

RURAL WATER DISTRICT NO. 1

SEDGWICK COUNTY, KANSAS

Financial Statement

For the Year Ended December 31, 2017

Rural Water District No. 1, Sedgwick County, Kansas

For the Year Ended December 31, 2017

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# Knudsen Monroe & Company LLC

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water District No. 1  
Sedgwick County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Rural Water District No. 1, Sedgwick County, Kansas, (Water 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; 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 the financial statement that is free from material misstatement, whether due to fraud or error.

### ***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 we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of 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 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 Water 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 Water 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.

### ***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 Water District 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 Water 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 Water 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 2017 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for additional analysis and is not a required part of the 2017 basic financial statement, but is 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 2017 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 2017 basic financial statement as a whole, on the basis of accounting described in Note 1.

*Krudsen, Monroe & Company, LLC*

Certified Public Accountants  
Newton, Kansas  
February 20, 2018

## Rural Water District No. 1, Sedgwick County, Kansas

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH  
Regulatory Basis

For the Year Ended December 31, 2017

Fund	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Encumbrances and Accounts Payable	Ending Cash Balance
Business Fund						
Water Utility	\$ 987,390	338,586	295,993	1,029,983	1,710	1,031,693

**Composition of Cash:**

Intrust Bank, Checking	\$ 120,414
Simmons First National Bank, Money Market	151,727
Southwest National Bank, CDARS	759,542
Petty Cash	10
<b>Total Reporting Entity</b>	<b>\$ 1,031,693</b>

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

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Rural Water District No. 1, Sedgwick County, Kansas was incorporated and organized on January 12, 1967, by order of the Board of County Commissioners, Sedgwick County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Sedgwick County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes. The Water District had 425 benefit units at the end of December 31, 2017.

Change in Accounting Principle

The Water District previously reported its financials using accounting principles generally accepted in the United States of America. For the year ended December 31, 2017, the Water 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 Water District to use the regulatory basis of accounting, recognized by the State of Kansas, as described below.

Regulatory Basis Fund Type

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

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 encumbrance 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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2017

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories that may be used by the Water District. The statute requires banks eligible to hold the Water District's funds have a main or branch bank in the county in which the Water 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 Water District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water 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 Water 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 Water 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 Water District's deposits may not be returned to it. State statutes require the Water 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. All deposits were legally secured at December 31, 2017.

At December 31, 2017, the carrying amount of The Water District's deposits, including certificates of deposit, was \$1,031,683. The bank balance was \$1,044,419. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. At December 31, 2017, all of the bank balance was covered by FDIC insurance.

Certificates of Deposit

The Water District invests in the Certificate of Deposit Account Registry Service (CDARS), which is a private, for-profit service that breaks up large deposits and places them across a network of banks and savings associations around the United States. This allows the Water District to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

4. BENEFIT UNITS

Members of the Water District are required to pay a deposit for a benefit unit prior to connecting to the Water District's lines. New benefit units added during the year totaled \$8,100.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

5. CONCENTRATIONS OF RISK

Major Supplier

The Water District purchases 100 percent of its water from the City of Wichita, Kansas.

6. RISK MANAGEMENT

The Water 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 ensure against risk of these types of losses, the Water District has purchased commercial insurance coverage from EMC Insurance Companies through Insurance Center, Inc. in El Dorado, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

7. RELATED PARTIES

All the members of the Board of Directors are Water District customers. For all board members the only material transactions were water purchase made on the same terms as all other Water District customers.

8. AGREEMENTS

The Water District has reached a compensation agreement with the City of Bel Aire, Kansas for loss of service areas. The Water District will continue to receive compensation from the City up to \$75,000 annually to be applied to costs associated with the release of water service areas by the Water District to the City as such requests are made and approved. The total amount expected from this agreement was \$750,000. Through December 31, 2017, the Water District has received \$300,000.

9. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through February 20, 2018, which is the date at which the financial statement was available to be issued.



RURAL WATER DISTRICT NO. 1  
SEDGWICK COUNTY  
REGULATORY REQUIRED  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2017

## Rural Water District No. 1, Sedgwick County, Kansas

SCHEDULE OF RECEIPTS AND EXPENDITURES  
Regulatory Basis

For the Year Ended December 31, 2017

	<u>2017</u>
<b>RECEIPTS</b>	
Water sales	\$ 248,879
Reconnect Charges	700
Interest income	5,907
Other Income	75,000
Benefit unit deposits	<u>8,100</u>
Total receipts	<u>338,586</u>
<b>EXPENDITURES</b>	
Water purchases	110,495
Salaries	41,154
Payroll taxes	3,189
Utilities	5,736
Office supplies	3,358
Insurance	7,582
Repairs	89,413
Mileage	5,365
Professional fees	21,588
Water fees	1,176
Other	475
Capital outlay	<u>6,462</u>
Total expenditures	<u>295,993</u>
Receipts over expenditures	42,593
<b>UNENCUMBERED CASH, beginning</b>	<u>987,390</u>
<b>UNENCUMBERED CASH, ending</b>	<u>\$ 1,029,983</u>