RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

FINANCIAL STATEMENTS

For the Years Ending December 31, 2023 and 2022

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RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

Financial Statements
For the Years Ending December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 4 Pottawatomie County

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 4 Pottawatomie County (the District), as of and for the years ending December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 4 Pottawatomie County as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years ending in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the *Kansas Municipal Audit and Accounting Guide*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District No. 4 Pottawatomie County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Matters

Required Supplementary Information

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

Gordon CPA LLC

Certified Public Accountant
Lawrence, Kansas

February 2, 2024

RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

STATEMENT OF NET POSITION - PROPRIETARY FUND
For the Years Ending December 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 698,036	$ 705,769
Accounts receivable	64,785	64,610
Inventory	27,192	10,120
Total current assets	790,013	780,499
Noncurrent assets:		
Capital assets, nondepreciable		
Land	17,800	17,800
Capital assets, depreciable	10,011,298	9,967,709
Less: accumulated depreciation	[5,060,521]	[4,800,671]
Total property and equipment, net	4,968,577	5,184,838
Restricted cash	270,579	270,579
Total noncurrent assets	5,239,156	5,455,417
Total assets	6,029,169	6,235,916
Deferred outflows of of resources		
Pensions	23,215	28,328
Total deferred outflows of resources	23,215	28,328
Total assets and deferred outflows of resources	$ 6,052,384	$ 6,264,244
Liabilities		
Current liabilities:		
Accounts payable	$ 18,481	$ 16,284
Accrued payroll	2,102	2,154
Compensated absences	5,046	3,563
Accrued interest	18,251	18,800
Deposits	3,286	3,186
Current portion of bonds payable	210,000	205,000
Total current liabilities	257,166	248,987
Noncurrent liabilities:		
Net pension liability	84,189	86,281
Bonds payable, less current portion	3,365,000	3,575,000
Total noncurrent liabilities	3,449,189	3,661,281
Total liabilities	3,706,355	3,910,268
Deferred inflows of of resources		
Pensions	5,512	4,307
Total deferred inflows of resources	5,512	4,307
Total liabilities and deferred inflows of resources	3,711,867	3,914,575
Net Position:		
Net investment in capital assets	1,393,577	1,404,838
Restricted	270,579	270,579
Unrestricted	676,361	674,252
Total net position	2,340,517	2,349,669
Total liabilities, deferred inflows and net position	$ 6,052,384	$ 6,264,244

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

RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
CHANGES IN NET POSITION - PROPRIETARY FUND
For the Years Ending December 31, 2023 and 2022

	2023	2022
Operating revenues		
Water sales	$ 802,625	$ 761,541
Reimbursed income	34,527	37,852
Other charges	16,434	7,800
Total operating revenues	853,586	807,193
Operating expenses		
Salaries	110,842	99,517
Payroll taxes	8,148	7,581
Employee benefits	8,657	8,215
Insurance	50,543	44,810
Vehicle	12,527	16,595
Utilities	83,751	84,768
Freight	3,228	4,278
Supplies and other expenses	10,018	7,026
Chemicals and testing	91,110	50,638
Professional fees	11,724	5,250
Contract labor	100,515	71,750
Repairs	100,498	71,886
Depreciation expense	259,850	243,698
Total operating expenses	851,411	716,012
Operating income [loss]	2,175	91,181
Nonoperating revenues [expenses]		
Interest income	17,524	6,167
Interest expense	[55,851]	[57,273]
Total nonoperating revenues [expenses]	[38,327]	[51,106]
Net income [loss] before contributions	[36,152]	40,075
Capital contributions from members	27,000	18,000
Change in net position	[9,152]	58,075
Net position - beginning of year	2,349,669	2,291,594
Net position - end of year	$ 2,340,517	$ 2,349,669

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

RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Years Ending December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Cash received from customers	$ 853,511	$ 799,195
Cash paid to suppliers of goods or services	[478,789]	[398,651]
Cash paid to employees for services	[121,990]	[112,841]
Net cash provided by operating activities	252,732	287,703
Cash flows from investing activities		
Change in restricted cash	-	9,681
Interest received	17,524	6,167
Net cash provided by investing activities	17,524	15,848
Cash flows from capital and related financing activities		
Contributed capital	27,000	18,000
Purchase and construction of capital assets	[43,586]	[65,576]
Principal repayment	[205,000]	[205,000]
Interest paid	[56,403]	[57,905]
Net cash provided by [used in] capital and related financing activities	[277,989]	[310,481]
Net increase [decrease] in cash and cash equivalents	[7,733]	[6,930]
Cash and cash equivalents - beginning of year	705,769	712,699
Cash and cash equivalents - end of year	$ 698,036	$ 705,769
Reconciliation of operating income [loss] to net cash provided [used in] operating activities		
Operating income [loss]	$ 2,175	$ 91,181
Adjustments to reconcile operating income [loss] to net cash provided by [used in] operating activities		
Depreciation expense	259,850	243,698
[Increase] decrease in accounts receivable	[175]	[7,998]
[Increase] decrease in inventory	[17,072]	[5,699]
[Increase] decrease in deferred outflows - pensions	5,113	[12,276]
Increase [decrease] in accounts payable	2,197	[35,951]
Increase [decrease] in accrued payroll	[52]	266
Increase [decrease] in compensated absences	1,483	1,143
Increase [decrease] in deposits	100	-
Increase [decrease] in net pension liability	[2,092]	35,535
Increase [decrease] in deferred inflows - pensions	1,205	[22,196]
Net cash provided by [used in] operating activities	$ 252,732	$ 287,703

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

RURAL WATER DISTRICT NO. 4 POTTAWATOMIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ending December 31, 2023 and 2022

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Rural Water District No. 4 Pottawatomie County (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.

