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CLIENT Rural Water District No. 4

PROJECT Financial Statements

PERIOD December 31, 2018

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**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**

**DECEMBER 31, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water District No. 4  
Sedgwick County, Kansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 4, Sedgwick County, Kansas, which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No.4, Sedgwick County, Kansas as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I – Schedule of Insurance is presented for purposes of additional analysis and is not a required part of the basic 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. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Morrow & Co. LLC". The signature is stylized, with the first letter of "Morrow" being a large, looped capital 'M'.

Morrow & Co., LLC  
Wichita, Kansas

February 28, 2019

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	<b>ASSETS</b>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash - Undesignated	\$ 357,881	\$ 405,676
Cash - Designated	500,002	400,002
Certificates of Deposit (3 Months or Less)	<u>51,133</u>	<u>50,574</u>
 Total Cash and Cash Equivalents	 <u>909,016</u>	 <u>856,252</u>
 Certificates of Deposit (Over 3 Months)	 465,618	 464,595
Accounts Receivable	36,992	42,423
Interest Receivable	2,218	-
Prepaid Taxes	1,880	-
Property, Plant and Equipment	<u>904,040</u>	<u>920,443</u>
 TOTAL ASSETS	 <u><u>2,319,764</u></u>	 <u><u>2,283,713</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 7,056	\$ 8,622
Accrued Payroll Taxes	24	6
Deferred Lease Revenue	<u>5,154</u>	<u>5,154</u>
 Total Liabilities	 <u>12,234</u>	 <u>13,782</u>
 <b>NET ASSETS</b>		
Net Assets Without Donor Restrictions	2,307,530	2,269,931
Net Assets With Donor Restrictions	<u>-</u>	<u>-</u>
 Total Net Assets	 <u>2,307,530</u>	 <u>2,269,931</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>2,319,764</u></u>	 <u><u>2,283,713</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS****STATEMENTS OF ACTIVITIES****YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Water Sales	\$ 413,705	\$ 478,194
Sale of Benefit Units	21,600	21,600
Installation of Benefit Units	20,227	3,675
Interest Income	4,681	1,273
Tower Lease	7,465	7,465
Total Revenues	<u>467,678</u>	<u>512,207</u>
<b>EXPENSES</b>		
Program Services		
Repair & Maintenance	198,658	178,793
Benefit Units Expense	1,078	5,542
Contract Labor & Meter Reading	19,010	17,476
Utilities	16,360	13,870
Chlorine	1,009	438
Lead & Copper Test	1,498	401
Depreciation	58,873	89,891
Total Program Services	<u>296,486</u>	<u>306,411</u>
<b>SUPPORTING ACTIVITIES</b>		
Salaries	44,698	29,367
Payroll Taxes	3,482	1,889
Director Fees	4,669	4,202
Monthly Retainer, Storage Rental & Wireless Service	19,928	19,928
Insurance & Bond	5,029	5,426
Legal	13,430	12,674
Audit	4,750	4,450
Engineering	9,379	6,100
Mileage Allowance	4,887	4,715
Clean Drinking Water Fee	1,764	962
KRWA	1,579	1,431
One Call	1,313	1,225
Office Supplies & Printing	5,228	5,547
Postage	4,919	4,193
Rent	220	160
Depreciation	3,064	1,244
Miscellaneous	5,035	2,971
Penalties	219	-
Total Support Activities	<u>133,593</u>	<u>106,484</u>
Total Expenses	<u>430,079</u>	<u>412,895</u>
 Increase in Net Assets Without Donor Restrictions	 <u>37,599</u>	 <u>99,312</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Benefit Unit Certificates	Retained Earnings	Total Net Assets Without Donor Restrictions
BALANCE, DECEMBER 31, 2016	\$ 898,175	\$ 1,272,444	\$ 2,170,619
CHANGE IN NET ASSETS	<u>21,600</u>	<u>77,712</u>	<u>99,312</u>
BALANCE, DECEMBER 31, 2017	919,775	1,350,156	2,269,931
CHANGE IN NET ASSETS	<u>21,600</u>	<u>15,999</u>	<u>37,599</u>
BALANCE, DECEMBER 31, 2018	<u><u>941,375</u></u>	<u><u>1,366,155</u></u>	<u><u>2,307,530</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Unrestricted Net Assets	\$ 37,599	\$ 99,312
Items not Requiring (Providing) Cash		
Depreciation and Amortization	61,937	91,135
Changes in:		
Accounts Receivable	5,431	9,973
Interest Receivable and Prepaid Taxes	(4,098)	-
Accounts Payable, Accrued Expenses, Deposits and Deferrals	<u>(1,547)</u>	<u>1,710</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>99,322</u>	<u>202,130</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Reinvestment in) Withdrawal from Certificates of Deposit	(1,023)	(1,020)
Purchase of Property, Plant and Equipment	<u>(45,535)</u>	<u>(88,181)</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(46,558)</u>	<u>(89,201)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	52,764	112,929
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>856,252</u>	<u>743,323</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>909,016</u></u>	<u><u>856,252</u></u>

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Rural Water District No. 4, Sedgwick County, Kansas (District), is a Kansas quasi-municipal entity organized for the purpose of providing an adequate water supply to land-owners within the District. The District extends unsecured credit to its customers. Total customers at December 31, 2018 and 2017 were 628 and 621, respectively.

**Basis of Accounting**

The District's financial statements have been prepared in accordance with U.S. generally accepted account principles (GAAP), which require the District to report information regarding its financial position and activities according to the following net asset classifications.

**Net Assets Without Donor Restrictions**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the District. These net assets may be used at the discretion of the District's management and the board of directors.

**Net Assets with Donor Restrictions**

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the District or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases and net assets with donor restrictions. When a restriction expires, net assets are reclassified from assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The District did not have any net assets with donor restrictions during the years ended December 31, 2018 and 2017.

