

Rural Water District No. 13, Jefferson County, Kansas

**Financial Statements
As of December 31, 2022 and 2021
and For the Years Then Ended**

With Report by Independent Auditors



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To the Board of Directors
Rural Water District No. 13,
Jefferson County, Kansas
1951 Wellman Rd.
Lawrence, KS 66044

March 28, 2023

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 13, Jefferson County (the District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described below in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or

the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 audits 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.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Rural Water District No. 13, Jefferson County Kansas' annual financial report presents analysis of the District's financial performance during the fiscal year ended on December 31, 2022. The **Management's Discussion and Analysis** is designed to assist the reader in focusing on the significant financial issues and activities of the District and to identify any significant changes in financial position. This information should be read and considered with the financial statements taken as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this **Management Discussion and Analysis**, the **Financial Statements**, the **Notes to the Financial Statements** and **Supplementary Information**.

Required Financial Statements

The financial statements of the District provide information using accounting methods like those used by private sector companies. These statements offer current and long-term financial information about the activities of the District. The financial statements include the current and previous year's statements for comparison purposes year-to-year.

The **Statements of Net Position** include all the District's assets and liabilities and provide information about the nature and amounts of assets and obligations to the District's creditors (liabilities). This statement also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The **Statements of Revenues, Expenses and Changes in Net Position** show all the revenues and expenses for the District for the years shown. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully managed the costs through user fees and other charges, profitability, and credit worthiness.

The **Statements of Cash Flow** indicates cash receipts, cash payments, and net changes in cash. These changes result from operations, investing, and financing activities. This is simply stated as money in, money out, and money in the bank.

Notes to Financial Statements

The **Notes to Financial Statements** provide additional information that is essential to fully understand the data provided.

Supplementary Information

The **Kansas Public Employees Retirement System (KPERs) Schedules of District's Proportionate Share of the KPERs Net Pension Liability and District Contributions to KPERs, Schedule of Insurance in Force, and Schedule of Statistical Information** are presented at the end of with the **Notes to Financial Statements**. The District adopted the financial reporting standards of GASB No. 68 during 2021 and as such, the KPERs schedules are required to provide benchmarking and trend monitoring information.

USDA Project

During 2021, the Board of Directors (the Board) approved a long-term capital improvement project. During 2022, the Board approved to fund this project with a Rural Development loan from the United States Department of Agriculture (USDA) not to exceed \$4,641,000. Funds from this loan will be used to construct nearly 16 miles of 6,8,10, and 12-inch waterline at various locations throughout the District. The purpose of the waterlines is to alleviate flow restrictions and replace troublesome sections of waterlines. A third high service pump will be installed at the treatment plant to improve transmission capacity. Backup generators will be installed at the wells and Wellman booster pump station to ensure operations during a power outage. In addition, a new well and pumping station will be added, upgrades to the plant filtering system, and replacement of the northern booster pump operation. Further financial information regarding this project is provided in Note 6 on page 15 of the Note to Financial Statements.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Statements of Net Position

The **Statements of Net Position** shows the balanced financial position of assets/deferred inflows of resources and liabilities/deferred outflows of resources for the District. The change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

	<u>As of December 31, 2022</u>	<u>As of December 31, 2021</u>	<u>Increase (Decrease)</u>
Assets and Deferred Outflows of Resources			
Current assets	\$ 805,399	\$ 905,655	\$ (100,256)
Noncurrent assets	4,155,590	4,178,306	(22,716)
Deferred outflows of resources	79,392	39,039	40,353
Total Assets and Deferred Outflows of Resources	<u>\$ 5,040,381</u>	<u>\$ 5,123,000</u>	<u>\$ (82,619)</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current liabilities	\$ 190,551	\$ 150,904	\$ 39,647
Noncurrent liabilities	720,361	740,416	(20,055)
Deferred inflows of resources	1,164	40,603	(39,439)
Total Liabilities	<u>912,076</u>	<u>931,923</u>	<u>(19,847)</u>
Net Position			
Net investment in capital assets	3,367,665	3,288,338	79,327
Restricted for debt service	143,605	142,888	717
Unrestricted	617,035	759,851	(142,816)
Total Net Position	<u>4,128,305</u>	<u>4,191,077</u>	<u>(62,772)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 5,040,381</u>	<u>\$ 5,123,000</u>	<u>\$ (82,619)</u>

Total Assets and Deferred Outflows of Resources decreased year over year \$82,619 (-1.6%), which is not a significant change from the prior year. **Total Current Assets** decreased by \$100,256 (-11%). **Cash and cash equivalents** decreased \$120,487 (-15.8%) as the Board elected to invest in some capital work. Increases in accounts receivable and inventory offset some of this decrease, growing 10% and nearly 17% respectively. It is important to note that in the **Noncurrent Assets** section, a portion of cash and cash equivalents is held as "restricted cash" (\$143,605), earmarked to be available in the event the District cannot meet its bond payment obligation.

The **Total Liabilities** increased (\$19,592 or 2.2%) year over year. **Current Liabilities** increased 26% year over year (\$39,647), primarily drive by an increase in accounts payable (consistent with increases in inventory), and secondarily by a slightly larger current portion of long-term debt in 2022 moving into the "current liabilities" section. **Long-term debt** decreased (\$107,760 or -16.8%) due to regular debt payments against the only long-term debt the District has in force. The remaining balance of this KRWFA loan is \$660,000.

The **Total net position** of the District decreased slightly in 2022 (\$62,722 or 1.5%). The **Total net position** is divided into three areas - **Net investment in capital assets**, **Restricted for debt service**, and **Unrestricted**.

- A large portion of the District's **Total net position** consists of the District's **Net Investment in capital assets** portion (\$3,367,665 or 81.6% of the **Total net position**) which includes physical assets (distribution system, plant equipment and vehicles) less related debt and accumulated depreciation. The District uses

these assets to provide service and consequently these assets are not available for liquidation or for other spending. The net investment in capital assets increased (\$79,327 or 2.4%) due to changes in asset purchases, depreciation expenses and payment of debts.

