

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

**Financial Statements for the
Years Ended October 31, 2019 and 2018
and Independent Auditors' Report**

RURAL WATER DISTRICT NO. 4 FRANKLIN COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net position of Rural Water District No. 4, Franklin County (the "District") as of October 31, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 2 through 5 is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Acord Cox & Co.

November 19, 2019

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, 2019. 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 2019

- The District's total assets decreased by \$47,290 from \$4,364,974 in 2018 to \$4,317,684 in 2019.
- The District's total liabilities decreased by \$89,196 from \$1,661,151 in 2018 to \$1,571,955 in 2019.
- The District's revenues from water sales decreased by \$37,662 from \$663,479 in 2018 to \$625,817 in 2019.
- The District's costs and operating expenses decreased by \$31,111 from \$635,195 in 2018 to \$604,084 in 2019.

Overview of the Financial Statements

This report will include the Management's Discussion and Analysis, Financial Statements for the year ended October 31, 2019 and 2018, 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, 2019 and 2018. 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

	2019	2018	Dollar Change	Percent Change
Current and Other Assets	222,963	316,548	(93,585)	-29.6%
Noncurrent Assets	718,808	722,907	(4,099)	-0.6%
Capital Assets, net	3,370,874	3,316,697	54,177	1.6%
Deferred Outflows of Resources	5,039	8,822	(3,783)	-42.9%
Total Assets and Deferred Outflows	4,317,684	4,364,974	(47,290)	-1.1%
Current Liabilities	115,362	111,597	3,765	3.4%
Long-term Debt	1,405,000	1,485,000	(80,000)	-5.4%
Net Pension Liability	19,011	33,083	(14,072)	-42.5%
Deferred Inflows of Resources	32,582	31,471	1,111	3.5%
Total Liabilities and Deferred Inflows	1,571,955	1,661,151	(89,196)	-5.4%
Net assets invested in				
capital assets, net of related debt	1,885,874	1,756,697	129,177	7.4%
Restricted	253,222	247,538	5,684	2.3%
Unrestricted	606,633	699,588	(92,955)	-13.3%
Total Net Position	2,745,729	2,703,823	41,906	1.5%

Total assets decreased by \$47,290 from \$4,364,974 in 2018 to \$4,317,684 in 2019. This is a result of depreciation expense and reduction of liabilities in 2019. Capital assets are a net result of all fixed assets, including 2019 additions, less accumulated depreciation.

Total liabilities decreased by \$89,196 from \$1,661,151 in 2018 to \$1,571,955 in 2019. During the year, the District continued to make payments on outstanding bonds payable that were obtained for the construction of the new water tower. 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 \$41,906 from \$2,703,823 in 2018 to \$2,745,729 in 2019.

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

	2019	2018	Dollar Change	Percent Change
Operating Revenues	625,817	663,479	(37,662)	-5.7%
Non-operating Revenues	39,843	33,869	5,974	17.6%
Total Revenues	665,660	697,348	(31,688)	-4.5%
Depreciation Expense	164,463	158,811	5,652	3.6%
Other Operating Expense	439,621	476,384	(36,763)	-7.7%
Non-operating Expense	61,670	63,545	(1,875)	-3.0%
Total Expenses	665,754	698,740	(32,986)	-4.7%
Income (Loss) Before Capital Contributions	(94)	(1,392)	1,298	93.2%
Capital Contributions	42,000	7,000	35,000	500.0%
Changes in Net Position	41,906	5,608	36,298	647.3%
Beginning Net Position	2,703,823	2,698,215	5,608	0.2%
Ending Net Position	2,745,729	2,703,823	41,906	1.5%

The Statements of Revenue, Expenses, and Changes in Net Position represent revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, the loss before capital contributions was \$94 with capital contributions of \$42,000, which resulted in a net increase in net position of \$41,906 for the year ended October 31, 2019.

The District's total operating revenues decreased by \$37,662 from \$663,479 in 2018 to \$625,817 in 2019. Total expenses decreased by \$32,986 from \$698,740 in 2018 to \$665,754 in 2019. The major contributor to the decrease in expenses were related to repairs and maintenance.

Debt

In 2010, the District issued \$1,989,970 in revenue bonds to assist with the construction of the new water tower. The outstanding balance is \$1,485,000 at October 31, 2019, of which, \$1,405,000 is classified as long term.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District No. 4, Franklin County, KS Office Manager at 1506 Old Hwy 50 Williamsburg, KS 66095.

