

## THE MORROW & CO. PROMISE:

At Morrow & Co. LLC, our theory of practice centers on client satisfaction. To this end, we promise that our clients come **FIRST**. We strive to uphold this promise by:

- Being **F**riendly
- Acting with **I**ntegrity
- Being **R**esponsible
- Providing Outstanding **S**ervice
- Being **T**imely

By putting you first, we make sure that we are  
ACCOUNTING FOR YOUR NEEDS™.



CLIENT

Rural Water District No. 4

PROJECT

*Financial Statements*

PERIOD

*December 31, 2017*

[www.morrowandcompany.com](http://www.morrowandcompany.com)

## **Rural Water District No. 4 Sedgwick County, Kansas**

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 - 8
Supplemental Information	
Schedule I - Schedule of Insurance Coverage	9

## 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, 2017 and 2016, 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 as of December 31, 2017 and 2016, 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 cursive script that reads "Morrow & Co. LLC".

Morrow & Co., LLC  
Wichita, Kansas

February 20, 2018



**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

ASSETS		2017	2016
		<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
Cash - Undesignated		\$ 405,676	\$ 392,858
Cash - Designated		400,002	300,001
Certificates of deposit (3 months or less)		<u>50,574</u>	<u>50,464</u>
Total Cash and Cash equivalents	(Note 2)	<u>856,252</u>	<u>743,323</u>
Certificates of deposit (over 3 months)	(Note 2)	464,595	463,575
Accounts receivable		42,423	52,396
Property, plant and equipment	(Note 3)	<u>920,443</u>	<u>923,397</u>
<b>TOTAL ASSETS</b>		<u><u>2,283,713</u></u>	<u><u>2,182,691</u></u>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable		\$ 8,622	\$ 5,846
Accrued payroll taxes		6	1,072
Deferred lease revenue		<u>5,154</u>	<u>5,154</u>
Total Liabilities		<u>13,782</u>	<u>12,072</u>
<b>NET ASSETS</b>			
Unrestricted		2,269,931	2,170,619
Temporarily restricted		-	-
Permanently restricted		<u>-</u>	<u>-</u>
Total Net Assets		<u>2,269,931</u>	<u>2,170,619</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>2,283,713</u></u>	<u><u>2,182,691</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>SUPPORT AND REVENUES</b>		
Water sales	\$ 478,194	\$ 470,389
Sale of benefit units	21,600	16,200
Interest income	1,273	1,257
Tower Lease	7,465	6,606
Other	<u>3,675</u>	<u>6,958</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>512,207</u>	<u>501,410</u>
 <b>OPERATING EXPENSES</b>		
Repair & Maintenance	178,793	176,014
Depreciation	91,135	90,422
Salaries	29,367	28,013
Monthly Retainer, Storage Rental & Wireless Service	19,928	19,188
Contract Labor & Meter Reading	17,476	16,736
Utilities	13,870	12,171
Legal	12,674	20,319
Engineering	6,100	8,870
Office Supplies & Printing	5,547	5,382
Benefit Units Expense	5,542	11,378
Insurance & Bond	5,426	5,395
Mileage Allowance	4,715	4,751
Audit	4,450	4,100
Director Fees	4,202	3,673
Postage	4,193	5,786
Payroll Taxes	1,889	2,175
Miscellaneous	2,971	2,406
KRWA	1,431	1,395
One Call	1,225	1,081
Clean Drinking Water Fee	962	1,627
Chlorine	438	854
Lead & Copper Test	401	581
Rent	160	160
Penalties	<u>-</u>	<u>54</u>
<b>TOTAL EXPENSES</b>	<u>412,895</u>	<u>422,531</u>
 <b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<u>99,312</u>	<u>78,879</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, 2017 AND 2016**

	Benefit Unit Certificates	Retained Earnings	Total Unrestricted Net Assets
BALANCE, DECEMBER 31, 2015	\$ 881,975	\$ 1,209,765	\$ 2,091,740
CHANGE IN NET ASSETS	<u>16,200</u>	<u>62,679</u>	<u>78,879</u>
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	<u><u>919,775</u></u>	<u><u>1,350,156</u></u>	<u><u>2,269,931</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	\$ 99,312	\$ 78,879
Items not requiring (providing) cash		
Depreciation and amortization	91,135	90,422
Changes in:		
Accounts receivable	9,973	(4,232)
Accounts payable, accrued expenses, deposits and deferrals	<u>1,710</u>	<u>1,156</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>202,130</u>	<u>166,225</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Reinvestment in) Withdrawal from Certificates of Deposit	(1,020)	(1,048)
Purchase of property, plant and equipment	<u>(88,181)</u>	<u>(36,615)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(89,201)</u>	<u>(37,663)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	112,929	128,562
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>743,323</u>	<u>614,761</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>856,252</u></u>	<u><u>743,323</u></u>

The accompanying notes are an integral part of the financial statements.



**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016 were 621 and 607, respectively.

*Basis of Accounting*

The District's policy is to prepare its financial statements on the accrual basis of accounting.

*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 only board designated and is not considered to be restricted net assets.

*Accounts Receivable*

The District carries its accounts receivable at cost. Accounts are generally current, and the amount of doubtful accounts is immaterial.

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.

*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.

*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.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**2. 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:

<u>ID #</u>	<u>Security Description</u>	<u>Maturity</u>	<u>Par Amount</u>	<u>Dec. 31, 2017 Market Value</u>
31331KB74	Federal Farm Credit Bank	3/29/2019	\$ 650,000	\$ 649,929
3137BL5R5	FHLMC Remic 4500 HA	11/15/1942	507,418	521,063
	Total		<u>1,157,418</u>	<u>1,170,992</u>

At December 31, 2017 and 2016, the District had bank balances as follows:

	<u>2017</u>	<u>2016</u>
Insured Amount - FDIC	\$ 250,000	\$ 250,000
Collateralized uninsured amount	1,070,847	985,580

**3. PROPERTY, PLANT AND EQUIPMENT**

Depreciation is provided for on the straight-line method based on the estimated useful lives of the assets. A summary is as follows:

	<u>Life Range In Years</u>	<u>2017</u>	<u>2016</u>
Land and easements	N/A	\$ 32,593	\$ 32,593
Water distribution system	7-40	2,622,185	2,534,005
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	42,083	42,083
		<u>3,010,055</u>	<u>2,921,875</u>
Less accumulated depreciation		<u>2,089,612</u>	<u>1,998,478</u>
		<u>920,443</u>	<u>923,397</u>

**4. 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.

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**5. SUBSEQUENT EVENTS**

Subsequent events were evaluated for disclosure through February 20, 2018 and no reportable events occurred after the financial statement date and before February 20, 2018. These financial statements are available for issue February 20, 2018.

## SUPPLEMENTAL INFORMATION

**RURAL WATER DISTRICT NO. 4, SEDGWICK COUNTY, KANSAS**  
**SCHEDULE I - SCHEDULE OF INSURANCE**  
**DECEMBER 31, 2017**

Employer's Mutual Casualty Company

<u>Coverage</u>	<u>Expiration</u>	<u>Terms</u>	<u>Liability Limits</u>	<u>Annual Premium</u>
General Liability	03/01/17	General aggregate	\$1,000,000	\$ 6,850
		Products	1,000,000	
		Personal injury	500,000	
		Occurrence	500,000	
		Damage to rented premises	100,000	
		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	964,576	
Linebacker		Errors & omissions - each	500,000	
Crime		Per Occurrence	10,000	
EDP (Data Processing)		Per Occurrence	4,480	