

LEAVENWORTH COUNTY RURAL
WATER DISTRICT NO. 9
Tonganoxie, Kansas

FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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Karlin & Long, LLC
Certified Public Accountants

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LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9
Tonganoxie, Kansas

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Karlin & Long, LLC

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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 the Leavenworth County Rural Water District No. 9 as of and for the years ended December 31, 2018 and 2017, which comprise 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the business-type activities of the Leavenworth County Rural Water District No. 9, as of December 31, 2018 and 2017, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

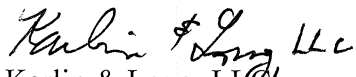
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 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.

Other Information

In accordance with Government Auditing Standards, we have also issued a report dated February 10, 2019, on our consideration of the District'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 on 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Supplemental Schedule of Statistical Information (Unaudited) is the responsibility of management. The statistical schedule 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.


Karlin & Long, LLC

Certified Public Accountants

Lenexa, KS

February 10, 2019

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Management's Discussion and Analysis

Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. This portion of the Water District's annual financial report is intended to provide an easily read analysis of the District's financial activities and condition, based on current known facts, for the fiscal year ending on December 31, 2018. This information is presented in conjunction with the audited financial statements that follow.

Organizational and Business

This Water District provides water services. The District is currently serving approximately 773 meters and 766 meters on December 31, 2018 and 2017, respectively. The water is supplied mainly to residential customers.

Overview of the Financial Statements

This annual report consists of the following parts: 1) Management's Discussion and Analysis, 2) Basic Financial Statements, 3) Other Required Supplementary Information in the form of Notes.

Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The District's assets and liabilities are reported on the Statement of Net Position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expense and Changes in Net Assets present the results of the District's operations over the course of the fiscal year and provides information as to how the net position changed during the year. This statement can be used as an indicator that the District is successfully recovering costs through user fees and other charges.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operation, capital, non-capital, and investing and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

Financial Analysis

Financial Highlights (see table 1)

The total assets of the District exceed total liabilities by \$2,417,649 .

The total assets decreased from last year by \$36,306 .

Capital assets decreased during the fiscal year by \$99,582 or 5.60%.

The District's total net assets decreased by \$12,995 or 0.53% during the year.

Table 1
Condensed Statement of Net Assets

	2018	2017	Variance	% Change
Current and other assets	\$ 802,655	\$ 755,608	\$ 47,046	5.86%
Capital assets, net	1,777,562	1,877,144	(99,582)	-5.60%
Deferred outflows	19,987	3,757	16,230	81.20%
Total assets	\$ 2,600,204	\$ 2,636,509	\$ (36,306)	-1.40%
Long-term debt	\$ 81,758	\$ 107,654	\$ (25,896)	-24.06%
Net pension liability	59,863	41,716	18,147	43.50%
Other liabilities	37,064	52,176	(15,112)	-28.96%
Deferred inflows	3,870	4,318	(448)	-10.38%
Total liabilities	\$ 182,555	\$ 205,864	\$ (23,310)	-11.32%
Net assets invested in capital assets, net of related debt	\$ 1,669,791	\$ 1,744,495	\$ (74,704)	-4.47%
Unrestricted net assets	747,858	686,149	61,708	8.25%
Total net assets	\$ 2,417,649	\$ 2,430,644	\$ (12,995)	-0.54%

Results of Operation

Changes in the District's net assets for the year (see table 2)

Table 2
Condensed Statement of Revenues, Expenses and Changes Net Assets

	2018	2017	Variance	% Change
Revenues:				
Operating revenues	\$ 370,536	\$ 359,242	\$ 11,294	3.14%
Non operating revenues	18,158	10,948	7,211	65.86%
Total revenues	\$ 388,694	\$ 370,190	\$ 18,504	5.00%
Expenses:				
Operating expenses	\$ 359,619	\$ 286,607	\$ 73,012	25.47%
Depreciation	99,582	100,151	(569)	-0.57%
Non operating expenses	6,424	4,677	1,747	37.35%
Total expenses	\$ 465,626	\$ 391,436	\$ 74,190	18.95%
Changes in net assets	\$ (12,995)	\$ 43,487	\$ (56,482)	-129.88%
Beginning net assets	2,430,644	2,387,157	43,487	1.82%
Ending net assets	\$ 2,417,649	\$ 2,430,644	\$ (12,995)	-0.54%

Results of Operation (continued)

The District's total operating revenues of \$370,536 for the year increased by \$11,294 or 3.14%.

The District's change in net assets decreased by \$12,995 .

Operating expenses increased primarily due to water purchases and personnel costs.

Capital Assets

The District has \$1,669,791 and \$1,743,400 in capital assets (net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction or improvements of those assets) on December 31, 2018 and 2017, respectively.

