RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

Financial Statements for the
Years Ended December 31, 2017 and 2016
and Independent Auditors' Report

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)	3-8
FINANCIAL STATEMENTS:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-17

Acord Cox & Company
Certified Public Accountants

9325 Pflumm Rd. Lenexa, KS 66215
913•541•1993

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 3
Nemaha County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 3, Nemaha County (the "District") as of December 31, 2017 and 2016, 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 audits 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 qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the District has not implemented GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2017 and 2016, KPERS computed and published the net pension liability (NPL) as of June 30, 2016 and 2015, respectively, for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately $108,000 and $88,000 at December 31, 2017 and 2016, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of December 31, 2017 and 2016, 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 3 through 8 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 considers 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 inquirees of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

January 22, 2018

Acord Co. & Co.

Rural Water District No. 3

Nemaha County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 3, Nemaha County, Kansas' Annual Financial Report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2017 and 2016. This information is prepared by RWD No. 3 and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

Rural Water District No. 3 Financial Overview for 2017

- Total assets increased by $498,700 from $8,815,306 in 2016 to $9,314,006 in 2017.
- Liabilities decreased by $169,590 from 2,137,041 in 2016 to $1,967,451 in 2017.
- Net Position increased by $668,290 from 6,678,265 in 2016 to $7,346,555 in 2017.
- Total revenues for 2017 were $1,039,450, a $156,193 increase from $883,257 in 2016.
- Total expenses for 2017 were $907,908, a $78,875 increase from $829,033 in 2016.
- New equipment and water system construction improvements of $109,349 were added in 2017. Additionally, $172,470 in net fixed assets were added with the acquisition of Nemaha County RWD No. 2.
- Outstanding long-term debt decreased by $164,133 from $2,059,984 on December 31, 2016 to $1,895,851 on December 31, 2017.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended December 31, 2017 and 2016, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Special Note:

The financial statements disclosed herein reflect a net change in financial position that includes the acquisition of all assets and liabilities of Rural Water District No. 2, Nemaha County (RWD No. 2) by Rural Water District No. 3, Nemaha County (RWD No. 3). Stating increasing difficulties with maintaining Financial, Managerial and Technical Capacities; the proximity and history of cooperation between the two systems; and potential gain in efficiencies due to economies of scale; RWD No. 2 approached RWD No. 3 in 2016 about the possibility of combining operations with RWD No. 3. As a result, pursuant to the provisions of K. S. A. 82A-650, RWD No. 2 and RWD No. 3 executed a MOU that transferred all RWD No. 2 assets and liabilities to RWD No. 3 on February 1, 2017. The reader of this report should keep in mind that the acquisition of RWD No. 2 had a material impact on the stated positions. For sake of brevity, the reasoning for position changes, due to this acquisition, will not necessarily be restated in the various segments of this report.

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 include information on the District's assets and liabilities and provides 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 fiscal years ended December 31, 2017 and 2016. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash 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 Districts' financial condition is reflected in its increase of net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2017	2016	Dollar Change	Percent Change
Current and other assets	2,131,497	1,601,531	529,966	33.1%
Capital assets, net	6,941,743	6,973,138	(31,395)	-0.5%
Other assets, net	240,766	240,637	129	0.1%
Total Assets	**9,314,006**	**8,815,306**	498,700	5.7%
Long-term debt	1,728,541	1,895,851	(167,310)	-8.8%
Other liabilities	238,910	241,190	(2,280)	-0.9%
Total Liabilities	**1,967,451**	**2,137,041**	(169,590)	-7.9%
Net position invested in capital assets, net of related debt	5,045,892	4,913,154	132,738	2.7%
Restricted net position	240,766	240,637	129	0.1%
Unrestricted net position	2,059,897	1,524,474	535,423	35.1%
Total Net Position	**7,346,555**	**6,678,265**	668,290	10.0%

Total assets increased by $498,700 from $8,815,306 in 2016 to $9,314,006 in 2017. This is a result of net gains from operations and capital asset additions including acquisition of assets from former RWD No. 2, Nemaha County.

Total liabilities decreased by $169,590 from 2,137,041 in 2016 to $1,967,451 in 2017. The decrease is a net result of a $167,310 decrease in long-term debt, and a net $2,280 decrease in all other liabilities.

