

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS
BASIC FINANCIAL STATEMENTS
(With Independent Auditors'
Report Thereon)
DECEMBER 31, 2016**

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

DECEMBER 31, 2016

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SECTION I

BASIC FINANCIAL STATEMENTS

ARTHUR WHITE & ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

302 Main Street
Tarkio, Missouri 64491
Telephone (660) 736-5811
Fax (660) 736-4364

2400 Frederick, Suite 500
St. Joseph, Missouri 64506
Telephone (816) 233-2855
Fax (816) 233-8238

INDEPENDENT AUDITORS' REPORT

July 18, 2017

To the Board of Directors
Rural Water District No. 9
Leavenworth County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 9, Leavenworth County, Kansas, (the District) as of and for the year ended December 31, 2016, the District's basic financial statements as listed in the table of contents, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Kansas Municipal Audit Guide. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

Basis for Qualified Opinion

The District does not maintain an inventory system or a detailed and historical accounting of capital assets prior to 1996.

Qualified Opinion

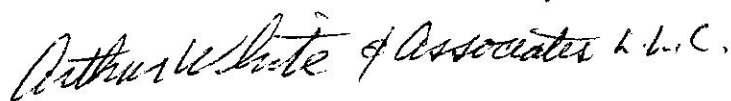
In our opinion, except for the effects on the 2016 financial statements of the matter discussed in the Basis for Qualified Opinion paragraph, the 2016 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Rural Water District No. 9 (District), Leavenworth County, Kansas as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is 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.

In accordance with Government Auditing Standards, we have also issued a report dated July 18, 2017, on our consideration of Rural Water District No. 9's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rural Water District No. 9's financial statements as a whole. The supplemental schedule (page 14) is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.



ARTHUR WHITE & ASSOCIATES, L.L.C.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 584,591	\$ 490,751
Accounts receivable, net	37,875	36,305
Prepaid expenses	2,583	5,245
Total current assets	<u>625,049</u>	<u>532,301</u>
CAPITAL ASSETS, NET	<u>1,976,200</u>	<u>2,061,852</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>5,740</u>	
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 2,606,989</u>	<u>\$ 2,594,153</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 24,465	\$ 22,993
Accounts payable	14,284	4,202
Accrued liabilities	1,915	1,602
Total current liabilities	<u>40,664</u>	<u>28,797</u>
LONG-TERM DEBT:		
Long-term debt, less current portion	132,099	156,517
Net pension liability	46,318	41,529
Total long-term debt	<u>178,417</u>	<u>198,046</u>
Total liabilities	<u>219,081</u>	<u>226,843</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,931</u>	
NET POSITION:		
Net investment in capital assets	1,819,636	1,882,342
Unrestricted	565,341	484,968
Total net position	<u>2,384,977</u>	<u>2,367,310</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,606,989</u>	<u>\$ 2,594,153</u>

See Notes to Financial Statements.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Water sales and late charges	\$ 437,027	\$ 446,691
Cost of water	<u>(81,787)</u>	<u>(75,674)</u>
Gross profit from water sales	<u>355,240</u>	<u>371,017</u>
OPERATING EXPENSES:		
Personnel costs and contract labor	133,205	178,242
Utilities	35,543	31,340
Telephone	2,452	2,437
Professional fees	15,197	6,103
Insurance	9,912	10,331
Office supplies and postage	14,491	8,630
Repairs and maintenance	43,364	46,168
Depreciation and amortization	99,755	131,497
Rent	2,400	2,400
Mileage and miscellaneous	13,063	25,651
Sales tax and water protection fee	<u>1,522</u>	<u>1,314</u>
Total operating expenses	<u>370,904</u>	<u>444,113</u>
INCOME (LOSS) FROM OPERATIONS	<u>(15,664)</u>	<u>(73,096)</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	1,285	1,299
Interest expense	(20,905)	(1,223)
Rental income	<u>600</u>	
Net non-operating revenue (expense)	<u>(19,020)</u>	<u>76</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(34,684)	(73,020)
BENEFIT UNITS AND AID IN CONSTRUCTION	52,351	57,032
CHANGE IN NET POSITION	17,667	(15,988)
NET POSITION - Beginning of year	<u>2,367,310</u>	<u>2,424,827</u>
NET POSITION - End of year as previously stated		2,408,839
PRIOR PERIOD ADJUSTMENT		<u>(41,529)</u>
NET POSITION - End of year	<u>\$ 2,384,977</u>	<u>\$ 2,367,310</u>

