

SUMNER COUNTY RURAL WATER
DISTRICT NO. 4
FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

Independent Auditors

Jarrett & Norton CPAs, LLC

1004 Main Street

Winfield, Kansas

SUMNER COUNTY RURAL WATER DISTRICT NO. 4
SUMNER COUNTY, KANSAS

FOR THE YEAR ENDED DECEMBER 31, 2017

BOARD OF DIRECTORS

Robert Voegele - Chairman

Carolyn Osborn - Vice Chairman

Larry Longshore - Secretary/Treasurer

Wayne Jackson - Director

Briant Osborn - Director

James Maxwell - Director

Floyd Mowbray - Director

MANAGEMENT

Chris Brumley - Operator

Krista Czaplinski - Bookkeeper

SUMNER COUNTY RURAL WATER DISTRICT NO. 4

SUMNER COUNTY, KANSAS
FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

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FINANCIAL SECTION

Jarrett & Norton CPAs, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Sumner County Rural Water District No. 4
Arkansas City, Kansas 67005

Report on the Financial Statement

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Sumner County Rural Water District No. 4 (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note - 1 of the financial statement; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statement 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, 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 statement.

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

Opinions***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note - 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note - 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note - 1.

Other Matters***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of expenditures-actual and budget-regulatory basis and the District schedule of receipts and expenditures-regulatory basis (schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. 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 basic financial statement. The 2017 information has been subjected to the auditing procedures applied in the audit of the 2017 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 basic financial statement or to the 2017 basic financial statement itself, 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 statement as a whole, on the basis of accounting described in Note - 1.



Jarrett & Norton CPAs, LLC

Winfield, Kansas

August 28, 2018

SUMNER COUNTY RURAL WATER DISTRICT NO. 4

SUMNER COUNTY, KANSAS

Summary Statement of Receipts, Expenditures, and Unencumbered Cash

Regulatory Basis

For the Year Ended December 31, 2017

Funds	Beginning	Prior Year	Receipts	Expenditures	Add		
	Unencumbered	Cancelled			Ending	Encumbrances	Ending
	Cash Balance	Encumbrances			Cash Balance	Payable	Cash Balance
Governmental Type Fund:							
Business Fund:							
Water Utility	\$ 178,809	\$ -	\$ 425,184	\$ 448,751	\$ 155,242	\$ 16,930	\$ 172,172
Total Reporting Entity	\$ 178,809	\$ -	\$ 425,184	\$ 448,751	\$ 155,242	\$ 16,930	\$ 172,172

Composition of Cash:

Checking account	\$ 43,783
Savings account	\$ 75,109
Petty Cash	\$ 20
Certificate of Deposit	\$ 53,259
Total Reporting Entity	\$ 172,172

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

SUMNER COUNTY RURAL WATER DISTRICT NO. 4,
SUMNER COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Municipal Financial Reporting Entity

Rural Water District No. 4, Sumner County, Kansas (the District) was organized and incorporated on July 9, 1973 under the provisions of K.S.A. 82a-612, for the purpose of constructing and operating a water supply distribution system. The District is a quasi-municipality under Kansas statutes. The board of the District consists of seven directors, all of whom are participating members of the District, and are elected by the District participating members for three year terms.

B. Regulatory Basis Fund Type

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund).

C. Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrances obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

D. Budgetary Information

The District is not subject to K.S.A. 79-2925, requiring budgets be legally adopted for all taxing subdivisions of the state.

NOTE - 2 CHANGE IN ACCOUNTING PRINCIPLE

The District Board of Directors approved a change in accounting principle in the financial statements from GAAP to the regulatory basis of accounting, as defined in the *Kansas Municipal Audit and Accounting Guide*, for the 2017 year and future years.

SUMNER COUNTY RURAL WATER DISTRICT NO. 4,
SUMNER COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 3 DEPOSITS & INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main 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 certificate of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District can 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 bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or 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%. All deposits were legally secured at December 31, 2017.

At December 31, 2017, the District's carrying amount of deposits was \$172,152 and the bank balance was \$185,007. The financial institution balance was held by one financial institution and one credit union resulting in a concentration of credit risk. \$56,639 of the bank balance was covered by federal deposit insurance and \$128,369 was insured by the National Credit Union Insurance Fund.

NOTE - 4 RELATED PARTIES

All members of the board of directors are also the District's water customers. During 2017, transactions with these related parties involved water sales on the same terms as all other District water customers.

NOTE - 5 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District was not in compliance with Kansas Statute K.S.A. 9-1401. The District is considered a municipality or quasi municipality corporation and is subject to the requirement that a financial institution as defined under K.S.A. 9-1401 hold its funds. The District had \$128,369 held at the credit union.

