

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

Financial Statements With Independent Auditors' Report

For the Years Ended December 31, 2019 and 2018

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9
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TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	6
Statements of Revenues, Expenses and Change in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Required Supplementary Information	18



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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of **Leavenworth County Rural Water District No. 9**, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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.

Opinion

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 **Leavenworth County Rural Water District No. 9**, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Period Financial Statements

The financial statements of **Leavenworth County Rural Water District No. 9** as of December 31, 2018, were audited by Karlin & Long, LLC and whose report dated February 10, 2019 expressed an unmodified opinion on those statements.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.

Certified Public Accountants

March 17, 2020

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9
Management's Discussion and Analysis
December 31, 2019

The discussion and analysis of **Leavenworth County Rural Water District No. 9's** financial performance provides an overview of the District's financial activities for the years ended December 31, 2019 and 2018. Please read in conjunction with the District's financial statements which begin after this section.

Reporting of the District

Our analysis of the District begins on page 6. There are the financial statements presented: Statements of Net Position, Statements of Revenues, Expenses and Change in Net Position and Statements of Cash Flows. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net position and changes in it. The District's net position, the difference between assets and liabilities, is a way to measure the District's financial health and financial position. Increases and decreases in the District's net position are one indicator of whether financial health is improving or deteriorating.

The District provides water services to residential customers within the District. The District served approximately 785 meters and 773 meters during 2019 and 2018, respectively.

FINANCIAL STATUS AND HIGHLIGHTS

Current Year Results

Operating revenues decreased in 2019 as compared to 2018, which is attributed to a decrease in the number of gallons sold between the two years as a result of significant increases in rainfall in 2019. Operating expenses increased due to an increase in office expenses, meter purchases, repairs and maintenance, rent, and insurance expenses.

Discussion of Basic Financial Statements

The District operates one proprietary fund. The financial statements provide detailed information which shows how money flows in and out of this fund and the balance left available for spending. This information helps to determine whether or not more or fewer financial resources can be spent in the near future to finance the District's activities.

The statements of net position reflect assets owned and liabilities owed at December 31, 2019 and 2018. The difference between total assets and total liabilities is referred to as net position.

The statements of revenues, expenses and change in net position reflect operating revenues, operating and maintenance expenses, interest income, interest expense and all other changes to net position for the years ended December 31, 2019 and 2018.

The statements of cash flows reflect cash provided by or used in operating activities, capital and related financing activities, and investing activities for the years ended December 31, 2019 and 2018. The statements also disclose cash paid for interest at December 31, 2019 and 2018.

Other Financial Matters

The District's purpose is to provide water to the users in the water district. Expenses include debt service and operating expenses. The financial position at the end of the year, based upon the District's established purpose, was primarily as planned.

Debt Administration

At year end, the loan with the Bank of McLouth had an outstanding balance of \$81,824 and \$107,771, respectively for 2019 and 2018. The debt is more fully described in Note 4 of the audited financial statements.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Management's Discussion and Analysis

December 31, 2019

Capital Assets

At the end of 2019 and 2018, the District had \$1,755,103 and \$1,777,562, respectively, invested in capital assets, net of depreciation.

Capital Assets

	2019	2018
Distribution System	\$ 2,025,537	2,026,632
Water Tower	987,718	987,718
Building	271,815	243,801
Land	90,420	90,420
Office Equipment and Furniture	251,455	209,018
Accumulated Depreciation	(1,871,842)	(1,780,027)
Net Capital Assets	\$ 1,755,103	1,777,562

Comparative Financial Reports

The following figures present abbreviated comparative information in the District's statements of net position at December 31, 2019 and 2018 and summaries of activities for the years then ended.

