

THE MORROW & CO. PROMISE:

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

- Being Friendly
- Acting with Integrity
- Being Responsible
- Providing Outstanding Service
- Being Timely

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, 2014

ACCOUNTING FOR YOUR NEEDS™

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

DECEMBER 31, 2014

INDEX

| | Page |
|--|----------|
| 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 Financial Statements..... | 6-8 |
| SUPPLEMENTARY INFORMATION | |
| Schedule I - Statement of Insurance..... | 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, 2014 and 2013, 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 auditors consider internal control relevant to the organization'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 organization'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.

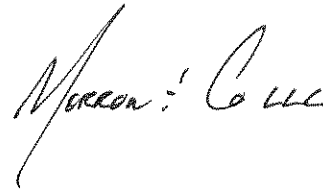
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, 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 - Statement 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 taken as a whole.



Wichita, Kansas

February 23, 2015

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

| ASSETS | | <u>2014</u> | <u>2013</u> |
|---|-----------------|---------------------|---------------------|
| ASSETS | | | |
| Cash - Undesignated | | \$ 404,304 | \$ 294,002 |
| Cash - Designated | | 100,000 | 0 |
| Certificates of deposit (3 months or less) | | <u>50,246</u> | <u>50,137</u> |
| Total Cash and Cash equivalents | <i>(Note 2)</i> | <u>554,550</u> | <u>344,139</u> |
| Certificates of deposit (over 3 months) | <i>(Note 2)</i> | 461,538 | 460,524 |
| Accounts receivable | | 54,957 | 41,347 |
| Other receivable | | 0 | 14,890 |
| Property, plant and equipment | <i>(Note 3)</i> | <u>935,709</u> | <u>1,022,280</u> |
| TOTAL ASSETS | | <u>\$ 2,006,754</u> | <u>\$ 1,883,180</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | |
| Accounts payable | | \$ 5,353 | \$ 2,914 |
| Accrued payroll taxes | | 970 | 962 |
| Deferred lease revenue | | <u>4,295</u> | <u>4,295</u> |
| Total Liabilities | | <u>10,618</u> | <u>8,171</u> |
| NET ASSETS | | | |
| Unrestricted | | 1,996,136 | 1,875,009 |
| Temporarily restricted | | 0 | 0 |
| Permanently restricted | | <u>0</u> | <u>0</u> |
| Total Net Assets | | <u>1,996,136</u> | <u>1,875,009</u> |
| TOTAL LIABILITIES AND NET ASSETS | | <u>\$ 2,006,754</u> | <u>\$ 1,883,180</u> |

The accompanying Notes to Financial Statements
are an integral part of this statement.

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

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | 2014 | 2013 |
|---|-------------------|-------------------|
| SUPPORT AND REVENUES | | |
| Water sales | \$ 471,821 | \$ 424,360 |
| Sale of benefit units | 35,100 | 27,600 |
| Interest income | 1,201 | 1,794 |
| Line Cut & Road Work | 0 | 38,240 |
| Tower Lease | 6,221 | 6,238 |
| Penalty & Late Fees | 0 | 300 |
| Other | 2,375 | 3,110 |
| TOTAL SUPPORT AND REVENUES | 516,718 | 501,642 |
| OPERATING EXPENSES | | |
| Depreciation | 86,571 | 87,354 |
| Audit | 3,850 | 3,700 |
| Benefit Units Expense | 4,095 | 6,682 |
| Engineering | 8,743 | 2,964 |
| Chlorine | 567 | 434 |
| Consulting Fees | 600 | 825 |
| Contract Labor & Meter Reading | 22,946 | 71,241 |
| Director Fees | 2,461 | 2,130 |
| Fuel Surcharges | 3,500 | 2,613 |
| Hydmapping | 2,022 | 2,066 |
| Insurance & Bond | 5,855 | 5,643 |
| Kansas Health Board | 374 | 53 |
| KRWA | 1,517 | 1,315 |
| Lead & Copper Test | 128 | 350 |
| Legal | 17,731 | 20,531 |
| Mileage Allowance | 3,585 | 3,662 |
| Miscellaneous | 4,008 | 2,540 |
| Monthly Retainer, Storage Rental & Wireless Service | 18,368 | 17,718 |
| Office Supplies & Printing | 2,447 | 2,192 |
| One Call | 1,163 | 1,237 |
| Penalties | 215 | 159 |
| Postage | 4,618 | 4,408 |
| Rent | 180 | 200 |
| Repair & Maintenance | 156,215 | 117,213 |
| Salaries | 25,194 | 23,762 |
| Payroll Taxes | 2,023 | 2,530 |
| Utilities | 14,922 | 14,433 |
| Clean Drinking Water Fee | 1,693 | 1,566 |
| TOTAL EXPENSES | 395,591 | 399,521 |
| CHANGE IN UNRESTRICTED NET ASSETS | \$ 121,127 | \$ 102,121 |

The accompanying Notes to Financial Statements
are an integral part of this statement.