- The **Restricted** portion (\$143,605, also noted in the Noncurrent Assets section above) is the amount of money required to be set aside to make payment on our long-term debt in the event of default. This amount is slightly larger than the absolute minimum set aside required by KRWFA (which is \$129,900) as the District chooses to let the interest in this account accumulate. The \$129,900 portion of this money is not available for use by the District.
- The **Unrestricted** amount (\$617,035) represents the amount available to be used to meet the District's ongoing obligations to creditors and operations of the District. The **Unrestricted** amount decreased (\$142,816 or -18.8%) from 2021 to 2022. The District has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to sustain operations.

At the end of the 2022 fiscal year the District has positive balances in all categories of **Total net position**.

Statements of Revenues, Expenses and Changes in Net Position

The **Statements of Revenues, Expenses and Changes in Net Position** provides insight to the nature and source of the changes from the **Statements of Net Position**.

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Operating Loss			
Operating revenues	\$ 936,596	\$ 928,071	\$ 8,525
Operating expense	(1,085,465)	(949,951)	(135,514)
Operating Loss	<u>(148,869)</u>	<u>(21,880)</u>	<u>(126,989)</u>
Nonoperating Revenue (Expense)			
Other nonoperating revenues	11,491	12,769	(1,278)
Other nonoperating expense	(20,944)	(23,896)	(32,318)
Total Nonoperating Expense	<u>(9,453)</u>	<u>(11,127)</u>	<u>(34,874)</u>
Capital Contributions	<u>95,550</u>	<u>90,431</u>	<u>185,981</u>
Increase (Decrease) in Net Position	(62,772)	57,424	(120,196)
Net Position – Beginning of Year	<u>4,191,077</u>	<u>4,133,653</u>	<u>57,424</u>
Net Position – End of Year	<u>\$ 4,128,305</u>	<u>\$ 4,191,077</u>	<u>\$ (62,772)</u>

Total operating revenues increased slightly in 2022 from 2021 (\$8,525 or 0.1%).

Total Operating Expenses for the year increased by \$135,514 (14.3%) year over year. Repairs and maintenance (up 48%), Employee Payroll/Benefits (up 18%), and Chemicals and Supplies (up 66%) were the most significant drivers of this increase. The District experienced an unusually high number of drought-related pipeline repairs in 2022; employment and supply cost increases were consistent with inflation-related cost increases throughout the overall economy.

Overall the change in **Net Position - Ending** for the District is a loss of \$62,722 for 2022. The District's financial position is similar to its position at the end of 2021.

Statements of Cash Flows

The **Statements of Cash Flows** describes the sources of District's cash and how that cash was spent over the year. Non-cash items such as depreciation are not included in this statement. This makes the statement useful for determining the short-term viability of the District, particularly the District's ability to pay bills. As such, the **Statements of Cash Flows** shows how the District has performed in managing inflows and outflows of cash.

	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>
Cash Provided by (Used in)			
Operating activities	\$ 234,923	\$ 349,352	\$ (114,429)
Investing activities	2,851	2,807	44
Capital and related financing activities	(358,261)	(404,266)	46,005
Net Increase (Decrease) in Cash and Equivalents	<u>(120,487)</u>	<u>(52,107)</u>	<u>(68,380)</u>
Cash and Equivalents – Beginning of Year	758,416	810,523	(52,107)
Cash and Equivalents – End of Year	<u>\$ 637,929</u>	<u>\$ 758,416</u>	<u>\$ (120,487)</u>

The **Net Cash Provided By Operating Activities** decreased from 2021 to 2022 (\$114,429 or -32.8%). While **Cash received from customers** remained stable (up \$4140), **Cash paid to suppliers** and **Cash paid to employees** increased 27% and 10% respectively. Importantly, **Net Cash Provided by Operating Activities** remained positive year over year. **Cash Flows from Investing Activities** remained basically unchanged year over year. **Cash Flows from Capital and Related Financing Activities** declined as the District opted to draw from cash on hand to fund capital expenditures. **Net Cash Used in Capital and Related Financing Activities** declined \$46,005 (11.4%) as compared to 2021..

The end of year net change of **Cash and Cash Equivalents - End of Period** decreased (\$120,487 or -15.9%) in 2022 as compared to 2021.

There is a section (**Reconciliation of Operating Net Income (Loss) to Net Cash**) at the bottom of the **Statements of Cash Flows** that provides a breakdown of accounts and their effects on the District's cash position. Accounts of note due to their significance were **KPERS net pension liability** and **accounts payable** (increases) and **inventory** and **deferred outflow of resources** (decreases).

Debt Ratio

The State of Kansas requires the District to maintain our debt service coverage ratio coverage at 1.25 (minimum). The District's ratio for 2022 is 1.78. Although the debt service coverage ratio is not a part of the Financial Statement, the District uses this as another indicator on how capable the District is to pay their debts. The higher the debt service ratio the better the District's ability to cover debts.

Contact Information

Any questions regarding the report or request for additional information should be directed to:

Rural Water District No. 13, Jefferson County, Kansas
District Board of Directors
Attention: Gordon A. Brest, Board Chairman
1951 Wellman Road
Lawrence, Kansas 66044