Statement of Net Position

	2019	2018
Current Assets	\$ 725,404	802,656
Noncurrent Assets	1,755,103	1,777,562
Total Assets	2,480,507	2,580,218
Deferred Outflows of Resources	33,693	19,987
Total Assets and Deferred Outflows of Resources	\$ 2,514,200	2,600,205
Current Liabilities	\$ 34,832	36,998
Noncurrent Liabilities	136,185	141,687
Total Liabilities	171,017	178,685
Deferred Inflows of Resources	3,416	3,870
Total Liabilities and Deferred Inflows of Resources	174,433	182,555
Total Net Position	2,339,767	2,417,650
Total Liabilities and Net Position	\$ 2,514,200	2,600,205

Statement of Revenues, Expenses and Change in Net Position

	2019	2018
Operating Revenues	\$ 466,730	480,207
Operating Expenses	(592,919)	(546,663)
Net Operating Loss	(126,189)	(66,456)
Net Nonoperating Revenues (Expenses)	7,106	13,202
Loss Before Capital Contributions	(119,083)	(53,254)

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Management's Discussion and Analysis

December 31, 2019

Benefit Units	\$ <u>41,200</u>	<u>48,800</u>
Change in Net Position	(77,883)	(4,454)
Net Position – Beginning of Year	<u>2,417,650</u>	<u>2,422,104</u>
Net Position – End of Year	\$ <u><u>2,339,767</u></u>	<u><u>2,417,650</u></u>

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. The report is also designed to show the District's accountability for the money it receives.

Further questions concerning this report or the financial status of **Leavenworth County Rural Water District No. 9** should be directed to the District Manager at PO Box 295, Tonganoxie, Kansas 66086.

Leavenworth County Rural Water District No. 9

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Statements of Net Position
Proprietary Fund
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current Assets		
Cash	\$ 649,002	754,411
Accounts Receivable	69,961	42,904
Prepaid Expenses	<u>6,441</u>	<u>5,341</u>
Total Current Assets	<u>725,404</u>	<u>802,656</u>
Noncurrent Assets		
Capital Assets		
Distribution System	2,025,537	2,026,632
Water Tower	987,718	987,718
Buildings	271,815	243,801
Land	90,420	90,420
Equipment	251,455	209,018
Accumulated Depreciation	<u>(1,871,842)</u>	<u>(1,780,027)</u>
Total Noncurrent Assets	<u>1,755,103</u>	<u>1,777,562</u>
Total Assets	<u>2,480,507</u>	<u>2,580,218</u>
Deferred Outflows of Resources	<u>33,693</u>	<u>19,987</u>
Total Assets and Deferred Outflows of Resources	<u>2,514,200</u>	<u>2,600,205</u>
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>		
Current Liabilities		
Current Portion of Long-Term Debt	27,035	25,947
Accounts Payable	3,839	6,755
Payroll Liabilities	<u>3,958</u>	<u>4,296</u>
Total Current Liabilities	<u>34,832</u>	<u>36,998</u>
Noncurrent Liabilities		
Note Payable, Net of Current Portion	54,789	81,824
Net Pension Liability	<u>81,396</u>	<u>59,863</u>
Total Noncurrent Liabilities	<u>136,185</u>	<u>141,687</u>
Total Liabilities	<u>171,017</u>	<u>178,685</u>
Deferred Inflows of Resources	<u>3,416</u>	<u>3,870</u>
Total Liabilities and Deferred Inflows of Resources	<u>174,433</u>	<u>182,555</u>
<u>NET POSITION</u>		
Net Position		
Invested in Capital Assets, Net of Related Debt	1,673,279	1,669,791
Unrestricted	<u>666,488</u>	<u>747,859</u>
Total Net Position	\$ <u>2,339,767</u>	<u>2,417,650</u>