**Cash Equivalents**

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. During the year, the board designated an amount of funds to be set aside for future projects. The amount is board designated and is not considered to be net assets with donor restrictions.

**Accounts Receivable**

The District utilizes the direct write-off method for bad debts. Accounts receivable are written off when deemed uncollectible. Accordingly, no allowance for bad debts has been recorded.

Accounts are billed around the middle of the month for the previous month's usage. If an account is overdue, the District's policy is to wait 60 days and then send a certified letter. If there is no response, the Board votes to lock the meter. If the customer ultimately does not pay, the Board votes to forfeit the benefit unit, which inures to the benefit of the other benefit unit holders.

**Property, Plant and Equipment**

Expenditures for property, plant and equipment are recorded at cost and depreciated over the estimated useful life of each asset (3-40 years). Repairs and maintenance are charged to expense as incurred. Annual depreciation is primarily computed using the straight-line method.

(continued)

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue Recognition**

Water sales are recorded using the accrual method. Other income includes monies received for line extensions and road bores, etc. It is the policy of the District to include these receipts in income. The related costs for the line extensions, repairs, etc., are recognized in expense as incurred. The sale of water benefit units are recorded as income as they are sold.

Sales are recorded and presented net of any applicable taxes.

**Benefit Unit Certificates**

The sales price of benefit units is considered a contribution to the District, and accordingly, is included in support and revenues but segregated from retained earnings.

**Functional Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting activities. Such allocations are determined by management on an equitable basis.

The only expense which is allocated between program services and supporting services is depreciation, which is allocated by where the asset was used.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**New Accounting Pronouncement**

On August 18, 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Rural Water District No. 4, Sedgwick County, Kansas, has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**2. AVAILABILITY AND LIQUIDITY**

The following represents Rural Water District No. 4, Sedgwick County, Kansas's financial assets at December 31, 2018 and 2017:

	2018	2017
Cash and Cash Equivalents	\$ 909,016	\$ 856,252
Certificates of Deposit	465,618	464,595
Total Financial Assets	1,374,634	1,320,847
Less Amounts not Available to be Used in One Year	-	-
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>1,374,634</u>	<u>1,320,847</u>

Rural Water District No. 4, Sedgwick County, Kansas's goal is generally to maintain financial assets to meet operating expense on a monthly basis. The District receives a constant cash flow from monthly water billings paid by those who receive water from the District. As part of its liquidity plan, excess cash is invested in certificates of deposit. There are no known liquidity problems.

**3. DEPOSITS**

The District's deposits, consisting of checking, money market funds, and certificates of deposit were substantially covered by federal depository insurance and/or collateral held by third-party banks in the District's name. The District's banks have pledged the following securities as collateral for the unsecured amount:

ID #	Security Description	Maturity	Par Amount	Dec. 31, 2018 Market Value
31331KB74	Federal Farm Credit Bank	03/29/19	\$ 650,000	\$ 648,655
3141BBPS9	FNMA Pool #MA2232	04/01/35	\$ 106,496	\$ 107,299
3137BL5R5	FHLMC Remic 4500 HA	11/15/42	431,323	434,178
	Total		<u>1,187,819</u>	<u>1,190,132</u>

At December 31, 2018 and 2017 the District's bank balances were covered as follows:

	2018	2017
Insured Amount - FDIC	\$ 250,000	\$ 250,000
Collateralized Uninsured Amount	1,124,634	1,070,847

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**4. PROPERTY, PLANT AND EQUIPMENT**

At December 31, 2018 and 2017 the District had bank balances as follows:

	Life Range In Years	2018	2017
Land and Easements	N/A	\$ 32,593	\$ 32,593
Water Distribution System	7-40	2,652,660	2,622,185
Water Supply System	10	55,053	55,053
Water Storage System	10-40	226,476	226,476
Controls	10	31,665	31,665
Office Equipment	3-5	35,395	42,083
		3,033,842	3,010,055
Less Accumulated Depreciation		2,129,802	2,089,612
		<u>904,040</u>	<u>920,443</u>

**5. NET ASSETS**

The District has established a Reserve Fund to address emergencies which may occur in the future. Each year the District puts \$100,000 into this fund.

Net assets without donor restrictions for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Undesignated	\$ 1,807,528	\$ 1,869,929
Designated	500,002	400,002
	<u>2,307,530</u>	<u>2,269,931</u>

**6. TAX-EXEMPT STATUS**

Rural Water District No. 4, Sedgwick County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability or expense.

While the District is not required to file tax returns, the activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

**7. SUBSEQUENT EVENTS**

Subsequent events were evaluated for disclosure through February 28, 2019 the date these financial statements are available to be issued, and no events requiring disclosure were identified.

## SUPPLEMENTAL INFORMATION

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**SCHEDULE I - SCHEDULE OF INSURANCE**  
**DECEMBER 31, 2018**

Employer's Mutual Casualty Company

<u>Coverage</u>	<u>Expiration</u>	<u>Terms</u>	<u>Liability Limits</u>	<u>Annual Premium</u>
General Liability	03/01/19	General Aggregate	\$1,000,000	\$ 6,698
		Products	1,000,000	
		Personal Injury	500,000	
		Occurrence	500,000	
		Damage to Rented Premises	300,000	
		Medical-Per Person	5,000	
Automobile Liability		Combined Single	500,000	
Worker's Compensation		Accident	500,000	
		Disease-Policy	500,000	
		Disease-Employee	500,000	
Property		Blanket Limit	983,867	
Linebacker		Errors & Omissions - Each	500,000	
Crime		Per Occurrence	10,000	
EDP (Data Processing)		Per Occurrence	4,480	