	<u>2022</u>	<u>2021</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 637,929	\$ 758,416
Accounts receivable, net	70,815	64,449
Inventory	96,655	82,790
Total Current Assets	<u>805,399</u>	<u>905,655</u>
Noncurrent Assets		
Capital assets, net	4,011,985	4,035,418
Restricted cash for debt service	143,605	142,888
Total Noncurrent Assets	<u>4,155,590</u>	<u>4,178,306</u>
Deferred Outflows of Resources		
KPERs pension plan	79,392	39,039
Total Assets and Deferred Outflows of Resources	<u>\$ 5,040,381</u>	<u>\$ 5,123,000</u>
 Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 66,966	\$ 31,874
Accrued liabilities	5,236	4,587
Accrued interest	8,349	9,443
Current portion long-term debt	110,000	105,000
Total Current Liabilities	<u>190,551</u>	<u>150,904</u>
Noncurrent Liabilities		
KPERs net pension liability	186,041	98,336
Long-term debt – net of current portion and discount	534,320	642,080
Total Noncurrent Liabilities	<u>720,361</u>	<u>740,416</u>
Total Liabilities	<u>910,912</u>	<u>891,320</u>
Deferred Inflows of Resources		
KPERs pension plan	1,164	40,603
Net Position		
Net investment in capital assets	3,367,665	3,288,338
Restricted for debt service	143,605	142,888
Unrestricted	617,035	759,851
Total Net Position	<u>4,128,305</u>	<u>4,191,077</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 5,040,381</u>	<u>\$ 5,123,000</u>

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Water sales	\$ 927,483	\$ 919,454
Late fees	9,113	8,617
Total Operating Revenues	<u>936,596</u>	<u>928,071</u>
Operating Expenses		
Payroll	219,756	199,672
Employee benefits	26,563	9,296
Operating equipment and supplies	21,399	31,681
Chemicals and supplies	50,204	30,283
Contract labor	24,270	22,774
Depreciation and amortization	362,180	360,178
Dues and fees	6,131	5,165
Insurance	23,666	23,207
Professional fees	21,679	10,494
Office	18,662	16,526
Safety	271	1,717
Repairs and maintenance	235,939	159,231
Utilities	68,491	69,036
Security	2,034	2,605
Water relief	1,907	7,117
Miscellaneous	2,313	969
Total Operating Expenses	<u>1,085,465</u>	<u>949,951</u>
Operating Loss	<u>(148,869)</u>	<u>(21,880)</u>
Nonoperating Revenue (Expense)		
Interest income	2,851	2,807
Other income	8,640	9,962
Interest expense	(20,944)	(23,896)
Total Nonoperating Expense	<u>(9,453)</u>	<u>(11,127)</u>
Net Loss Before Capital Contributions	<u>(158,322)</u>	<u>(33,007)</u>
Capital Contributions		
Benefit unit sales	82,300	65,000
Aid in construction	13,250	25,431
Total Capital Contributions	<u>95,550</u>	<u>90,431</u>
Change in Net Position	(62,772)	57,424
Net Position – Beginning	<u>4,191,077</u>	<u>4,133,653</u>
Net Position – Ending	<u>\$ 4,128,305</u>	<u>\$ 4,191,077</u>

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 929,513	\$ 925,373
Cash paid to suppliers	(456,833)	(360,006)
Cash paid to employees	(237,757)	(216,015)
Net Cash Provided by Operating Activities	<u>234,923</u>	<u>349,352</u>
Cash Flows from Investing Activities		
Interest income	<u>2,851</u>	<u>2,807</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(336,507)	(375,763)
Capital contributions	95,550	90,431
Principle paid on long-term debt	(105,000)	(105,000)
Interest paid on long-term debt	(20,944)	(23,896)
Other capital activity	8,640	9,962
Net Cash Used in Capital and Related Financing Activities	<u>(358,261)</u>	<u>(404,266)</u>
Net Decrease in Cash and Cash Equivalents	(120,487)	(52,107)
Cash and Cash Equivalents – Beginning	<u>758,416</u>	<u>810,523</u>
Cash and Cash Equivalents – End	<u>\$ 637,929</u>	<u>\$ 758,416</u>
 Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (148,869)	\$ (21,880)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation & amortization	362,180	360,178
Decrease (increase) in accounts receivable, net	(6,366)	(1,986)
Decrease (increase) in inventory	(13,865)	4,684
Decrease (increase) in restricted cash for debt service	(717)	(712)
Decrease (increase) in deferred outflow of resources	(40,353)	5,855
Increase (decrease) in accounts payable	35,092	16,682
Increase (decrease) in accrued liabilities	649	414
Increase (decrease) in accrued interest	(1,094)	(567)
Increase (decrease) in KPERS net pension liability	87,705	(42,853)
Increase (decrease) in deferred inflows of resources	(39,439)	29,537
Net Cash Provided by Operating Activities	<u>\$ 234,923</u>	<u>\$ 349,352</u>

Note 1: Summary of Significant Accounting Policies

Organization

Rural Water District No. 13, Jefferson County, Kansas (the District), was incorporated in 1974 as a quasi-municipal corporation under Kansas Statute K.S.A. 82a-612 et seq. to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located in portions of Jefferson, Leavenworth and Douglas counties. The District is governed by a seven member board of directors.

The Financial Reporting Entity

The financial reporting entity of the District is comprised of the primary government, the District. The accompanying financial statements present the activities and water system operating fund of the District. The District has considered all potential component units for which the district is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District. Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation

Government-wide statements. The *statement of net position* and the *statement of revenues, expenses, and changes in net position* display information about the primary government, the District. These statements include the financial activities of the overall government business-type activities which are financed mostly by fees charged to external parties. Business-type activities are reported in one fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The District reports the following proprietary (business-type enterprise) fund:

Water System Fund. This business-type enterprise fund accounts for the operation and maintenance of the water system of the District. All activities and balances of the entity are accounted for in this fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include capital contributions, grants, entitlements, and donations.

Enterprise funds are used to account for operations operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

Cash and Cash Equivalents

The District considers all bank deposit accounts, money market accounts and certificates of deposit classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are customer water bills that have been invoiced but remain unpaid. All receivables are considered due upon receipt. Receivables are reported net of an allowance for uncollectible accounts. The District provides an allowance for doubtful accounts based upon review of outstanding receivables, historical collection information and existing economic conditions. The allowance for uncollectible accounts netted with accounts receivable was \$4,285 for the years ended December 31, 2022 and 2021.

Inventory

Inventory is valued at the lower of cost or market and consists of pipe, valves, meters and other items needed to repair or add water lines.