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9
Statements of Revenues, Expenses, and Change in Net Position
Proprietary Fund
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water Sales	\$ 449,211	465,072
Aid in Construction	<u>17,519</u>	<u>15,135</u>
Total Operating Revenues	<u>466,730</u>	<u>480,207</u>
Operating Expenses		
Cost of Water	57,004	94,536
Payroll and Payroll Taxes	120,878	113,547
Employee Insurance and KPERS	21,393	17,390
Contract Labor	7,398	7,150
Utilities	21,703	25,896
Office Expenses	16,052	5,834
Repairs and Maintenance	156,780	100,686
Machine Hire	46,635	45,307
Professional Fees	6,620	7,006
Rent	13,282	2,400
Insurance	15,853	8,663
Mileage	14,245	13,955
Sales Tax and Water Fees	2,678	4,007
Locates	583	704
Depreciation and Amortization	<u>91,815</u>	<u>99,582</u>
Total Operating Expenses	<u>592,919</u>	<u>546,663</u>
Net Operating Loss	<u>(126,189)</u>	<u>(66,456)</u>
Nonoperating Revenues (Expenses)		
Interest Income	5,315	3,467
Miscellaneous	(1,823)	7,346
Rental Income	7,491	7,344
Interest Expense	<u>(3,877)</u>	<u>(4,955)</u>
Net Nonoperating Revenues (Expenses)	<u>7,106</u>	<u>13,202</u>
Loss Before Capital Contributions	<u>(119,083)</u>	<u>(53,254)</u>
Benefit Units	<u>41,200</u>	<u>48,800</u>
Change in Net Position	<u>(77,883)</u>	<u>(4,454)</u>
Net Position - Beginning of Year	<u>2,417,650</u>	<u>2,422,104</u>
Net Position - End of Year	\$ <u><u>2,339,767</u></u>	<u><u>2,417,650</u></u>

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Statements of Cash Flows

Proprietary Fund

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Cash Received From Customers	\$ 439,673	474,962
Cash Paid to Suppliers	(362,849)	(334,612)
Cash Paid to Employees	(135,236)	(127,162)
Net Cash Provided (Used) by Operating Activities	<u>(58,412)</u>	<u>13,188</u>
Cash Flows From Capital and Related Financing Activities		
Miscellaneous	<u>(1,823)</u>	<u>7,346</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from Sale of Benefit Units and Aid in Construction	41,200	48,800
Purchase of Capital Assets	(69,356)	(1,095)
Principal Paid on Note Obligation	(25,947)	(24,878)
Interest Paid	(3,877)	(4,955)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(57,980)</u>	<u>17,872</u>
Cash Flows From Investing Activities		
Rent Received	7,491	7,344
Interest Received	<u>5,315</u>	<u>3,467</u>
Net Cash Provided by Investing Activities	<u>12,806</u>	<u>10,811</u>
Net Increase (Decrease) in Cash	<u>(105,409)</u>	<u>49,217</u>
Cash - Beginning of Year	<u>754,411</u>	<u>705,194</u>
Cash - End of Year	\$ <u><u>649,002</u></u>	\$ <u><u>754,411</u></u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Net Operating Loss	\$ (126,189)	(66,456)
Adjustments to Reconcile Net Operating Loss to Cash Used by Operating Activities		
Depreciation and Amortization	91,815	99,582
(Increase) Decrease in		
Accounts Receivable	(27,057)	(5,245)
Prepaid Expenses	(1,100)	(2,839)
Increase (Decrease) in		
Accounts Payable	(2,916)	(15,628)
Payroll Liabilities	(338)	2,305
Net Pension Liability	7,373	1,469
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(58,412)</u></u>	\$ <u><u>13,188</u></u>

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements

December 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Leavenworth County Rural Water District No. 9 (District), Tonganoxie, Kansas, is organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Leavenworth County.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Accounting, Financial Statement Presentation, and Measurement Focus

For financial reporting purposes, the District is engaged only in business-type activities. Accordingly, the District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the District are included in the statement of net position. The statement of revenues, expenses and change in net position presents increases and decreases in total net position. Under the accrual basis of accounting revenues are recorded when earned, and expenses are recorded when a liability is incurred. Revenues are recognized as soon as they are both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected by the end of the year. Expenditures are recorded when the related liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accounting records of the District are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District applies all statements issued by the Government Accounting Standards Board (GASB). The District uses a single proprietary fund to account for and report its financial activities, which is limited to *business-type* activities – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which for the District is water distribution. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District had only one proprietary fund through December 31, 2019 and 2018.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

