compliance with the rate covenant as detailed in Section 7.05 of the Transcripts of Proceedings authorizing the issuance of the Kansas Rural Water Finance Authority Revenue Bonds in 2012 due to a historically wet calendar year which led to less revenue. In addition, repairs and maintenance expenses were unusually high for the 2019 calendar year.

Debt service coverage ratio (required to be 1.25) is calculated as follows:

Total revenues	\$ 674,430
Benefit units	3,000
Total expenses	(831,430)
Plus depreciation and amortization	256,316
Plus interest expense	155,993
Total Revenue available for debt service	<u>258,309</u>
Total annual debt service for the year	<u>277,451</u>
Debt service ratio	<u>0.93</u>

Rural Water District No. 4,  
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NOTES TO FINANCIAL STATEMENTS

**NOTE 13 Invested in Capital, Net of Related Debt**

The following represents the net position of the District, invested in capital, net of debt:

	<u>2019</u>	<u>2018</u>
Property, plant and equipment net of accumulated depreciation	\$ 5,681,100	\$ 5,897,354
Debt outstanding at year end	<u>(4,158,107)</u>	<u>(4,275,557)</u>
Invested in Capital, net of related debt	<u>\$ 1,522,993</u>	<u>\$ 1,621,797</u>

**NOTE 14 Concentration Risk**

The District is engaged in the sale of water to customers located in Pottawatomie, Jackson, Wabaunsee and Shawnee Counties in Kansas.

**NOTE 15 Compensated Absences**

The District provides certain vacation leave benefits to two employees. Unused vacation leave is paid upon termination of employment, retirement or death. Payment of unused vacation leave is based upon the employee's rate of pay at the time of termination, retirement or death.

**NOTE 16 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.

**NOTE 17 Reclassification**

Certain amounts from the prior period have been reclassified to correspond with the current year presentation.

**NOTE 18 Subsequent Events Review**

Subsequent events for management's review have been evaluated through March 3, 2020 the date the financial statements were available to be issued.