B. Government-wide and Fund Financial Statements

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

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

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

D. Cash and Cash Equivalents

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

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

E. 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.

F. 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.

G. Benefit Units

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

H. 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, 2023 and 2022 the entire balance of $3,286 and $3,186 consisted of renter deposits.

I. 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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.

K. Capital Assets

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. 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.

Property, plant and equipment of the District are depreciated using the straight-line method over the following useful lives:

	Capitalization Policy	Depreciation Method	Useful Life
Wells	$ 5,000	Straight Line	10 to 40 years
Distribution Lines	5,000	Straight Line	10 to 40 years
Meters	5,000	Straight Line	10 years
Structures	5,000	Straight Line	40 years
Equipment	5,000	Straight Line	10 to 30 years
Plumbing	5,000	Straight Line	3 to 10 years
Purification	5,000	Straight Line	10 to 20 years
Furniture & Fixtures	5,000	Straight Line	3 to 10 years
Miscellaneous	5,000	Straight Line	3 to 10 years

L. Net Position

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

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

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

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

The District's restricted net position is comprised of a loan reserve account that is required by the indebtedness issued by Kansas Rural Water Finance Authority. The bond agreement for the Kansas Revenue Bonds requires a bond reserve in the amount of $270,579 and $270,579 for the years ending December 31, 2023 and 2022. These amounts correspond with the District’s restricted cash.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Position (Continued)

This bond reserve requirement requires that the amount on the date of original issuance and delivery of any series of Bonds equal $270,579, which is not more than the lesser of (a) 10% of the stated principal amount of the Series C, 2020 Bonds and any other Bonds, (b) the maximum annual debt service Series C, 2020 Bonds and any other Bonds (the maximum amount of debt service requirements as computed for the then current or any future Fiscal Year, provided that the debt service requirements in the final Stated Maturity of Bonds shall be reduced by the value of cash and Investment Obligations on deposit in the Bond Reserve Account, so long as the Bond Reserve Account is maintained at the Bond Reserve Requirement) for during any Fiscal Year, or (c) 125% of the average annual debt service requirements for the Series C, 2020 Bonds and any other Bonds.

M. Use of Estimates

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

N. 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.

O. Deferred Outflows/Inflows of Resources

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

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

Note 2. DETAILED NOTES

A. Cash and Cash Equivalents

Cash and cash equivalents consist of the following for the years ending December 31, 2023 and 2022:

	2023	2022
Checking	$ 485,626	$ 420,181
Money market	93,823	86,623
Certificates of deposit	389,166	486,155
	968,615	992,959
Less: Restricted cash	[270,579]	[270,579]
Total	$ 698,036	$ 722,380

Note 2. DETAILED NOTES (Continued)

A. Deposits and Investments

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

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

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

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated 'peak periods' when required coverage is 50%. All deposits were legally secured as of December 31, 2023 and 2022.

At December 31, 2023 the District's carrying amount of deposits was $968,615 and the bank balance was $973,668. The bank balance was held in one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance and $723,668 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

B. Capital Assets

Capital asset activity for the years ending December 31, 2023 and 2022 was as follows:

	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023
Nondepreciable assets:				
Land	$ 17,800	$ -	$ -	$ 17,800
Depreciable assets:				
Vehicles	50,418	-	-	50,418
Plant and building	9,868,707	43,589	-	9,912,296
Equipment	48,584	-	-	48,584
Total capital assets	9,985,509	43,589	-	10,029,098
Less accumulated depreciation for:				
Vehicles	1,681	5,041	-	6,722
Plant and building	4,755,875	252,889	-	5,008,764
Equipment	43,115	1,920	-	45,035
Total accumulated depreciation	4,800,671	259,850	-	5,060,521
Capital assets, net	$ 5,184,838	$ [216,261]	$ -	$ 4,968,577

Note 2. DETAILED NOTES (Continued)

B. Capital Assets

	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022
Nondepreciable assets:				
Land	$ 17,800	$ -	$ -	$ 17,800
Depreciable assets:				
Vehicles	20,551	50,418	[20,551]	50,418
Plant and building	9,853,546	15,161	-	9,868,707
Equipment	48,584	-	-	48,584
Total capital assets	9,940,481	65,579	[20,551]	9,985,509
Less accumulated depreciation for:				
Vehicles	20,551	1,681	[20,551]	1,681
Plant and building	4,516,435	239,440	-	4,755,875
Equipment	40,538	2,577	-	43,115
Total accumulated depreciation	4,577,524	243,698	[20,551]	4,800,671
Capital assets, net	$ 5,362,957	$ [178,119]	$ -	$ 5,184,838

Current year depreciation expense was $259,850 and $243,698 for the years ended December 31, 2023 and 2022.