Budget

The District is not subject to the legal annual operating budget requirements, but is controlled by the use of an internal budget established by the governing body. As the District is not subject to these requirements, a comparison of actual to budget is not presented in the financial statements.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements
December 31, 2019 and 2018

Cash

For the purposes of the statement of cash flows the District defines cash as demand deposits and certificates of deposit at banks with maturities of three months or less.

Accounts Receivable

Accounts receivable are amounts due from customers. All water meters are master-read by the District's operator prior to the end of the fiscal year. The adjustments are reflected in the year end balances. There is no allowance for doubtful accounts used because the District deems all accounts receivable collectible.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The District does not have a formal capitalization policy. Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$91,815 and \$99,582, respectively. The estimates useful lives of the types of assets is as follows:

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

Compensated Absences

Employees are allocated paid time off for vacation depending on their years of service. On October 31st of each year, the District will buy back unused leave at 90% cash value of employee's hourly wage as long as the employee carries over four weeks of PTO into the next year. Employees also receive two sick days. Employees can carry over up to six sick days, but they are not paid out at termination.

Net Position

Net position is the difference between assets and liabilities. The District's net position is classified as follows:

- a. *Invested in capital assets, net of related debt*: This represents the District's total investment in capital assets, net of related debt obligations related to those capital assets.
- b. *Restricted net position – expendable*: Restricted expendable net position includes resources that have legal limitations that are imposed on their use by legislation or external restrictions by creditors or grantors to indicate that their use is limited as stipulated by contract.
- c. *Unrestricted net position*: Unrestricted net position represents resources that does not meet the definition of "restricted" or "invested in capital assets, net of related debt". These resources are used for transactions relating to the operations of the District and may be used at the discretion of the governing body to meet current expenses for any lawful purpose.

Operating Revenues

The District's rates are established by the Board of Directors. The District sells water to members at established rates.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements
December 31, 2019 and 2018

Benefit Units

The District receives applications for new service from individuals and businesses in Leavenworth County. During the monthly board meetings these applications are reviewed and voted on. If an application is approved, the individual or business pays a \$6,000 membership fee and pays for construction costs related to the installation of the new service. These fees are non-reimbursable.

Aid in Construction

Aid in construction represents contributions from the members to pay for construction of water main extensions. These are valued at acquisition value at the time of contribution. Substantially, all construction contributions executed provide for no refunds.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level. The District's payroll tax returns for the years ending 2019, 2018 and 2017 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 – 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 bank or branch 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 investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 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%. The District does not use "peak periods". All deposits were legally secured at December 31, 2019 and 2018.

At December 31, 2019 and 2018 the District's carrying amounts of deposits were \$649,002 and \$754,411, respectively, and the bank balances were \$649,830 and \$755,418, respectively, the difference being outstanding checks and deposits. The bank balances at December 31, 2019 and 2018 were held by two banks. Of the 2019 bank balance, \$251,929 was covered by federal depository insurance and \$397,901 was collateralized with securities held by the pledging financial institutions' agents in the District's name. Of the 2018 bank balance, \$250,000 was covered by federal depository insurance and \$505,418 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements

December 31, 2019 and 2018

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments at December 31, 2019 and 2018.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in the various capital asset categories for the years ended December 31, 2019 and 2018:

	Balance 12/31/2018	Increases	Decreases	Balance 12/31/2019
Land	\$ 61,092	-	-	61,092
Water Distribution System	3,169,809	-	-	3,169,809
Buildings, Wells, Standpipes	243,801	28,014	-	271,815
Lagoons	38,620	-	-	38,620
Land Improvements	29,328	-	-	29,328
Office Equipment	14,939	-	-	14,939
Vehicles	-	41,342	-	41,342
Total Capital Assets	3,557,589	69,356	-	3,626,945
Accumulated Depreciation	(1,780,027)	(91,815)	-	(1,871,842)
Capital Assets, Net of Accumulated Depreciation	\$ 1,777,562	(22,459)	-	1,755,103