Capital Assets

Capital assets purchased for \$5,000 or more are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of the assets range from 5 to 40 years. Capital assets purchased or built are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method over the following estimated useful lives: water distribution system – 10 to 42 years; furniture, fixtures and equipment – 3 to 10 years; building and building improvements – 5 to 20 years; and vehicles – 5 years.

Net Position

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

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

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

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

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Income Taxes

The District is a quasi-municipality and, as such, it is not subject to income taxes.

Budgetary Information

Kansas statutes provide an exemption for the District to legally adopt a budget for the fund type used by the District. The budget established by the District is for management use only. Expenditures are controlled through internal spending limits monitored by the board of directors.

Benefit Units

Members of the District are required to pay a fee for each benefit unit prior to connecting to the District's lines. The price of the benefit unit varies by the size of the meter.

Note 1: Summary of Significant Accounting Policies (Continued)

Estimates

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

Subsequent Events

Management has evaluated subsequent events through March 28, 2023 which is the date the financial statements were available to be issued.

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

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

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. Kansas 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%.

Depository Security Coverage – December 31, 2022

On December 31, 2022, the District's carrying amount of deposits was \$781,534 and the bank balance was \$789,349. This difference is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by federal depository insurance and \$539,279 was collateralized by the fair value of securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

Depository Security Coverage – December 31, 2021

On December 31, 2021, the District's carrying amount of deposits was \$901,304 and the bank balance was \$916,122. This difference is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by federal depository insurance and \$662,122 was collateralized by the fair value of securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: The District, the pledging bank, and the independent third-party bank holding the pledged securities.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

	Balance on December 31, 2021	Additions	Retirements	Balance on December 31, 2022
Nondepreciable Capital Assets				
Land and easements	\$ 22,000	\$ -	\$ -	\$ 22,000
Construction in progress	84,686	163,750	(25,262)	223,174
Total Nondepreciable Capital Assets	<u>106,686</u>	<u>163,750</u>	<u>(25,262)</u>	<u>245,174</u>
Depreciable Capital Assets				
Office buildings	32,039	-	-	32,039
Furniture and equipment	93,814	-	-	93,814
Water distribution system	9,910,582	167,131	-	10,077,713
Vehicles	44,176	30,888	-	75,064
Total Depreciable Capital Assets	<u>10,080,611</u>	<u>198,019</u>	<u>-</u>	<u>10,278,630</u>
Accumulated depreciation	<u>(6,151,879)</u>	<u>(359,940)</u>	<u>-</u>	<u>(6,511,819)</u>
Total Depreciable Capital Assets, Net	<u>3,928,732</u>	<u>(161,921)</u>	<u>-</u>	<u>3,766,811</u>
Capital Assets, Net	<u>\$ 4,035,418</u>	<u>\$ 1,829</u>	<u>\$ (25,262)</u>	<u>\$ 4,011,985</u>

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balance on December 31, 2020	Additions	Retirements	Balance on December 31, 2021
Nondepreciable Capital Assets				
Land and easements	\$ 22,000	\$ -	\$ -	\$ 22,000
Construction in progress	-	84,686	-	84,686
Total Nondepreciable Capital Assets	<u>22,000</u>	<u>84,686</u>	<u>-</u>	<u>106,686</u>
Depreciable Capital Assets				
Office buildings	32,039	-	-	32,039
Furniture and equipment	93,814	-	-	93,814
Water distribution system	9,619,505	291,077	-	9,910,582
Vehicles	44,176	-	-	44,176
Total Depreciable Capital Assets	<u>9,789,534</u>	<u>291,077</u>	<u>-</u>	<u>10,080,611</u>
Accumulated depreciation	<u>(5,793,941)</u>	<u>(357,938)</u>	<u>-</u>	<u>(6,151,879)</u>
Total Depreciable Capital Assets, Net	<u>3,995,593</u>	<u>(66,861)</u>	<u>-</u>	<u>3,928,732</u>
Capital Assets, Net	<u>\$ 4,017,593</u>	<u>\$ 17,825</u>	<u>\$ -</u>	<u>\$ 4,035,418</u>

Note 4: Long-Term Debt

Changes in long-term debt for the 2022 and 2021 are as follows:

	2022 Beginning Balance	Additions	Retirements	2022 Ending Balance
Water Revenue Bonds	\$ 765,000	\$ -	\$ 105,000	\$ 660,000
	2021 Beginning Balance	Additions	Retirements	2021 Ending Balance
Water Revenue Bonds	\$ 870,000	\$ -	\$ 105,000	\$ 765,000

Long-term debt, net of current portion and unamortized bond discount consists of the following on December 31, 2022 and 2021:

	2022	2021
Water Revenue Bonds. In January 2013, the District issued \$1,595,000 in Series A, 2013 Revenue Bonds with a variable interest rate between 0.5% and 3.25%. The new bond issue paid-off the outstanding debt held through the Kansas Department of Health and Environment. Payments of principal and interest are due semi-annually. The series will mature on August 1, 2028.	\$ 660,000	\$ 765,000
Less: Current portion of long-term debt	(110,000)	(105,000)
Less: Unamortized bond discount	(15,680)	(17,920)
Net Long-Term Debt, Net of Current Portion and Discount	\$ 534,320	\$ 642,080

Future maturities of long-term debt are as follows:

Year Ended December 31	Principal	Interest	Total
2023	\$ 110,000	\$ 19,281	\$ 129,281
2024	110,000	16,188	126,188
2025	115,000	12,888	127,888
2026	120,000	9,438	129,438
2027	120,000	5,688	125,688
2028	85,000	1,788	86,788
Total	\$ 660,000	\$ 65,271	\$ 725,271

Total interest incurred and expensed in 2022 and 2021 was \$20,944 and \$23,896, respectively.

2013 Water Revenue Bond Information:

The bonds were issued at a discount of \$33,600 which is amortized over the life of the bonds using the straight-line method because the effective yield method was determined to not be significantly different. There was \$2,240 of bond amortization expense for each of the years ending December 31, 2022 and 2021.