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF NET POSITION
OCTOBER 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 108,515	\$ 126,257
KRWFA deposit	-	102,829
Accounts receivable	54,166	50,170
Prepaid expenses and other current assets	14,695	14,695
Inventory	45,587	22,597
Total current assets	222,963	316,548
NONCURRENT ASSETS		
Certificates of deposit	465,586	475,369
Loan reserve fund	253,222	247,538
Total noncurrent assets	718,808	722,907
CAPITAL ASSETS		
Nondepreciable capital assets	14,400	14,400
Depreciable capital assets	5,991,473	5,772,832
Less accumulated depreciation	(2,634,999)	(2,470,535)
Depreciable capital assets, net	3,356,474	3,302,297
Total capital assets, net	3,370,874	3,316,697
Total assets	4,312,645	4,356,152
DEFERRED OUTFLOWS OF RESOURCES	5,039	8,822
Total assets and deferred outflows of resources	\$ 4,317,684	\$ 4,364,974
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 80,000	\$ 75,000
Accounts payable	19,922	20,842
Accrued liabilities	15,440	15,755
Total current liabilities	115,362	111,597
LONG-TERM DEBT, less current portion	1,405,000	1,485,000
NET PENSION LIABILITY	19,011	33,083
Total liabilities	1,539,373	1,629,680
DEFERRED INFLOWS OF RESOURCES	32,582	31,471
Total liabilities and deferred inflows of resources	1,571,955	1,661,151
NET POSITION		
Invested in capital assets, net of related debt	1,885,874	1,756,697
Restricted	253,222	247,538
Unrestricted	606,633	699,588
Total net position	\$ 2,745,729	\$ 2,703,823

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

	2019	2018
WATER SALES	\$ 625,817	\$ 663,479
COST OF WATER PURCHASED	<u>176,043</u>	<u>221,364</u>
GROSS PROFIT	<u>449,774</u>	<u>442,115</u>
 COSTS AND OPERATING EXPENSES		
Personnel costs	100,584	86,477
Repairs and maintenance	59,990	67,568
Office supplies and telephone	13,842	10,882
Utilities	31,983	35,414
Insurance	14,708	14,519
Professional fees	11,390	13,734
Water analysis and testing	6,060	2,763
Water protection fee	2,318	2,153
Vehicle expense	10,379	8,235
Dues and subscriptions	5,524	2,251
Mileage	1,931	1,316
Board expense	3,800	3,878
Depreciation and amortization	164,463	158,811
Miscellaneous	<u>1,069</u>	<u>5,830</u>
	<u>428,041</u>	<u>413,831</u>
INCOME FROM OPERATIONS	<u>21,733</u>	<u>28,284</u>
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	16,693	9,444
Other income (expense)	23,150	24,425
Interest expense	<u>(61,670)</u>	<u>(63,545)</u>
	<u>(21,827)</u>	<u>(29,676)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(94)</u>	<u>(1,392)</u>
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>42,000</u>	<u>7,000</u>
INCREASE (DECREASE) IN NET POSITION	41,906	5,608
NET POSITION, BEGINNING OF YEAR	<u>2,703,823</u>	<u>2,698,215</u>
NET POSITION, END OF YEAR	<u>\$ 2,745,729</u>	<u>\$ 2,703,823</u>

RURAL WATER DISTRICT NO. 4
FRANKLIN COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 621,821	\$ 669,037
Cash payments to suppliers for goods and services	(473,024)	(485,871)
Net cash provided by operating activities	<u>148,797</u>	<u>183,166</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and line extensions	42,000	7,000
Change in long-term debt	(75,000)	(75,000)
Interest paid	(61,670)	(63,545)
Change in KRWFA deposit	102,829	(380)
Acquisition and construction of fixed assets	(218,640)	(101,556)
Net cash used in capital and related financing activities	<u>(210,481)</u>	<u>(233,481)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	9,783	(5,233)
Change in loan reserve	(5,684)	(4,114)
Interest received	<u>39,843</u>	<u>33,869</u>
Net cash provided by investing activities	<u>43,942</u>	<u>24,522</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(17,742)</u>	<u>(25,793)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>126,257</u>	<u>152,050</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 108,515</u></u>	<u><u>\$ 126,257</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 21,733	\$ 28,284
Adjustments to reconcile operating income		
to net cash provided by used in operating activities:		
Depreciation and amortization	164,463	158,811
Changes in:		
Accounts receivable	(3,996)	5,558
Inventories	(22,990)	-
Deferred outflows of resources for pension contribution	3,783	7,168
Prepaid insurance and other current assets	-	(658)
Accounts payable and accrued liabilities	(1,235)	(2,142)
Net pension liability	(14,072)	(31,536)
Deferred inflows of resources	<u>1,111</u>	<u>17,681</u>
Net cash provided by operating activities	<u><u>\$ 148,797</u></u>	<u><u>\$ 183,166</u></u>

RURAL WATER DISTRICT NO. 4

FRANKLIN COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2019 AND 2018

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, 2019 and 2018 were 874 and 884.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting - The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statements of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- c. Inventories - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.
- d. Capital Assets - Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- e. Income Taxes - The District is a quasi-governmental unit, not subject to federal or state income taxes.