Debt Administration

The District had long-term debt outstanding of \$107,771 and \$132,649 , of which \$26,013 and \$24,995 is the current portion on December 31, 2018 and 2017, respectively.

Other Factors

There are deferred outflows of resources of \$19,987 and \$3,757 as of December 31, 2018 and 2017, respectively. There are deferred inflows of resources of \$3,870 and \$4,318 as of December 31, 2018 and 2017.

Additional Financial Information

This financial report is designed to provide the District's customers, 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 the General Manager at P.O. Box 295, Tonganoxie, KS 66086, or (913) 845-3571.

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Tonganoxie, Kansas

STATEMENTS OF NET POSITION

As of December 31, 2018 and 2017

ASSETS			
		<u>2018</u>	<u>2017</u>
Current Assets			
Cash and equivalents	\$	754,409	\$ 705,194
Accounts receivable, net		42,904	47,913
Prepaid expenses		<u>5,341</u>	<u>2,502</u>
Total current assets		802,655	755,608
Property, plant, and equipment, net		<u>1,777,562</u>	<u>1,877,144</u>
Deferred Outflows of Resources		<u>19,987</u>	<u>3,757</u>
Total assets	\$	<u><u>2,600,204</u></u>	<u><u>\$ 2,636,509</u></u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Current maturity of long term debt	\$	26,013	\$ 24,995
Accounts payable		6,755	25,190
Payroll liabilities		<u>4,296</u>	<u>1,991</u>
Total current liabilities		37,064	52,176
Long Term Debt			
Long Term Debt, net of current maturities		81,758	107,654
Net pension liability		<u>59,863</u>	<u>41,716</u>
Total long term debt		141,621	149,370
Deferred Inflows of Resources		<u>3,870</u>	<u>4,318</u>
Net Position			
Invested in capital assets, net of related debt		1,669,791	1,744,495
Unrestricted		<u>747,858</u>	<u>686,149</u>
Total net position		<u>2,417,649</u>	<u>2,430,644</u>
Total Liabilities and Net Position	\$	<u><u>2,600,204</u></u>	<u><u>\$ 2,636,509</u></u>

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

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Tonganoxie, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2018 and 2017

	2018	2017
Water sales	\$ 465,072	\$ 439,770
Cost of water	94,536	80,528
Gross profit from water sales	370,536	359,242
Operating Expenses		
Payroll and payroll taxes	113,547	55,719
Employee insurance & KPERS	15,921	14,912
Contract labor	7,150	54,810
Utilities and telephone	25,896	29,472
Office expenses	5,834	7,925
Repairs and maintenance	109,227	66,930
Machine hire	45,307	22,340
Professional fees	7,006	8,147
Rent	2,400	2,400
Insurance	8,663	8,147
Mileage and miscellaneous	13,955	13,128
Sales tax and water fees	4,007	2,177
Locates	704	500
Depreciation and amortization	99,582	100,151
Total operating expenses	459,201	386,758
Income (loss) from operations	(88,665)	(27,517)
Non-Operating Revenues (Expense)		
Interest income	3,467	1,548
Gain on sale of asset	-	2,200
Rental income	7,344	7,200
Miscellaneous income	7,347	-
Interest expense	(4,955)	(5,909)
Pension-related revenues (expenses)	(1,469)	1,232
Total non-operating income (expense)	11,735	6,271
Income (loss) before capital contributions	(76,930)	(21,245)
Benefit Units and Aid in Construction	63,935	64,733
Change in Net Position	(12,995)	43,487
Net Position - Beginning of Year	2,430,644	2,387,157
Net Position - End of Year	\$ 2,417,649	\$ 2,430,644

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

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Tonganoxie, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from members for water	\$ 470,081	\$ 431,912
Cash payments to suppliers for goods and services	(344,441)	(287,064)
Cash payments to employees for services	(127,589)	(70,103)
Net Cash Provided By Operating Activities	<u>(1,949)</u>	<u>74,745</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of benefit units and aid in construction	63,935	64,733
Payments on long-term debt	(24,878)	(23,915)
Interest paid	(4,955)	(5,909)
Purchase of property and equipment	(1,095)	-
Net Cash Provided By Capital and Related Financing Activities	<u>33,006</u>	<u>34,908</u>
Cash Flows from Investing Activities		
Rent received	7,344	7,200
Proceeds from sale of assets	-	2,200
Miscellaneous income	7,347	-
Interest received	3,467	1,548
Net Cash Provided By Investing Activities	<u>18,158</u>	<u>10,948</u>
Net Change in Cash and Equivalents	49,215	120,601
Cash and Equivalents, Beginning of Period	<u>705,194</u>	<u>584,591</u>
Cash and Equivalent, End of Period	<u><u>\$ 754,409</u></u>	<u><u>\$ 705,194</u></u>
Reconciliation of operating income to net cash		
provided by operating activities		
Operating income	\$ (88,215)	\$ (25,804)
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation and amortization	99,582	100,151
Changes in		
(Increase) decrease in Accounts receivable	5,008	(7,859)
(Increase) decrease in Prepaid expenses	(2,839)	81
Increase (decrease) in Accounts payable	(17,790)	8,099
Increase (decrease) in Accrued liabilities	2,305	76
Net cash provided by operating activities	<u><u>\$ (1,949)</u></u>	<u><u>\$ 74,745</u></u>