Table 1 also indicates that the total net position increased by $668,290 from $6,678,265 in 2016 to $7,346,555 in 2017.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	Change	Change
Operating revenues	1,027,853	875,124	152,729	17.5%
Non-operating revenues	11,597	8,133	3,464	42.6%
Total Revenues	**1,039,450**	**883,257**	**156,193**	**17.7%**
Depreciation & amortization expense	325,440	310,174	15,266	4.9%
Other operating expense	542,224	480,210	62,014	12.9%
Non-operating expense	40,244	38,649	1,595	4.1%
Total Expenses	**907,908**	**829,033**	**78,875**	**9.5%**
Income (loss) before capital contributions	131,542	54,224	77,318	142.6%
Capital contributions	49,943	30,330	19,613	64.7%
Changes in net position	181,485	84,554	96,931	114.6%
Merger of RWD No. 2	486,805	-	486,805	100.0%
Beginning net position	6,678,265	6,593,711	84,554	1.3%
Total Net Position	**7,346,555**	**6,678,265**	668,290	10.0%

The Statements of Revenues, Expenses and Changes in Net Position presents revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, income, before capital contributions, was $131,542 for the year ending December 31, 2017, compared to $54,224 in 2016. Year 2017 Capital Contributions were $49,943 compared to $30,330 in 2016. $486,805 of equity was acquired from RWD No. 2, Nemaha County in 2017. Income plus contributions resulted in a $181,485 increase in net position during 2017 compared to $84,554 in 2016.

Table 2 reflects the District's total revenues increased by $156,193 from $883,257 in 2016 to $1,039,450 in 2017. The increase in revenues is a result of $151,531 increase in water sales and a net increase of $4,662 in other and non-operating revenues. The increase in water sales is attributed to weather related water use increases and additional patrons associated with the acquisition of RWD No. 2. Total expenses increased by $78,875, including $41,452 increase in wholesale water purchases again associated directly with the RWD No. 2 acquisition. Non-operating expense increased by $1,595 from $38,649 in 2016 to $40,244 in 2017.

Net position increased by $668,290 from $6,678,265 on December 31, 2016 to $7,346,555 on December 31, 2017.

Long-Term Debt

In September 2012, all debt remaining at the time was refinanced with the issuance of Series 2012 Revenue Bonds in the amount of $1,780,000. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. RWD No. 3 made scheduled principal repayments in February and in August of 2017. Outstanding principal balance for this Series 2012 Bond as of December 31, 2017 was $1,135,000.

A Kansas Public Water Supply Loan Fund, Project No. 2856, loan administered by Kansas Department of Health and Environment (KDHE), was finalized December 12, 2016. The initial loan principal was $794,984. The KDHE Project No. 2856 loan terms include semi-annual Principal and Interest payments of $24,850 and an annual gross interest rate of 2.31%. Pursuant to the loan, RWD No. 3 made scheduled loan payments on February 1, 2017 and August 1, 2017. The outstanding principal balance for this KDHE Project No. 2856 loan as of December 31, 2017 was $760,851. Included in the loan principal were funds to establish a $79,498 loan reserve account held by KDHE. Interest earnings on the loan reserve account are credited to each semiannual repayment. The loan reserve account principal will be credited to the final maturities of the loan. The final loan payment is scheduled for August 1, 2036.

Combined total outstanding debt, including current portion of the long term debt, as of December 31, 2017 was $1,895,851.

Economic Factors and Next Year's Budget and Rates

The staff and the Board of Directors reviews water rates, debt schedules, benefit unit fees and the long-range capital improvement plans on an annual basis. Adjustments to the rate and fee schedule are implemented as deemed appropriate or necessary to insure that the district maintains a sound financial position.

A water rate schedule adjustment became effective for all water use and service after December 1, 2014. The management anticipates that the existing water rate schedule will be adequate to maintain a sound financial position throughout the year 2018.

The Board of Directors has adopted a 2018 budget that projects a net operating income of $116,445. The budget conservatively estimates gross revenues of $1,002,480, a decrease of $36,970 from 2017 revenues of $1,039,450. The 2018 budget reflects a $21,873 decrease in overall operating expense to $886,035, down from $907,908 in 2017. The budgeted expense figure is a net result of a moderate inflation factor and anticipated decreases in water treatment and repairs.

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 Paul J. Strathman, Business Manager, Rural Water District No. 3, Nemaha County, KS at 905 US Highway 36, Seneca, Kansas.