Note 5: Debt Service Ratio

The water revenue bond issue covenants require the District to maintain a debt service ratio of at least 1.25. The following represents the debt ratio calculation for the years ending December 31,:

	<u>2022</u>	<u>2021</u>
Change in net position	\$ (62,772)	\$ 57,424
Interest expense	20,944	23,896
Depreciation and amortization	362,180	360,178
Less: Capital contributions	<u>(95,550)</u>	<u>(90,431)</u>
Total Revenue Available for Debt Service	<u>\$ 224,802</u>	<u>\$ 351,067</u>
Debt service payments	\$ 125,944	\$ 128,896
Debt service ratio	1.78	2.72

Note 6: Capital Improvement Project

During 2021, the Board of Directors (the Board) approved a long-term capital improvement project. During 2022, the Board approved to fund this project with a Rural Development loan from the United States Department of Agriculture (USDA) not to exceed \$4,641,000. The District was required to obtain interim financing while the project was in process, as the USDA loan is not available until the completion of the project. During 2022, The District obtained a short-term loan in the amount of \$4,511,000 from Emprise Bank. As of December 31, 2022, there have been no draws on the interim loan. As of December 31, 2022, the District has incurred costs related to this project of \$211,032.

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. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Insurance Company. The District did not experience losses related to these risks during the years ended December 31, 2022 and 2021.

Note 8: Commitment to Install Meters

As of December 31, 2022, the District has a commitment to install meters for 15 benefit unit owners. The meters will be installed at the owners request.

Note 9: Commitment to Sell Water

The District has entered into contracts with the City of McLouth and Rural Water District No. 10, Leavenworth County by which the District sells water to each entity. Each contract has a term of 12 months, beginning January 1, expiring December 31. The contracts are updated and reviewed each year. The terms of the contracts for years ending December 31, 2023 are detailed as follows:

	<u>City of McLouth</u>	<u>RWD #10 Leavenworth Co.</u>
Base fee per month	\$ 36.00	\$ 36.00
Minimum quantity purchased (gallons)	300,000	200,000
Maximum quantity purchased (gallons)	1,250,000	1,250,000
Base rate per 1,000 gallons	\$ 6.60	\$ 6.60
Base rate per 1,000 gallons above maximum	\$ 6.75	\$ 6.75

Note 10: 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. There were no apparent statutory violations during the years ended December 31, 2022 and 2021.

Note 11: Compensated Absences

The District grants vacation to all employees at a rate based on years of experience. Employees are allowed a maximum carry over of 40 hours of unused vacation. In the event of termination, an employee is reimbursed for accumulated vacation days. Management of the District does not believe the related liability, if any, is material to the financial statements and accordingly has not accrued such a liability in the accompanying financial statements.

Note 12: Participation in KPERS Pension Plan
General Information about the Pension Plan

Plan description

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

KPERS provides pension benefits 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. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected. The District is an employer participant included in the Local Employees group.

Benefits

Benefits are established by statute and may only be changed by the Kansas legislature. Members (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen may be age 50 with 20 years of credited service), 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" (Police and Firemen normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 36 years of service).

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

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

Note 12: Participation in KPERS Pension Plan (Continued)

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 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 an annual actuarial valuation for each of the three statewide 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 state and the school 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. The actuarially determined employer contribution rate and the statutory contribution rates are as follows for each of the years ended June 30:

	2022		2021	
	Actuarial Employer Rate	Statutory Employer Capped Rate	Actuarial Employer Rate	Statutory Employer Capped Rate
State employees (1)	9.97%	13.33%	9.22%	14.23%
School employees (1)	14.20	13.33	15.59	14.23
Local government employees	8.90	8.90	8.87	8.87
Police and Firemen	22.99	22.99	22.80	22.80
Judges	18.40	18.40	17.26	17.26

(1) The State/School subgroups are combined into one group for purposes of determining a contribution rate. Rates shown for State, School and Judges represent the rates for a fiscal year ending June 30. KPERS Local and Police and Firemen rates are calendar year.

Member contribution rates as a percentage of eligible compensation in the years ended June 30, 2022 and 2021 are 6.00% for Public Employees, 7.15% for Police and Firemen, and 6.00% or 2.00% for Judges.

Employer and Nonemployer Allocations

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

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

Note 12: Participation in KPERS Pension Plan (Continued)

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 for each group are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. The employer allocation percentages have been rounded for presentation purposes.

Net Pension Liability (2022)

The components of the collective net pension liability of the participating employers by each group at June 30, 2022, were as follows:

	Total Pension Liability	Less Fiduciary Net Position	Net Pension Liability
State/School	\$ 23,831,622,936	\$ 16,686,212,453	\$ 7,145,410,483
Local	6,776,232,258	4,788,187,901	1,988,044,357
Police & Firemen	4,256,824,095	2,814,592,245	1,442,231,850
Judges	219,878,005	183,083,505	36,794,500
	<u>\$ 35,084,557,294</u>	<u>\$ 24,472,076,104</u>	<u>\$ 10,612,481,190</u>

The District's proportionate share of the local group net pension liability at June 30, 2022 was determined as follows:

District contributions	\$ 16,712
Local Group contributions	178,576,507
District's percentage of Local Group contributions	.009358%
Total net pension liability of the Local Group	1,988,044,357
District's proportionate share of the net pension liability	<u>\$ 186,041</u>

Net Pension Liability (2021)

The components of the collective net pension liability of the participating employers by each group at June 30, 2021, were as follows:

	Total Pension Liability	Less Fiduciary Net Position	Net Pension Liability
State/School	\$ 22,490,931,300	\$ 16,856,922,061	\$ 5,634,009,239
Local	6,360,883,973	5,160,927,769	1,199,956,204
Police & Firemen	3,990,360,545	3,036,116,085	954,244,460
Judges	211,869,786	200,629,404	11,240,382
	<u>\$ 33,054,045,604</u>	<u>\$ 25,254,595,319</u>	<u>\$ 7,799,450,285</u>

The District's proportionate share of the local group net pension liability at June 30, 2021 was determined as follows:

District contributions	\$ 13,807
Local Group contributions	168,488,278
District's percentage of Local Group contributions	.008195%
Total net pension liability of the Local Group	1,199,956,204
District's proportionate share of the net pension liability	<u>\$ 98,336</u>

Note 12: Participation in KPERS Pension Plan (Continued)

Receivables

In addition to statutorily determined contractually required contributions, certain agencies also make payments through an additional component of their required employer contribution rate or annual installment payments. Both options include interest at 8 percent per year, for the cost of service credits granted retroactively when the agency initially joined the Retirement System. As of June 30, 2022 and 2021, the outstanding balance owed by agencies to the KPERS plan was \$2,564,230 and \$3,048,088, respectively. No portion of these amounts was owed by the District.