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

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Leavenworth County Rural Water District No. 9 (the District) was 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. Total benefit units at December 31, 2018 and 2017 were 773 and 766, respectively.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

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

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

The District reads meters during the last seven days of the month and the invoices are mailed out to be received by the consumer by the 5th of the following month. Payments for water service are due the 15th day of the month or will be subject to a late fee of \$10. The District considers all accounts collectable.

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, 2018 and 2017 totaled \$99,582 and \$100,151, 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

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 statement of revenue, expenses and changes in the net position as meter of sales.

Aid in Construction

Aid in Construction represents contributions from the members for meter installations and line extensions and are included in the statement of revenue, expenses and changes in the net position.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Inventory

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

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 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Net Position

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located 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.

The District is engaged in the sale of water to customers located in Leavenworth and Jefferson Counties 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.

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%.

At December 31, 2018 and 2017, the District's carrying amount of deposits, were \$754,409 and \$705,194, respectively, and the bank balances were \$755,418 and \$708,095, respectively, which were covered by FDIC insurance and additional pledged securities by the bank.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

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. 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. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance.

There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 4 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation 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. We noted no violations of Kansas statutes during the years ended December 31, 2018 and 2017.

NOTE 5 – Contracts

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, 2018 and 2017, the District purchased a total of 25,391,000 and 19,769,000 gallons, respectively.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Employee Retirement Plan

Plan Description

The District participates in the Kansas Public Employees Retirement Systems (KPERS), a cost sharing multiple-employee 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 Reports 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 their rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc postretirement 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.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Employee Retirement Plan (continued)

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, 2016, 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 provided 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 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 in 1.0% of total payroll for the fiscal year ended June 30, 2017.

The actuarially determined employer contributions rates (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution capped rates are each 12.01%. The rate of contribution for District employees is 6%.

The Districts contributions to KPERS were \$6,476 and \$4,505 for the years ended June 30, 2018 and 2017, respectively, the fiscal year-end of KPERS. This amount was .004295% and .0028880%, respectively, of total contributions of \$150,792,558 and \$156,423,611 of all employers in the local group employers, which consists of other water districts, city and county governments, and a variety of other local governments.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

Contributions (continued)

At June 30, 2018 and 2017, the District recorded a liability of \$59,863 and \$41,716, respectively related to KPERS for its proportionate share of the \$1,393,789,994 and \$1,448,455,584, respectively, net pension liability of the local group of employers. The District's liability is based on the .004295% and .0028880%, respectively of contributions for the years ended June 30, 2018 and 2017.

Actuarial Valuations

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

Measurement date:	June 30, 2018
Valuation date:	December 31, 2017
Long-term rate of return, net of investments expense, and including price inflations:	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 assumption used in the December 31, 2017, valuation were based on the results of actuarial experience study conducted for the three year period ending December 31, 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 estimated of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2018 were as follows:

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Employee Retirement Plan (continued)

Actuarial Valuations (continued)

<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	<u>2.00%</u>	(0.25) %
Total:	<u>100.00%</u>	

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 the contributions from the 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 Systems' 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 pensions 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

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 5 – Employee Retirement Plan (continued)****Discount Rate (continued)**

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

	Discount rate of:		
	7.00%	8.00%	9.00%
Net pension liability	\$77,031	\$59,863	\$45,306

Deferred outflows and inflows of resources

The following table provides changes in deferred inflows and outflows of resources for the year ended June 30, 2018:

	July 1, 2017	Additions	Deductions	June 30, 2018
Deferred outflow of resources:				
Difference between expected and actual experience	\$ 202	\$ 14	\$ -	\$ 216
Difference between expected and actual earnings	2,247	1,401	-	3,648
	<u>1,308</u>	<u>14,815</u>	<u>-</u>	<u>16,123</u>
Total deferred outflows of resources	\$ 3,757	\$ 16,230	\$ -	\$ 19,987
Deferred inflow of resources:				
Difference between expected and actual experience	\$ 836	\$ 860	\$ -	\$ 1,696
Changes in proportion	2,571	-	685	1,886
Changes in assumptions	<u>305</u>	<u>-</u>	<u>97</u>	<u>208</u>
Total deferred outflows of resources	\$ 3,712	\$ 860	\$ 782	\$ 3,790