C. Compensated Absences

The District provides certain vacation leave benefits to two employees. Compensated absences consist of the unused vacation leave to be paid upon employee's termination, 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 2. DETAILED NOTES (Continued)

D. Long-Term Liabilities

The changes in the District's long-term obligations for the years ending December 31, 2023 and 2022 consisted of the following:

	Balance January 1, 2023	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
Water System Revenue Bonds Series 2020 C	$3,780,000	$ -	$ 205,000	$ 3,575,000	$210,000
Total	$3,780,000	$ -	$ 205,000	$ 3,575,000	$210,000

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Water System Revenue Bonds Series 2020 C	3,985,000	-	205,000	3,780,000	205,000
Total	$3,985,000	$ -	$ 205,000	$ 3,780,000	$205,000

Long-term obligations of the District consist of the following as of December 31, 2023:

Revenue Bonds	Interest Rate	Amount Outstanding	Original Amount	Date of Issue	Final Maturity
Series 2020 C	.68% - 2.13%	$ 3,575,000	$ 4,075,000	12/3/2020	3/1/2038
Total Revenue Bonds		$ 3,575,000	$ 4,075,000		

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, it is believed there would be no such liability should an audit occur.

The District entered into multiple loan agreements with USDA Rural Development to finance the construction of the District's 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. All but one of the USDA Rural Development loans were refinanced with the issuance of water revenue bonds issued in 2012 and the final USDA Rural Development loan was refinanced in December of 2020.

Note 2. DETAILED NOTES (Continued)

D. Long-Term Liabilities (Continued)

The District issued Refunding Revenue Bonds, Series C, 2020 through the Kanas Rural Water Finance Authority in December of 2020. The financing refunded a 2010 loan by the District from USDA Rural Development (noted above) and the Series B 2012 Bonds.

Future maturities for the balances of the RD/USDA revenue bonds as of December 31, 2023 are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	$ 210,000	$ 54,754	$ 264,754
2025	215,000	52,959	267,959
2026	210,000	50,907	260,907
2027	215,000	48,691	263,691
2028	220,000	46,179	266,179
2029 - 2033	1,110,000	185,141	1,295,141
2034 - 2038	1,395,000	81,899	1,476,899
Total	$ 3,575,000	$ 520,530	$ 4,095,530

E. Net Investment in Capital Assets

The following represents the net position of the District reported as net investment in capital assets as of December 31, 2023 and 2022:

	2023	2022
Capital assets, net of depreciation	$ 4,968,577	$ 5,184,838
Revenue bonds outstanding at year end	[3,575,000]	[3,780,000]
Net investment in capital assets	$ 1,393,577	$ 1,404,838

Note 3. OTHER INFORMATION

A. Commitments and Contingencies Litigation

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

B. Risk Management

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

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan

Description of Pension Plan. The District participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Public employees, which includes:
  - State/School employees
  - Local employees
- Police and Firemen
- Judges

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

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

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

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

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

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

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

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

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, 2023.

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

	Actuarial Employer Rate	Statutory Employer Capped Rate
Local employees	8.43%	8.43%

Member contribution rates as a percentage of eligible compensation for the KPERS fiscal year 2023 is 6.00% for Local employees.

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

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

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

The allocation percentages for the District's share of the collective pension amounts as of December 31, 2023, 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, 2023.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2023, the District's proportion for the Local employees group was 0.004%, which was the same as its proportion measured at June 30, 2023.

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

Net Pension Liability. At December 31, 2023 and 2022, the District reported a liability of $84,189 and $86,281, respectively, for its total proportionate share of the net pension liability for the Local group.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2023, which was rolled forward to June 30, 2023, using the following actuarial assumptions:

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

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016. Different adjustments apply to pre-retirement versus post-retirement versus post-disability mortality tables.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study conducted for the period of January 1, 2016 through December 31, 2018. The experience study is dated January 7, 2020.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 are summarized in the following table:

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

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen, and Judges. Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
$120,718	$84,189	$53,756

Pension Expense. For the years ending December 31, 2023 and 2022, the District recognized Local pension expense of $11,782 and $8,820, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

Deferred Outflows of Resources and Deferred Inflows of Resources. As of December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions for Local group from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	$ 6,999	$ [12]
Differences between projected and actual earnings on investments	4,917	-
Changes in assumptions	8,923	-
Changes in proportion	2,376	[5,500]
Total	$ 23,215	$ [5,512]

Note 3. OTHER INFORMATION (Continued)

C. Defined Benefit Pension Plan (Continued)

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

Year ended December 31,	Deferred [Inflows] Outflows Amount
2024	$ 6,747
2025	2,813
2026	7,598
2027	536
2028	9
Total	$ 17,703

D. 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.

E. Subsequent Events

Subsequent events for management's review have been evaluated through February 2, 2024, the date the financial statements were available to be issued.