Actuarial Assumptions

Each total pension liability was determined by an actuarial valuation as of the previous December 31, which was rolled forward to June 30, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Actuarial Cost Method	Entry age normal	Entry age normal
Price Inflation	2.75 percent	2.75 percent
Salary Increase	3.50 to 12.00 percent, including price inflation	3.50 to 12.00 percent, including price inflation
Investment Rate of Return	7.00 percent compounded annually, net of investment expense and including price inflation	7.25 percent compounded annually, net of investment expense and including price inflation

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.

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. Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated January 7, 2020, as provided by KPERS' investment consultant, are summarized in the following table:

	<u>2022</u>		<u>2021</u>	
	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equities	23.50%	5.20%	23.50%	5.20%
Non-U.S. Equities	23.50	6.40	23.50	6.40
Private Equity	8.00	9.50	8.00	9.50
Private Real Estate	11.00	4.45	11.00	4.45
Yield Driven	8.00	4.70	8.00	4.70
Real Return	11.00	3.25	11.00	3.25
Fixed Income	11.00	1.55	11.00	1.55
Short Term Investments	4.00	0.25	4.00	0.25
	<u>100.00%</u>		<u>100.00%</u>	

Note 12: Participation in KPERS Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability at each measurement date of June 30, 2022 and 2021 was 7.00 and 7.25 percent, respectively. The projection of cash flows used to determine the discount rate was based on member and employer contributions.

In KPERS, the Local, Kansas Police and Firemen, and Judges groups are contributing at the full actuarial contribution rate. However, the State/School groups do not necessarily do so.

Based on legislation first passed in 1993, the employer contribution rates certified by the KPERS Board may not increase by more than the statutory cap. Subsequent legislation in 2012 set the statutory cap at 0.90 percent for Fiscal Year 2014, 1.00 percent for Fiscal Year 2015, 1.10 percent for Fiscal Year 2016 and 1.20 percent for Fiscal Years 2017 and beyond.

In recent years, the Kansas legislature has made several changes to statutory rates that deviate from the scheduled contribution increases set under the statutorily capped rates. In 2015, S.B. 4, reduced the previously certified State/School statutory rate from 11.27 percent to 8.65 percent for the last half of Fiscal Year 2015. That same session, S.B. 228 recertified statutory rates to 10.91 percent for Fiscal Year 2016 and 10.81 percent for Fiscal Year 2017 in anticipation of the issuance of \$1.0 billion in pension obligation bonds.

Legislation in the 2016 session (S.B. 161) provided for the delay of up to \$100.0 million in State and School contributions to the Retirement System for Fiscal Year 2016. Concurrently, 2016 H. Sub for S.B. 249 provided that the delayed contributions would be paid in full, with interest at 8.00 percent, by June 30, 2018. However, legislation passed by the 2017 Kansas legislature removed the repayment provision. In addition, 2017 S. Sub for H.B. 2052 delayed \$64.0 million in Fiscal Year 2017 contributions, to be paid over 20 years in level dollar installments.

The first-year payment of \$6.4 million was paid in full at the beginning of Fiscal Year 2018, and appropriations for Fiscal Year 2018 were made for the State/School group at the statutory contribution rate of 12.01 percent for that year.

Additional legislation in the 2017 Session (S. Sub for H.B. 2002) provided for a reduction of \$194.0 million from the previously certified contribution rate of 13.21 percent in the State/School contributions for Fiscal Year 2019. Like the Fiscal Year 2017 reduction, it is to be paid back over a 20-year period, beginning in Fiscal Year 2020. Therefore, both reductions will be accounted for as receivables by KPERS.

The 2018 Legislature passed H. Sub for S.B. 109 that provided additional contributions to the school group of \$56.0 million in Fiscal Year 2018 and \$82.0 million in Fiscal Year 2019.

The 2019 Legislature passed S.B. 9 that provided additional contributions to the school group of \$115.0 million in Fiscal Year 2019. H. Sub for S.B. 25 from the 2019 Legislative session authorized additional funding for the KPERS School Group in Fiscal Year 2020 of \$51.0 million.

The 2021 Legislature passed H.B. 2405, which authorizes the state of Kansas to issue bonds with net proceeds of \$500.0 million to fund a portion of the School's unfunded actuarial liability. S.B. 159 recertified the State/School contribution rates for Fiscal Years 2022 and 2023. Fiscal Year 2022 was recertified from 14.09 percent to 13.33 percent and Fiscal Year 2023 from 13.86 percent to 13.11 percent. The bond proceeds were received by KPERS on August 26, 2021.

Note 12: Participation in KPERS Pension Plan (Continued)

The 2022 Legislature passed S.B. 421, which authorized the state of Kansas to transfer \$1.125 billion from the State General Fund directly to KPERS in Fiscal Years 2022 and 2023. The first \$253.9 million pays off the outstanding accounts receivable for KPERS-School employer contributions withheld in Fiscal Year 2017 and Fiscal Year 2019, discussed previously, while the remaining \$871.1 million is applied to the KPERS-School unfunded actuarial liability. In Fiscal Year 2022, \$600.0 million was transferred to the System. S.B. 421 authorized two additional transfers totaling \$271.0 million in Fiscal Year 2023 (reflected in the projected cash flows of the System).