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,262,543	$ 1,039,848
Accounts receivable	75,603	64,705
Interest receivable	1,253	966
Inventory	50,247	51,586
Prepaid expenses	428	428
Certificates of deposit	741,423	443,998
Total current assets	2,131,497	1,601,531
NONCURRENT ASSETS		
Reserve account	240,766	240,637
CAPITAL ASSETS		
Nondepreciable capital assets	63,049	59,775
Depreciable capital assets	12,909,135	12,351,041
Less accumulated depreciation	(6,030,441)	(5,437,678)
Depreciable capital assets, net	6,878,694	6,913,363
Total capital assets, net	6,941,743	6,973,138
Total assets	9,314,006	8,815,306
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	167,310	164,133
Accounts payable and accrued expenses	48,410	35,663
Construction payable	-	13,980
Interest payable	16,457	14,740
Deposits	6,733	12,674
Total current liabilities	238,910	241,190
LONG-TERM DEBT, less current maturities	1,728,541	1,895,851
Total liabilities	1,967,451	2,137,041
NET POSITION		
Invested in capital assets, net of related debt	5,045,892	4,913,154
Restricted	240,766	240,637
Unrestricted	2,059,897	1,524,474
Total net position	$ 7,346,555	$ 6,678,265

See notes to financial statements

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES		
Water sales	$ 1,013,358	$ 861,827
Other operating	14,495	13,297
	1,027,853	875,124
COSTS AND OPERATING EXPENSES		
Personnel costs	169,020	166,294
Depreciation and amortization	325,440	310,174
Chemical expense	39,052	32,451
Supplies	5,310	3,156
Utilities	103,801	95,952
Professional services	18,144	15,052
Transportation expense	12,515	9,919
Office and shop expense	14,276	14,645
Insurance	21,823	22,288
Repairs	92,296	95,755
Miscellaneous and lab testing	5,726	5,800
Cost of water purchased	44,069	2,617
Water use fees	16,192	16,281
	867,664	790,384
INCOME FROM OPERATIONS	160,189	84,740
NON-OPERATING REVENUES (EXPENSES)		
Loan issue cost	-	(9,939)
Interest expense	(40,244)	(28,710)
Interest income	11,597	8,133
	(28,647)	(30,516)
INCOME BEFORE CONTRIBUTIONS	131,542	54,224
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	49,943	30,330
INCREASE IN NET POSITION	181,485	84,554
MERGER OF NEMAHA COUNTY RWD NO. 2	486,805	-
NET POSITION, BEGINNING OF YEAR	6,678,265	6,593,711
NET POSITION, END OF YEAR	$ 7,346,555	$ 6,678,265

See notes to financial statements.

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES:		
Cash receipts from customers	$ 1,031,798	$ 896,023
Cash payments to suppliers for goods and services	(562,902)	(531,144)
Net cash provided by operating activities	468,896	364,880
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to fixed assets	(294,045)	(798,686)
Merger of Nemaha County RWD No. 2	486,805	-
Advances (payments) on long term debt, net	(164,133)	664,984
Interest and loan fees paid	(38,527)	(34,085)
Contributions - Benefit units and aid-in construction	49,943	30,330
Net cash provided by (used in) capital and related financing activities	40,043	(137,457)
INVESTING ACTIVITIES:		
Change in certificates of deposit	(297,425)	(2,105)
Change in reserve funds	(129)	(79,498)
Interest received	11,310	8,131
Net cash used in investing activities	(286,244)	(73,472)
NET CHANGE IN CASH AND CASH EQUIVALENTS	222,695	153,951
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,039,848	885,897
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,262,543	$ 1,039,848
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 160,189	$ 84,740
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	325,440	310,174
Changes in:		
Accounts receivable	(10,898)	(6,954)
Inventories	1,339	(3,683)
Prepaid expenses	-	(428)
Accounts payable and accrued liabilities	12,748	5,407
Construction payable	(13,980)	(29,676)
Deposits	(5,941)	5,300
Net cash provided by operating activities	$ 468,896	$ 364,880

See notes to financial statements.

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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 December 31, 2017 and 2016 were 1,230 and 1,074, respectively.

   b. Rural Water District No. 2, Nemaha County, Kansas ("RWD #2") Acquisition – On February 1, 2017, the District acquired and assumed the assets, liabilities, customers and operations of RWD #2 under terms outlined in a Memorandum of Understanding dated November 14, 2016 that was approved by the Board of Directors of both Organizations.

      On February 1, 2017 the bank account balances of RWD #2 totaled $294,057 and were deposited into the account of the District and a third party was engaged to review the balances of the accounts transferred. Also on that date, the Capital Assets of RWD # 2 were transferred to the District at their historical cost of $448,018 less the related accumulated depreciation of $267,323, for a net book value of $180,695. Other assets transferred including accounts receivable and liabilities assumed were $12,210 and $157, respectively.

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, including GASB Statement No. 34, 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, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

d. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.

e. Capital Assets – The cost of additions to the District's plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and, if applicable, interest on borrowed funds to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position.

   Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

g. 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.

h. 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 water sales.

i. Net Position – Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

   Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

   Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

   Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

j. Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date which the financial statements were available for issue.