SUMNER COUNTY RURAL WATER DISTRICT NO. 4,
SUMNER COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 6 LONG TERM DEBT

Changes in long-term liabilities for the District for the year ended December 31, 2017, were as follows:

Issue	Interest Rates	Date of Issue	Amount of issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
KDHE Loans:									
Loan Project No. 2916									
	1.94%	12/22/17	\$169,075	2/1/2038	\$ -	\$ 144,466	\$ -	\$ 144,466	\$ -
Total contractual indebtedness					<u>\$ -</u>	<u>\$ 144,466</u>	<u>\$ -</u>	<u>\$ 144,466</u>	<u>\$ -</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Issue	For the Period Ending December 31,						Total
	2018	2019	2020	2021	2022	2023 thru 2038	
Principal							
KDHE Loan Project No. 2916	\$ 3,530	\$ 7,059	\$ 7,197	\$ 7,337	\$ 7,480	\$ 111,862	\$ 144,466
Total Principal	3,530	7,059	7,197	7,337	7,480	111,862	144,466
Interest & Service Fee							
KDHE Loan Project No. 2916	1,589	3,178	3,040	2,900	2,757	21,761	35,223
Total Interest & Serv. Fee	1,589	3,178	3,040	2,900	2,757	21,761	35,223
Total principal, Interest & Service Fee	\$ 5,118	\$ 10,237	\$ 10,237	\$ 10,237	\$ 10,237	\$ 133,623	\$ 179,689

On July 1, 2017 Sumner County Rural Water District No. 4 made its first draw down from the Kansas Department of Health and Environment (KDHE) from the Kansas Water Supply Loan Fund Project No. 2916 to install Badger meters, Orion Cellular Endpoints, and meter lids. A final amendment No. 1 was made effective February 28, 2018 to change the loan amount available from \$270,423 to \$169,075. The terms of the loan are as follows: an interest rate (gross rate) of 1.94% per annum, forty loan payments in the amount of \$5,118 to be paid bi-annually starting on August 1, 2018, with the last payment to be paid on February 1, 2038. As of December 31, 2017, the District has been advanced \$144,466 of the KDHE loan of which \$128,214 is project costs and \$16,252 is miscellaneous costs (including \$14,447 to be placed in a reserve account).

SUMNER COUNTY RURAL WATER DISTRICT NO. 4,
SUMNER COUNTY, KANSAS
Notes to the Financial Statement
For the Year Ended December 31, 2017

NOTE - 7 RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss, including commercial property, automobile, general liability, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE - 8 SUBSEQUENT EVENTS

District management has evaluated events and transactions occurring subsequent to the fiscal year end through the date of the report, August 28, 2018, which is the date at which the financial statement was available to be issued, and there were no material events requiring recognition or disclosure.

A. Final Draw Down on KDHE Loan Project No. 2916

On February 12, 2018, the District received notice of the second and final draw down request of \$24,609 for the KDHE Loan Project No. 2916.

REGULATORY – REQUIRED
SUPPLEMENTARY INFORMATION

SUMNER COUNTY RURAL WATER DISTRICT NO. 4

SUMNER COUNTY, KANSAS

Summary of Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2017

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment to Comply with Legal Max</u>	<u>Adjustment to Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Governmental Type Funds:						
Business fund						
<i>No Business Type Funds are Subject to the Kansas Budget Laws</i>						

SUMNER COUNTY RURAL WATER DISTRICT NO. 4

SUMNER COUNTY, KANSAS

Schedule of Receipts and Expenditures - Regulatory Basis

For the Year Ended December 31, 2017

	Current Year Actual
Receipts	
Water Sales	\$ 279,973
Benefit Unit Sold	1,000
KDHE Loan	130,019
Miscellaneous Income	800
Antenna Damage Charge	250
Termination/Reconnection Fee	1,480
Interest Income	449
Late Charges	10,100
Insufficient Check Income	1,113
Total receipts	425,184
Expenditures	
Water Purchased	123,216
Advertisement	-
Mileage	8,116
Dues & Subscriptions	359
Bank Service Charges	162
Blanket Bond	240
Liability Insurance	7,742
Certification Expense	-
Locate Fees	447
Miscellaneous Expense	2,905
Postage & Delivery	2,249
Printing & Reproduction	907
Office Phone & Internet Service	1,709
Legal Fees	555
Loan Fees	1,806
Repairs	29,963
Telephone	720
Trash Service	421
Meals	31
Training	240
Utilities	8,806
Badger Meter	2,164
Contract Labor	43,440
Wages	46,565
Medicare	702
Social Security	3,001
Unemployment	48
Payroll Expenses	1,839
Office Expense	300
Supplies Expense	158,924
Taxes	1,176
Total expenditures	448,751
Receipts over (under) expenditures	(23,568)
Unencumbered cash, beginning	\$ 178,809
Prior year cancelled encumbrances	-
Unencumbered cash, ending	\$ 155,242