Based on the employer contribution history described above, it is a reasonable assumption that the State/School group's contribution rate may not be certified at the statutory rate at some point in the future. It has been assumed that the contribution rates will be made within the same range as have been seen in the past few years. Using this assumption, actuarial modeling indicates that employer contribution rates for the State/School group are sufficient to avoid a depletion date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (2022)

The following presents the net pension liability of the KPERS pension plan, as well as the District's proportionate share of the local group net pension liability, as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1.00% Decrease (6.00%)	2022 Discount Rate (7.00%)	1.00% Increase (8.00%)
State/School	\$ 10,101,451,359	\$ 7,145,410,483	\$ 4,675,015,720
Local	2,855,889,939	1,988,044,357	1,265,002,874
Police & Firemen	1,978,232,090	1,442,231,850	996,248,755
Judges	57,896,907	36,794,500	18,598,681
	<u>\$ 14,993,470,295</u>	<u>\$ 10,612,481,190</u>	<u>\$ 6,954,866,030</u>
District's proportionate share of the local group net pension liability	<u>\$ 267,254</u>	<u>\$ 186,041</u>	<u>\$ 118,379</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (2021)

The following presents the net pension liability of the KPERS pension plan, as well as the District's proportionate share of the local group net pension liability, as of June 30, 2020, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1.00% Decrease (6.25%)	2021 Discount Rate (7.25%)	1.00% Increase (8.25%)
State/School	\$ 8,278,153,106	\$ 5,634,009,239	\$ 3,410,812,605
Local	1,973,811,456	1,199,956,204	550,980,523
Police & Firemen	1,432,229,642	954,244,460	554,409,747
Judges	30,739,614	11,240,382	(5,612,848)
	<u>\$ 11,714,933,818</u>	<u>\$ 7,799,450,285</u>	<u>\$ 4,510,590,027</u>
District's proportionate share of the local group net pension liability	<u>\$ 161,754</u>	<u>\$ 98,336</u>	<u>\$ 45,153</u>

Note 12: Participation in KPERS Pension Plan (Continued)

Special Funding Situation

The employer contributions for non-public school district schools, as defined in K.S.A. 74-4931 (2) and (3), are funded by the State of Kansas on behalf of these employers. Therefore, these employers, area vocational technical schools and community junior colleges, are considered to be in a special funding situation as defined by GASB Statement No. 68. The State of Kansas is treated as a nonemployer contributing entity in the System. Since these employers do not contribute directly to the pension plan for active employees, there is no net pension liability or deferred inflows or outflows to report in the financial statements for active employees. The notes to their financial statements must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the non-public school district employer. In addition, each non-public school district employer must recognize the pension expense associated with their employer as well as revenue in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense associated with their employer.

A number of these employers make contributions directly to KPERS for KPERS retirees filling KPERS covered positions per K.S.A. 74-4937, "working after retirement" employees. The resulting proportional share of these agencies' "working after retirement" contributions and resulting net pension liability are attributable to the employer.

The District's participation in the KPERS pension plan is not subject to the special funding situation as described above.

Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the District's proportionate share of deferred outflows of resources and deferred inflows of resources reported as of December 31, 2022 and 2021, are detailed in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period. Deferrals on the differences between expected and actual earnings on investments are netted as either a deferred outflow or inflow of resources.

	<u>2022</u>	<u>2021</u>
Deferred Outflows of Resources		
Differences between expected and actual experience	\$ 7,037	\$ 3,882
Net difference between projected and actual earnings on pension plan investments	15,748	-
Changes in assumptions	29,738	19,358
Changes in proportion	16,965	7,832
District contributions to the KPERS plan after the measurement date of June 30	9,904	7,967
Total Deferred Outflows of Resources	<u>79,392</u>	<u>39,039</u>
Deferred Inflows of Resources		
Differences between expected and actual experience	333	890
Net difference between projected and actual earnings on pension plan investments	-	34,919
Changes in proportion	831	4,794
Total Deferred Inflows of Resources	<u>1,164</u>	<u>40,603</u>
Net Deferred Outflows (Inflows)	<u>\$ 78,228</u>	<u>\$ (1,564)</u>

Note 12: Participation in KPERS Pension Plan (Continued)

The following table provides the amortization effect of the District's net deferred outflows (inflows), as of December 31, 2022, that will be recognized in pension expense in future years:

<u>Future Year</u>	<u>Increase (Decrease) to Pension Expense</u>
2023	\$ 30,102
2024	17,171
2025	9,933
2026	19,921
2027	1,101
	<u>\$ 78,228</u>

Pension Expense

Pension expense includes 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. The components of pension expense for the years ending December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Service cost	\$ 13,513	\$ 10,933
Interest	41,787	35,320
Projected earnings on plan investments	(34,637)	(25,513)
Employee contributions	(11,256)	(9,458)
Expensed portion of difference between actual and expected experience in the total pension liability	922	515
Expensed portion of current period assumption changes	3,351	3,307
Expensed portion of difference between projected and actual earnings on plan investments	11,782	(12,246)
Administrative expenses	365	287
Other changes	(214)	(45)
Recognition of beginning deferred outflows of resources	15,981	9,747
Recognition of beginning deferred inflows of resources	(15,031)	(3,551)
Total District Pension Expense	<u>\$ 26,563</u>	<u>\$ 9,296</u>