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

**STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | <u>Benefit Unit Certificates</u> | <u>Retained Earnings (Deficit)</u> | <u>Total Unrestricted Net Assets</u> |
|----------------------------|--|--|--|
| BALANCE, DECEMBER 31, 2012 | \$ 773,375 | \$ 999,513 | \$ 1,772,888 |
| CHANGE IN NET ASSETS | <u>27,600</u> | <u>74,521</u> | <u>102,121</u> |
| BALANCE, DECEMBER 31, 2013 | 800,975 | 1,074,034 | 1,875,009 |
| CHANGE IN NET ASSETS | <u>35,100</u> | <u>86,027</u> | <u>121,127</u> |
| BALANCE, DECEMBER 31, 2014 | <u>\$ 836,075</u> | <u>\$ 1,160,061</u> | <u>\$ 1,996,136</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Unrestricted Net Assets | \$ 121,127 | \$ 102,121 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 86,571 | 87,354 |
| Changes in: | | |
| Accounts receivable | (13,610) | (602) |
| Other receivable | 14,890 | (14,890) |
| Prepaid expense | 0 | 0 |
| Accounts payable, accrued expenses, deposits and deferrals | <u>2,447</u> | <u>559</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>211,425</u> | <u>174,542</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Reinvestment in) Withdrawal from Certificates of Deposit | (1,014) | (1,646) |
| Purchase of property, plant and equipment | <u>0</u> | <u>(250)</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>(1,014)</u> | <u>(1,896)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal paid on bond maturities | 0 | 0 |
| Bond issue redeemed | 0 | 0 |
| Bonds issued | <u>0</u> | <u>0</u> |
| NET CASH (USED IN) FINANCING ACTIVITIES | <u>0</u> | <u>0</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 210,411 | 172,646 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>344,139</u> | <u>171,493</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 554,550</u> | <u>\$ 344,139</u> |
| SUPPLEMENTARY CASH FLOW INFORMATION | | |
| CASH PAID FOR INTEREST | <u>\$ 0</u> | <u>\$ 0</u> |

The accompanying Notes to Financial Statements
are an integral part of this statement.

RURAL WATER DISTRICT NO. 4
SEDGWICK COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 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.

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.

RURAL WATER DISTRICT NO. 4
SEDGWICK COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

NOTE 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:

| ID # | Security Description | Maturity | Par Amount | Dec. 31, 2014 Market Value |
|-----------|--------------------------|----------|---------------------|-------------------------------|
| 31331KB74 | Federal Farm Credit Bank | 03/29/19 | 650,000 | \$ 651,963 |
| 3133EAVQ8 | Federal Farm Credit Bank | 12/01/16 | 400,000 | 399,612 |
| | Total | | <u>\$ 1,050,000</u> | <u>\$ 1,051,575</u> |

At December 31, 2014 and 2013, the District had bank balances as follows:

| | 2014 | 2013 |
|---------------------------------------|------------|------------|
| Insured Amount - FDIC | \$ 250,000 | \$ 250,000 |
| Collateralized uninsured amount | \$ 772,328 | \$ 576,591 |
| Uninsured and uncollateralized amount | \$ 0 | \$ 0 |

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE 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:

| | Life Range In Years | 2014 | 2013 |
|-------------------------------|------------------------|-------------------|---------------------|
| Land and easements | N/A | \$ 32,593 | \$ 32,593 |
| Water distribution system | 7-40 | 2,371,313 | 2,371,313 |
| 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 | 38,353 | 38,353 |
| Construction in progress | N/A | <u>0</u> | <u>0</u> |
| | | 2,755,453 | 2,755,453 |
| Less accumulated depreciation | | <u>1,819,744</u> | <u>1,733,173</u> |
| | | <u>\$ 935,709</u> | <u>\$ 1,022,280</u> |

NOTE 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.

NOTE 5: SUBSEQUENT EVENTS

Subsequent events were evaluated for disclosure through February 23, 2015 and no reportable events occurred after the financial statement date and before February 23, 2015. These financial statements are available for issue February 23, 2015.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 4
 SEDGWICK COUNTY, KANSAS

SCHEDULE I - STATEMENT OF INSURANCE

DECEMBER 31, 2014

| Company | Coverage | Expiration | Terms | Liability Limits | Annual Premium |
|---------------------------------------|-----------------------|------------|---|---|----------------|
| Employer's Mutual Casualty Company | General Liability | 03/01/15 | General aggregate Products Personal injury Occurrence Damage to rented premises Medical-per person | \$ 1,000,000 1,000,000 500,000 500,000 100,000 5,000 | \$ 6,040 |
| | Automobile Liability | | Combined single | 500,000 | |
| | Worker's Compensation | | Accident Disease-policy Disease-employee | 500,000 500,000 500,000 | |
| | Property | | Blanket limit | 891,462 | |
| | Linebacker | | Errors & omissions - each | 500,000 | |
| | Employee Dishonesty | | Per Occurrence | 10,000 | |
| | EDP (Data Processing) | | Per Occurrence | 4,480 | |

See Independent Auditors' Report.