	Balance 12/31/2017	Increases	Decreases	Balance 12/31/2018
Land	\$ 61,092	-	-	61,092
Water Distribution System	3,169,809	-	-	3,169,809
Buildings, Wells, Standpipes	243,801	-	-	243,801
Lagoons	38,620	-	-	38,620
Land Improvements	29,328	-	-	29,328
Office Equipment	14,939	-	-	14,939
Total Capital Assets	3,557,589	-	-	3,557,589
Accumulated Depreciation	(1,680,445)	(99,582)	-	(1,780,027)
Capital Assets, Net of Accumulated Depreciation	\$ 1,877,144	(99,582)	-	1,777,562

NOTE 4 – LONG-TERM LIABILITIES

On October 20, 2016, 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 the rate of 4%. Monthly payments of \$2,485 began December 5, 2016. Long-term debt activity for the year ended December 31, 2019 was as follows:

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements
December 31, 2019 and 2018

	<u>Outstanding December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding December 31, 2019</u>	<u>Current Portion</u>	<u>Interest Paid</u>
Bank of McClouth	\$ 107,771	-	25,947	81,824	27,035	3,877

Long-term debt activity for the year ended December 31, 2018 was as follows:

	<u>Outstanding December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding December 31, 2018</u>	<u>Current Portion</u>	<u>Interest Paid</u>
Bank of McClouth	\$ 132,766	-	24,995	107,771	25,947	4,955

Scheduled maturities of long-term debt and interest through maturity are as follows:

<u>Years Ended December 31</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	27,035	2,789	29,824
2021		28,145	1,679	29,824
2022		26,644	532	27,176
Total	\$	81,824	5,000	86,824

NOTE 5 – DEFINED BENEFIT PENSION PLAN**Plan Description**

Leavenworth County Rural Water District No. 9 participates in a cost-sharing multiple-employer defined benefit 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 KPERS. Participation by local political subdivisions is optional, but irrevocable once elected.

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

Benefits

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

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements
December 31, 2019 and 2018

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. The 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 cash balance retirement plan (KPERS 3) was created for new hires starting after January 1, 2015. Normal retirement age for KPERS 3 is 65 with 5 years of service or 60 with 30 years of service. Early retirement is available at age 55 with 10 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 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 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, 2019.

For the year ended December 31, 2019 and 2018, the actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory employer capped contribution rate for local employees are both 8.89% and 8.39%, respectively. The member contribution rate as a percentage of eligible compensation for the fiscal year ended June 30, 2019 and 2018 was 6.00% for local employees.

Contributions to the pension plan for the District were \$9,862 and \$6,476 for the years ended December 31, 2019 and 2018, respectively.

Employer Allocations

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

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

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

Net Pension Liability

Net pension liability activity for the years ended December 31 was as follows:

	2019	2018
Net Pension Liability	\$81,396	\$59,863
Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	December 31, 2018	December 31, 2017
District's Proportion	0.0058%	0.0043%
Change in Proportion	0.0015%	0.0014%

Actuarial Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods included in the measurement:

Actuarial Cost Method	Entry age normal
Price inflation	2.75%
Salary increase, including wage increases	3.50 to 12.00%, including inflation
Long-term rate of return net of investment expense, including price inflation	7.75%

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements

December 31, 2019 and 2018

Asset Class	Long-Term Target Allocation		Long-Term Expected Real Rate of Return	
Global Equity	47.00	%	6.85	%
Fixed Income	13.00		1.25	
Yield Driven	8.00		6.55	
Real Return	11.00		1.71	
Real Estate	11.00		5.05	
Alternatives	8.00		9.85	
Short-Term Investments	2.00		(0.25)	
Total	100.00	%		