See Notes to Financial Statements.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from members for water	\$ 435,457	\$ 443,779
Cash payments to suppliers for goods and services	(208,030)	(223,571)
Cash payments to employees for services	(131,849)	(178,242)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>95,578</u>	<u>41,966</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and aid in construction	52,351	57,032
Principal payments of long-term debt-	(22,946)	(25,490)
Proceeds from long-term debt		181,150
Interest paid	(13,190)	(1,223)
Amortization of capitalized interest	8,293	
Purchase of property and equipment	(28,131)	(154,811)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,623)</u>	<u>56,658</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in certificates of deposit		52,599
Rent received	600	
Interest received	1,285	1,358
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,885</u>	<u>53,957</u>
NET CHANGE IN CASH AND EQUIVALENTS	93,840	152,581
CASH AND CASH EQUIVALENTS - Beginning of year	<u>490,751</u>	<u>338,170</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 584,591</u>	<u>\$ 490,751</u>

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Income (loss) from operations	\$ (15,664)	\$ (73,096)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	99,755	131,497
Changes in:		
(Increase) decrease in accounts receivable	(1,570)	(2,912)
(Increase) decrease in prepaid expenses	2,662	(1,715)
Increase (decrease) in accounts payable	10,082	(11,500)
Increase (decrease) in accrued liabilities	<u>313</u>	<u>(308)</u>
Net cash provided (used) by operating activities	<u>\$ 95,578</u>	<u>\$ 41,966</u>

See Notes to Financial Statements.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization:

Rural Water District No. 9 (the District), Leavenworth County, Kansas, is formed as a governmental unit under the statutes of Kansas to acquire water rights and to build and acquire pipe lines for the purpose of furnishing water and water rights to owners and occupants of land located within the District. Total active benefit units at December 31, 2016 and 2015, were 758 and 753, respectively.

B. Reporting Entity:

The District's reporting entity includes the District's governing board and all related organizations for which the District is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District has determined that no other entity meets the above criteria and, therefore, no other organization has been included as a component unit in the District's financial statements.

C. Basis of Presentation and Basis of Accounting:

The financial statements of the District are prepared in accordance with generally accepted accounting principles. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position display information about the reporting government as a whole on the accrual basis of accounting and the economic resources measurement focus.

D. Budgetary Information:

The District is mandated by Kansas Statutes Annotated 82a-628 to establish an annual budget.

E. Cash Equivalents:

For purposes of the statements of cash flows, the District considers all short-term investments with a maturity of three months or less to be cash equivalents.

F. 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 may differ from those estimates.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Capital Assets:

Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expense, and significant renewals and improvements are capitalized. Land and construction in progress are not depreciated. Estimated useful lives, in years, are as follows:

Water distribution system	10 – 40 years
Buildings, wells, standpipes	20 – 40 years
Office equipment	3 – 10 years
Vehicles	5 years
Capitalized interest	20 years

H. Accounts Receivable:

The District reads meters within the last seven days of the month and mails billings to be received by the consumer by the 5th of the following month. Water bill payments are due by the 15th of the month following the month being billed. Late penalties are assessed at a rate of \$10 per month.

I. Benefit Units:

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$6,000 and are included in the statements of revenue, expenses and changes in net assets as meter sales.

J. Aid in Construction:

Aid in construction represents contributions from the members for meter installations and is included in the statements of revenue, expenses, and changes in net assets as non-operating revenue. Aid-in-construction was \$9,751 and \$13,632 for the years ended December 31, 2016 and 2015, respectively.

K. Income Taxes:

The District is organized as a governmental unit and is not subject to federal or state income taxes.

L. Inventory:

The District does not maintain inventory. All supplies and parts are expensed when purchased.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

M. Revenues:

Income from operations reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

2. DEPOSITS AND INVESTMENTS

Deposits – The District has a policy of requiring deposits at financial institutions in excess of federal depository insurance amounts to be collateralized. The bank balance as of December 31, 2016, was \$585,049, and was covered in full by FDIC insurance and collateral. Any collateral securities used to secure deposits for the District are to be held by a Federal Reserve Bank, a bank, or trust company approved by the District's governing body.

Investments – The District is authorized by state statute to invest in temporary notes, time deposits, open accounts, certificates of deposit, repurchase agreements, or in other short-term obligations of the United States. The District does not have an official investment policy, but follows the requirements in the state statutes.