- f. Capital Contributions - Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received. Benefit units, currently \$7,000, are recorded as contributions when received.
- g. Accounts Receivable and Unbilled Revenue - The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by the District is recorded as accounts receivable and accrued water sales.
- h. Net position - Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position are classified in the following three components:
- Invested in Capital Assets, Net of Related Debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
- i. Subsequent Events - Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue and has concluded that there are no subsequent events that materially impact the financial statements.

3. CAPITAL ASSETS

Changes in capital assets were as follows:

	2018	Additions	Disposals & Transfers	2019
Nondepreciable capital assets:				
Land	14,400	-	-	14,400
	14,400	-	-	14,400
Depreciable capital assets:				
Other equipment	185,466	11,605	-	197,071
Line extensions and tower	5,053,682	149,255	-	5,202,937
Office equipment	112,699	3,190	-	115,889
Pumps and motors	91,367	21,190	-	112,557
Building	68,035	-	-	68,035
Radio equipment	219,199	-	-	219,199
Vehicle	42,384	33,400	-	75,784
	5,772,832	218,640	-	5,991,472
Less accumulated depreciation	(2,470,535)	(164,463)	-	(2,634,998)
Depreciable capital assets, net	3,302,297	54,177	-	3,356,474
Total capital assets, net	3,373,952	54,177	-	3,370,874

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

4. CASH AND INVESTMENTS

Deposits - At October 31, 2019 and 2018, 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, 2019 and 2018 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

	2019	2018
KRWFA Revenue Bonds, Series B, interest due in semi-monthly installments commencing on April 1, 2012 at rates ranging from 1.0% to 4.45% that matures in October of 2031.	\$ 1,485,000	\$ 1,560,000
Less current portion	<u>80,000</u>	<u>75,000</u>
	<u>\$ 1,405,000</u>	<u>\$ 1,485,000</u>

The District is required to establish and fund a bond reserve account with a balance equal to \$164,509. The balance in the reserve account as of October 31, 2019 and 2018 was \$253,223 and \$247,538, respectively.

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

Interest expense on long-term debt totaled \$61,670 and \$63,545 for the years ended October 31, 2019 and 2018.

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

Total long-term debt, beginning	\$ 1,560,000
Advances	-
Principal payments	<u>(75,000)</u>
Total long-term debt, ending	1,485,000
Less current portion	<u>80,000</u>
Noncurrent portion	<u>\$ 1,405,000</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>KRWFA Interest</u>	<u>Total</u>
2020	80,000	59,795	139,795
2021	85,000	57,395	142,395
2022	90,000	54,845	144,845
2023	95,000	51,695	146,695
2024	100,000	48,370	148,370
2025-2029	580,000	178,205	758,205
2030-2031	455,000	34,265	489,265
	<u>\$ 1,485,000</u>	<u>\$ 484,570</u>	<u>\$ 1,969,570</u>

Debt Service Coverage Ratio Calculation:

Increase (decrease) in Net Position	\$ 41,906
Add:	
Depreciation and amortization	164,463
Interest expense	61,670
Income available for debt service	<u>\$ 268,039</u>
Debt service	
Interest expense	\$ 61,670
Principal payments	80,000
	<u>\$ 141,670</u>
Debt service coverage ratio	<u>1.89</u>

6. PENSION PLAN

Description of Pension Plan

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

Public employees, which includes:

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

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

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

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

Benefits

Benefits are established by statute and may only be changed by the Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years' of credited service, or whenever a member's combined age and years of credited service equal 85 "points".

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

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

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

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the fiscal year ended June 30, 2018.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.39% and 8.39%, respectively. Member contribution rates as a percentage of eligible compensation in fiscal year 2018 are 6.00% for local government employees. The contribution requirement for the years ended October 31, 2019 and 2018 was \$7,950 and \$3,682, which consisted of \$3,220 and \$1,535 from employees and \$4,730 and \$2,147 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, 2018 and 2017 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, 2018 and 2017.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2018, the District's proportion was .0014%, which was a decrease of .0009% from its proportion measured at June 30, 2017.

Net Pension Liability

At October 31, 2019 and 2018 the District reported a liability of \$19,011 and \$33,083, 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, 2017, which was rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47.00%	6.80%
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	2.00	(0.25)
Total	100.00%	

Discount Rate

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

In KPERS, the State/School and local groups do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for Fiscal Year 2018 was 1.2 percent.

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

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

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

1% Decrease (6.75%)	Discount rate (7.75%)	1% Increase (8.75%)
\$27,883	\$19,011	\$11,514

Pension Expense

For the years ended October 31, 2019 and 2018, the District recognized pension expense of \$7,950 and \$3,682, 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, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	69	539
Changes of assumptions	823	92
Net differences between projected and actual earnings on investments	445	-
Changes in proportion	3,702	31,951
	<u>\$ 5,039</u>	<u>\$ 32,582</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:

2019	\$ (7,613)
2020	(6,605)
2021	(8,277)
2022	(4,484)
2023	(563)
	<u>\$ (27,542)</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, 2019.