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Measurement date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Schedule of the District's Proportionate Share of the Net Pension Liability					
District's proportion of the net pension liability	<u>.009358%</u>	<u>.008195%</u>	<u>.008144%</u>	<u>.008112%</u>	<u>.006848%</u>
District's proportionate share of KPERs net pension liability	\$ 186,041	\$ 98,336	\$ 141,189	\$ 113,355	\$ 95,477
District's covered payroll	<u>188,080</u>	<u>157,797</u>	<u>154,594</u>	<u>149,770</u>	<u>123,982</u>
District's proportionate share of KPERs net pension liability as a percentage of the District's covered payroll	<u>98.92%</u>	<u>62.32%</u>	<u>91.33%</u>	<u>75.69%</u>	<u>77.01%</u>
KPERs fiduciary net position as a percentage of the total pension liability	<u>69.75%</u>	<u>76.40%</u>	<u>66.30%</u>	<u>69.88%</u>	<u>68.88%</u>
Schedule of District Pension Contributions					
Contractually required District contributions	\$ 16,712	\$ 13,807	\$ 13,456	\$ 12,958	\$ 10,326
Contributions in relation to the contractually required amount	<u>16,712</u>	<u>13,807</u>	<u>13,456</u>	<u>12,958</u>	<u>10,326</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 188,080</u>	<u>\$ 157,797</u>	<u>\$ 154,594</u>	<u>\$ 149,770</u>	<u>\$ 123,982</u>
Contributions as a percentage of covered payroll	<u>8.89%</u>	<u>8.75%</u>	<u>8.70%</u>	<u>8.65%</u>	<u>8.33%</u>

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	See Note Below
Schedule of the District's Proportionate Share of the KPERs Net Pension Liability					
District's proportion of the net pension liability	<u>.008216%</u>	<u>.008546%</u>	<u>.008330%</u>	<u>.008278%</u>	<u>.008307%</u>
District's proportionate share of the net pension liability	\$ 119,005	\$ 95,447	\$ 119,005	\$ 132,209	Not Available
District's covered payroll	<u>145,712</u>	<u>146,446</u>	<u>139,038</u>	<u>135,845</u>	<u>133,752</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>81.67%</u>	<u>65.18%</u>	<u>85.59%</u>	<u>97.32%</u>	<u>Not Available</u>
KPERs fiduciary net position as a percentage of the total pension liability	<u>67.12%</u>	<u>65.10%</u>	<u>64.95%</u>	<u>66.60%</u>	<u>59.94%</u>
Schedule of District Contributions to KPERs					
Contractually required contributions	\$ 12,851	\$ 13,670	\$ 12,738	\$ 11,398	\$ 10,224
Contributions in relation to the contractually required amount	<u>12,851</u>	<u>13,670</u>	<u>12,738</u>	<u>11,398</u>	<u>10,224</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 145,712</u>	<u>\$ 146,446</u>	<u>\$ 139,038</u>	<u>\$ 135,845</u>	<u>\$ 133,752</u>
Contributions as a percentage of covered payroll	<u>8.82%</u>	<u>9.33%</u>	<u>9.16%</u>	<u>8.39%</u>	<u>7.64%</u>

Note to the Schedules Above

Because KPERs first began compiling the required information in 2014, the District is only able to present complete information for the last 9 years. Some of the 2013 required amounts are available and so these figures have been presented. Beginning with the next report, the District intends to add an additional year of complete historical data to the schedule in order to comply with the GASB requirement of presenting the last 10 fiscal years in full detail.

SUPPLEMENTARY INFORMATION

Type	Expiration Date	Amount of Coverage	Description
Worker's compensation	2/1/2023	\$ 500,000 500,000 500,000 Statutory benefit	Employers Liability: Each Accident Employers Liability: Disease - Policy Limit Employers Liability: Disease - Each Employee Workers Compensation
Commercial property	2/1/2023	9,140,146	Buildings, standpipe, storage tank, other personal property
Crime coverage	2/1/2023	200,000	Employee Theft - Blanket - Per Loss & Including Treasurer
General liability	2/1/2023	2,000,000 1,000,000 1,000,000 300,000 5,000	General aggregate limit Personal and advertising limit Each occurrence limit Fire damage liability limit Medical expense – each claim
Automobile	2/1/2023	500,000 500,000	Bodily injury and property damage liability limit Uninsured motorist – each accident
Public Officials & Employment Practices Limit	2/1/2023	1,000,000 1,000,000	Each loss Aggregate for each policy term
Equipment Floater	2/1/2023	500 1,800 50,000	Small tools – one items Small tools – each occurrence Scheduled Property Floater - stock of pipes, valves, regulators etc.
Cyber Solutions	2/1/2023 2/1/2023	100,000 50,000	Cyber coverage Data compromise

Type	Expiration Date	Amount of Coverage	Description
Worker's compensation	2/1/2022	\$ 500,000 500,000	Bodily injury by accident Bodily injury by accident
Commercial property	2/1/2022	8,622,232	Buildings, standpipe, storage tank, other personal property
Crime coverage	2/1/2022	200,000	Employee dishonesty
General liability	2/1/2022	2,000,000 1,000,000 1,000,000 300,000 5,000	General aggregate limit Personal and advertising limit Each occurrence limit Fire damage limit Medical expense
Automobile	2/1/2022	500,000 500,000	Liability Uninsured/underinsured motorist
Errors and omissions	2/1/2022	1,000,000	Policy limit
Inland marine	2/1/2022	500 1,800 50,000	Small tools – one items Small tools – each occurrence Property floater
Cyber solutions	2/1/2022	100,000	Cyber coverage
Data	2/1/2022	50,000	Data compromise

	<u>2022</u>	<u>2021</u>
Benefit units	1106	1093
Gallons sold	87,089,000	94,392,000
Gallons produced	100,290,000	109,771,000
Water loss (unaccounted for) percentage	13.20%	14.00%
Water loss gallons	13,201,000	15,379,000
Water loss (unaccounted for)	\$ 36,434.76	\$ 33,680.00
Average monthly water sales per benefit unit	\$ 69.88	\$ 70.10
Average monthly operating expense per benefit unit	\$ 81.79	\$ 72.42
Average monthly interest expense per benefit unit	\$ 1.58	\$ 1.82
Average monthly depreciation and amortization per benefit unit	\$ 27.29	\$ 27.46
Average monthly gallons sold per benefit unit	6,562	7,197
Gallons sold under contract (City of McLouth and RWD #10 Leavenworth Co.)	9,101,000	13,430,000