Discount Rate

The discount rate used to measure the total pension liability for the years ended December 31, 2019 and 2018 was 7.75%. The local groups do not necessarily contribute the full actuarial determined rate. Based on legislation first passed in 1993 and subsequent legislation, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap was 1.2%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

For the year ended December 31, 2019, the following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the 's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
December 31, 2019	\$121,568	\$81,396	\$47,795
December 31, 2018	\$87,798	\$59,863	\$36,256

Pension Expense

For the years ended December 31, 2019 and 2018, the recognized pension expense of \$17,637 and \$7,975, respectively, 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

At December 31, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 178	2,050	216	1,696
Net differences between projected and actual earnings on investments	1,915	-	1,400	-
Changes in assumptions	28,555	1,201	2,592	288
Changes in proportion	2,488	165	15,779	1,886
Contributions subsequent to measurement date	557	-	-	-
Total	\$ 33,693	3,416	19,987	3,870

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Notes to Financial Statements
December 31, 2019 and 2018

The \$557 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2019. Other 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		
2020	\$	9,206
2021		6,603
2022		8,122
2023		5,404
2024		385

NOTE 6 – LITIGATION

The District is party to various legal proceedings which normally occur in governmental operations. These proceedings are not likely to have a material financial impact on the affected fund of the District.

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District carries commercial insurance for risks of loss, including property, general liability, equipment floater, automobile, crime, workers compensation and linebacker. Settled claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from prior years.

NOTE 8 – MAJOR SUPPLIER

In 2014, the District entered into a 20-year contract with Suburban Water, Inc. to purchase water. The contract requires the District to purchase an annual minimum amount of 12,000,000 gallons. For the year ended December 31, 2019 and 2018, the District purchased a total of 15,955,743 and 25,391,000 gallons, respectively.

NOTE 9 – RECLASSIFICATION

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net position.

NOTE 10 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 17, 2020, which is the date the financial statements were available to be issued.

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

Required Supplementary Information

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9
Required Supplementary Information
December 31, 2019

Fiscal Year-End Measurement Date	Schedule of the District's Proportionate Share of the Net Pension Liability Kansas Public Employees Retirement System (KPRS)*			
	December 31, 2019 June 30, 2019	December 31, 2018 June 30, 2018	December 31, 2017 June 30, 2017	December 31, 2016 June 30, 2016
The District's proportion of the collective net pension liability	0.0058%	0.0043%	0.0028%	0.0030%
The District's proportionate share of the net pension liability	\$ 81,396	59,863	41,716	46,318
The District's covered-employee payroll	\$ 107,715	76,974	51,100	50,705
The District's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	75.57%	77.77%	81.64%	91.35%
Plan fiduciary net position as a percentage of the total pension liability	69.88%	68.88%	67.12%	65.10%

Note: Information on this schedule is measured as of the measurement date.

	Share of the District's Contributions Kansas Public Employees Retirement System (KPRS)*			
	2019 June 30, 2019	2018 June 30, 2018	2017 June 30, 2017	2016 June 30, 2016
Contractually required contribution	\$ 9,304	6,476	4,505	4,789
Contributions in relation to the contractually required contribution	9,304	6,476	4,505	4,789
Contribution deficiency (excess)	\$ -	-	-	-
The District's covered-employee payroll	\$ 107,715	76,974	51,100	50,705
Contributions as a percentage of covered-employee payroll	8.638%	8.413%	8.816%	9.445%

*GASB 68 requires presentation of ten years. As of December 31, 2019, only five years of information is available.

Changes in actuarial assumptions include:

- Price inflation assumption lowered from 3% to 2.75%
- Investment return assumption was lowered from 8% to 7.75%
- General wage growth assumption was lowered from 4% to 3.5%
- Payroll growth assumption was lowered from 4% to 3%