3. CAPITAL ASSETS

The changes in capital assets for the year ended December 31, 2016, are as follows:

	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>
Land	\$ 61,092			\$ 61,092
Water distribution system	3,141,678	\$ 28,131		3,169,809
Buildings, wells, standpipes	243,801			243,801
Lagoon	38,620			38,620
Land improvements	29,328			29,328
Office equipment	13,844			13,844
Vehicle	10,700			10,700
Capitalized interest	<u>14,028</u>		<u>\$(14,028)</u>	<u>-0-</u>
Total	3,553,091	28,131	(14,028)	3,567,194
Less accumulated depreciation	<u>(1,491,239)</u>	<u>(99,755)</u>		<u>(1,590,994)</u>
Total	<u>\$ 2,061,852</u>	<u>\$ (71,624)</u>	<u>\$(14,028)</u>	<u>\$1,976,200</u>

Depreciation expense was \$99,755 for the year ended December 31, 2016.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

3. CAPITAL ASSETS, CONTINUED

The changes in capital assets for the year ended December 31, 2015, are as follows:

	<u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>2015</u>
Land	\$ 68,431			\$ 61,092
Water distribution system	2,979,528	\$ 162,150	\$(7,339)	3,141,678
Buildings, wells, standpipes	243,801			243,801
Lagoon	38,620			38,620
Land improvements	29,328			29,328
Office equipment	13,844			13,844
Vehicle	10,700			10,700
Capitalized interest	14,028			14,028
Total	3,398,280	162,150	(7,339)	3,553,091
Less accumulated depreciation	<u>(1,359,742)</u>	<u>(131,497)</u>		<u>(1,491,239)</u>
Total	<u>\$ 2,038,538</u>	<u>\$ 30,653</u>	<u>\$(7,339)</u>	<u>\$ 2,061,852</u>

Depreciation expense was \$131,497 for the year ended December 31, 2015.

4. LONG-TERM DEBT

In 2004, the District entered into a financing agreement for a secured loan in the amount of \$329,336. The loan was paid in full as of December 31, 2015. Total payments for the year ended December 31, 2015 were \$23,850.

On October 20, 2015, the District entered into a financing agreement with the Bank of McLouth for a loan in the amount of \$181,150. The loan matures on November 5, 2022, and bears interest at a rate of 4%. Monthly payments of \$2,485 began December 5, 2015. Future scheduled payments are as follows:

	<u>Total Payment</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 29,824	\$ 24,465	\$ 5,359
2018	29,824	24,995	4,829
2019	29,824	26,013	3,811
2020	29,824	27,073	2,751
2021	29,824	28,176	1,648
2022	<u>26,345</u>	<u>25,842</u>	<u>503</u>
Totals:	<u>\$ 175,465</u>	<u>\$ 156,564</u>	<u>\$ 18,901</u>

5. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Leavenworth County in Kansas. The District grants credit to those customers and requires no collateral; therefore, the District has a concentration of accounts receivable in this community.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

6. RELATED PARTY TRANSACTIONS

The District sells water to members of the Board of Directors. Total receivables due from Board members as of December 31, 2016 were \$225. Neither the water sales nor the resulting receivables are considered material to the District or the Board members.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past two years.

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 District. Management is not aware of finance-related legal or contractual provision violations for the years ended December 31, 2016 and 2015.

9. EMPLOYEE RETIREMENT PLAN

Plan Description

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 68, Financial Reporting for Pension Plans, and as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits to substantially all public employees in Kansas. KPERS financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org.

Benefits

Benefits are established by statute and may only be changed by the Kansas General Assembly. Members employed by the District 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.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

9. EMPLOYEE RETIREMENT PLAN, CONTINUED

Benefits, continued

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.

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 each annual actuarial valuation for each of the three state wide pension groups. 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, which includes the annual increases in the employer contribution rates related to subsequent benefit enhancements, which are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.0% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution capped rates are each 9.18%. The rate of contribution for District employees is 6%.

The District's contributions to KPERS were \$4,789 for the year ended June 30, 2016, the fiscal year-end of KPERS. This amount was .002994% of total contributions of \$159,960,265 of all employers in the local group of employers, which consists of other water districts, city and county governments, and a variety of other local governments.