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 5 – Employee Retirement Plan (continued)****Discount Rate (continued)**

The following table provides the net deferred outflows (deferred inflows) as of June 30, 2018, that will be recognized in pension expense in future years:

2018	\$ 422
2019	2,113
2020	1,481
2021	33
Total	<u>\$ 4,049</u>

NOTE 6 – Property, Plant, and Equipment

The following represents a roll-forward of property, plant, and equipment as of December 31, 2018 and 2017:

	2018 Rollforward			
	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 61,092	\$ -	\$ -	\$ 61,092
Water distribution system	3,169,809	-	-	3,169,809
Building, wells, standpipes	243,801	-	-	243,801
Lagoons	38,620	-	-	38,620
Land improvements	29,328	-	-	29,328
Office equipment	14,939	-	-	14,939
Vehicles	-	-	-	-
	<u>3,557,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,557,589</u>
Accumulated depreciation	<u>(1,680,445)</u>	<u>99,582</u>	<u>-</u>	<u>(1,780,027)</u>
	<u>\$ 1,877,144</u>			<u>\$ 1,777,562</u>

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 6 – Property, Plant, and Equipment (continued)**

	Beginning Balance	2017 Rollforward		Ending Balance
		Additions	Dispositions	
Land	\$ 61,092	\$ -	\$ -	\$ 61,092
Water distribution system	3,169,809	-	-	3,169,809
Building, wells, standpipes	243,801	-	-	243,801
Lagoons	38,620	-	-	38,620
Land improvements	29,328	-	-	29,328
Office equipment	13,844	1,095	-	14,939
Vehicles	10,700	-	(10,700)	-
	<u>3,567,194</u>	<u>\$ 1,095</u>	<u>\$ (10,700)</u>	<u>3,557,589</u>
Accumulated depreciation	<u>(1,590,994)</u>	<u>100,151</u>	<u>10,700</u>	<u>(1,680,445)</u>
	<u>\$ 1,976,200</u>			<u>\$ 1,877,144</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$99,582 and \$100,151 , respectively.

NOTE 7 – Related Party Transactions

The District rents office space from an employee of the District. The District paid \$2,400 and \$2,400 for the space in 2018 and 2017, respectively.

RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Long-term Debt

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. Future principal payments are as follows:

2019	\$ 26,013
2020	27,073
2021	28,176
2022	<u>26,392</u>
	<u>\$107,654</u>

NOTE 8 – Compensated Absences

The District provides sick and vacation leave to its employees. The amounts are being expensed when sick and vacation leave is taken.

NOTE 9 – Prior Period Adjustment

Amounts from the 2017 financial statements have been restated for additional information. Increasing the accounts receivable by \$10,254 from the prior year audit.

The presentation of the operating expenses from the 2017 audit has been modified to be comparable to the 2018 presentation.

NOTE 10 – Subsequent Events Review

Subsequent events for management's review have been evaluated through February 10, 2019. This is the date the financial statements were available to be issued.

...KL...
Karlin & Long, LLC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S 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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units of the Leavenworth County Rural Water District No. 9, Kansas, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Leavenworth County Rural Water District No. 9, Kansas' basic financial statements, and have issued our report thereon dated February 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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(785) 312-9091

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leavenworth County Rural Water District No. 9's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Karlin & Long, LLC". The signature is written in a cursive, flowing style.

Karlin & Long, LLC
Certified Public Accountants

Lenexa, Kansas
February 10, 2019

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

Leavenworth County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2018

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial property:		6/1/2019
Building and personal property	\$ 1,289,048	
Water towers and equipment	2,655,669	
General Liability:		6/1/2019
Aggregate Limit -	1,000,000	
products/completed operations		
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		6/1/2019
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Workmen's compensation:		6/1/2019
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		6/1/2019
Per loss	200,000	
Inland Marine		6/1/2019
Miscellaneous Property	351,213	
Linebacker Coverage		6/1/2019
Each loss	1,000,000	
Aggregate	1,000,000	
Cybersolutions Coverage		6/1/2019
Aggregate	325,000	

LEAVENWORTH COUNTY RURAL WATER DISTRICT NO. 9

SCHEDULE OF STATISTICAL INFORMATION
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Gallons sold	46,612,600	43,108,000
Average monthly water usage per customer	5,025	4,690
Average monthly water sale per benefit unit	50.14	47.84
Average monthly cost and expenses per benefit unit	60.18	51.16