3. CASH AND INVESTMENTS

The District maintains its cash balances in three banks. At times, the District maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these institutions and feels the District's risk is negligible. At December 31, 2017, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2015	Additions	Disposals & Transfers	2016
Nondepreciable capital assets:				
Land	59,775			59,775
Construction in progress	971,723		(971,723)	
	1,031,498		(971,723)	59,775
Depreciable capital assets:				
Building	209,000			209,000
Tanks and standpipes	2,217,259			2,217,259
Transmission and distribution	8,054,644	771,387	971,723	9,817,287
Furniture and fixtures	60,261	3,461	(1,660)	63,680
Vehicles	36,977	23,838	(17,000)	43,815
	10,578,141	798,686	953,563	12,351,041
Less accumulated depreciation	(4,876,030)	(310,174)	18,160	(5,437,678)
Depreciable capital assets, net	5,702,111	488,512	971,723	6,913,363
Total capital assets, net	5,830,143	488,512		6,973,138

	2016	Additions	RWD #2 Acquisition	2017
Nondepreciable capital assets:				
Land	59,775			59,775
Construction in progress	-	3,274		3,274
	59,775	3,274		63,049
Depreciable capital assets:				
Building	209,000			209,000
Tanks and standpipes	2,217,259			2,217,259
Transmission and distribution	9,817,287	84,079	437,800	10,339,165
Furniture and fixtures	63,680	25,997	10,218	99,895
Vehicles	43,815			43,815
	12,351,041	110,076	448,018	12,909,135
Less accumulated depreciation	(5,437,678)	(325,439)	(267,323)	(6,030,441)
Depreciable capital assets, net	6,913,363	(215,364)	180,695	6,878,694
Total capital assets, net	6,973,138	(212,090)	180,695	6,941,743

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2015
In January 2015 the district entered into a loan agreement with the KPWSLF under which the District borrowed $794,984 at an interest and service fee rate of 2.31% payable in semi-annual installments of $24,850 through maturity on August 1, 2036. As of December 31, 2017 and 2016, the outsanding balance of the loan was $760,851 and $794,984, respectively.

Per the agreement, the District maintains a loan reserve account in the amount of $79,627.

Series 2012 Revenue Bond
In September 2012 the district issued Series 2012 Revenue Bonds in the amount of $1,780,000 to refinance existing debt. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. The bond issue funded refinancing of existing debt only and there were no additional asset purchases associated with this bond issue. As of December 31, 2017 and 2016, the outsanding balance of the loan was $1,135,000 and $1,265,000, respectively.

Per the agreement, the District maintains a loan reserve account in the amount of $161,139 which is on deposit with a bank in the form of a certificate of deposit with a maturity date of September 2022.

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

Interest expense on long-term debt totaled $40,244 and $28,710 for the years ended December 31, 2017 and 2016, respectively.

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

Total long-term debt, beginning	$ 2,059,984
Advances	-
Principal payments	(164,133)
Total long-term debt, ending	1,895,851
Less current portion	167,310
Noncurrent portion	$ 1,728,541

Future maturities of long-term debt are as follows:

	Principal	Interest	Total
2018	167,310	36,285	203,595
2019	168,061	33,894	201,955
2020	173,829	31,177	205,006
2021	174,615	28,130	202,745
2022	180,419	24,787	205,206
2023-2027	590,100	59,451	649,551
2028-2032	208,095	34,283	242,378
2033-2037	233,422	12,799	246,221
	$ 1,895,851	$ 260,806	$ 2,156,657

Debt Service Coverage Ratio Calculation:

Income from operations	$	160,189
Add:		
Depreciation and amortization		325,440
Interest income		11,597
Income available for debt service	$	497,226
Debt service		
Interest expense	$	40,244
Principal payments		167,310
	$	207,554
Debt service coverage ratio		2.40

6. PENSION PLAN

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The 2017 and 2016 payroll for employees covered by the System was $129,947 and $126,881, respectively.

Covered employees are required by state statute to contribute statutorily defined rates of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the year ended December 31, 2017 and 2016 was $19,108 and $19,653, respectively, which consisted of $7,797 and $7,609 from employees and $11,312 and $12,044, respectively from the District; these contributions represented approximately 14.7% and 15.5% percent of 2017 and 2016 covered payroll, respectively.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

As of December 31, 2017, the District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately $108,000 and $88,000 at December 31, 2017 and 2016, respectively, for its proportionate share of the net pension liability.

7. COMPENSATED ABSENCES

The District grants vacation to all employees at a rate based on years of experience and employees are scheduled to take vacation in the following year. In the event of termination, an employee is reimbursed for accumulated vacation days. Management of the District does not believe the related liability, if any, is material to the financial statements and accordingly has not accrued such a liablity in the accompanying financial statements.

8. 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 years ended December 31, 2017 and 2016.

* * * * *