At June 30, 2016, the District recorded a liability of \$46,318 related to KPERS for its proportionate share of the \$1,547,029,536 net pension liability of the local group of employers. The District's liability is based on the .002994% proportion of contributions for the year ended June 30, 2016.

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

9. EMPLOYEE RETIREMENT PLAN, CONTINUED

Actuarial valuations

Significant actuarial assumptions and other inputs used to total pension liability of KPERS are as follows:

Measurement date:	June 30, 2016
Valuation date:	December 31, 2015
Long-term rate of return, net of investment expense, and including price inflation:	8.00%
Price inflation:	3.00%
Wage inflation:	4.00%
Salary increases, including inflation.	4.00% – 16.00%

Mortality rates were based on the RP 2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study conducted for the three year period ending December 31, 2012. 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 included in the pension plan's target asset allocations as of June 30, 2016 were as follows.

<u>Asset class</u>	<u>Long-term Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
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:	<u>100.00%</u>	

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

9. EMPLOYEE RETIREMENT PLAN, CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. 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. 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 Net Pension Liability to Changes in Discount Rate

Potential change in the net pension liability using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) is as follows:

	Discount rate of:		
	7.00%	8.00%	9.00%
Net pension liability	\$ 63,486	\$ 46,318	\$ 31,761

Deferred outflows and inflows of resources

The following table provides changes in deferred inflows and outflows of resources for the year ended June 30, 2016.

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
Deferred outflows of resources:				
Differences between expected And actual experience		\$ 328	\$ (59)	\$ 269
Difference between expected And actual earnings	<u>\$ (1,531)</u>	<u>7,758</u>	<u>(756)</u>	<u>5,471</u>
Total deferred outflows of resources	\$ (1,531)	\$ 8,086	\$ (815)	\$ 5,740
Deferred inflows of resources:				
Differences between expected and actual experience	\$ 1,113		\$ (277)	\$ 836
Changes in proportion		\$ 1,662		1,662
Changes of assumptions	<u>549</u>		<u>(116)</u>	<u>433</u>
Total deferred inflows of resources	\$ 1,662	\$ 1,662	\$ (393)	\$ 2,931

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

9. EMPLOYEE RETIREMENT PLAN, CONTINUED

The following table provides the net deferred outflows/(deferred inflows) as of June 30, 2016, that will be recognized in pension expense in future years:

2017	\$ 422
2018	\$ 422
2019	\$ 2,113
2020	\$ 1,481
2021	<u>\$ 33</u>
Total	<u>\$ 4,471</u>

10. WATER CONTRACT

In 2014, the District entered into a 20-year contract with Suburban Water, Inc. (Suburban) to purchase water. Suburban agrees to sell water to the district at an annual minimum amount of 12,000,000 gallons. For the years ended December 31, 2016, and 2015, the District purchased 21,203,675 and 22,534,871 gallons, respectively.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events from the date of the financial statements through July 18, 2017, the date the financial statements were available to be issued.

12. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to record the accrual \$41,529 for net pension liability, restating net position at December 31, 2015 from \$2,408,839 to \$2,367,310.

SECTION II
SUPPLEMENTAL INFORMATION
(Unaudited)

**RURAL WATER DISTRICT NO. 9
LEAVENWORTH COUNTY, KANSAS**

**SCHEDULE OF STATISTICAL INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Unaudited)**

	<u>2016</u>	<u>2015</u>
Gallons sold	46,188,000	42,479,000
Average monthly water usage per customer	5,078	4,701
Average monthly water sale per benefit unit	\$ 48.05	\$ 49.43
Average monthly costs and expenses per benefit unit	\$ 49.77	\$ 57.19

SECTION III

COMPLIANCE AND INTERNAL CONTROL

ARTHUR WHITE & ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

302 Main Street
Tarkio, Missouri 64491
Telephone (660) 736-5811
Fax (660) 736-4364

2400 Frederick, Suite 500
St. Joseph, Missouri 64506
Telephone (816) 233-2855
Fax (816) 233-8238

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 18, 2017

Board of Directors
Rural Water District No. 9
Leavenworth County, Kansas

We have audited the financial statements of Rural Water District No. 9 as of and for the year ended December 31, 2016, and have issued our report thereon dated July 18, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water District No. 9's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 9's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 9's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 9's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Rural Water District No. 9's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Rural Water District No. 9's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Arthur White & Associates, L.L.C.

ARTHUR WHITE & ASSOCIATES, L.L.C.