RURAL WATER DISTRICT NO. 1

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2010

Rural Water District No. 1, Marion County, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the Rural Water District No. 1, Marion County, Kansas (District) as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2010 and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Knudsen, Monroe & Company LLC

Certified Public Accountants

Newton, Kansas
March 11, 2011

Rural Water District No. 1 Marion County, Kansas

BALANCE SHEETS

December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 20,208	67,461
Investments	71,561	70,351
Accounts receivable	24,688	15,741
Total current assets	116,457	153,553
CAPITAL ASSETS		
Capital assets not being depreciated	17,750	17,750
Capital assets, net of accumulated depreciation	627,564	659,074
Total capital assets	645,314	676,824
OTHER ASSETS		
Loan costs, net of accumulated amortization	5,981	6,597
Restricted investment - KDHE loan	32,852	32,852
Total other assets	38,833	39,449
Total assets	$ 800,604	869,826
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current portion of long-term debt	$ 13,039	22,583
Accounts payable	1,890	3,644
Accrued interest	3,282	3,353
Other accrued expenses	2,975	1,187
Total current liabilities	21,186	30,767
LONG-TERM DEBT, net of current portion	230,023	278,063
Total liabilities	251,209	308,830
NET ASSETS, Page 3		
Invested in capital assets, net of related debt	402,252	376,178
Restricted for debt service	32,852	32,852
Unrestricted	114,291	151,966
Total fund equity	549,395	560,996
Total liabilities and fund equity	$ 800,604	869,826

See notes to financial statements

Rural Water District No. 1 Marion County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2010 and 2009

	2010	2009
REVENUES		
Water sales	$ 136,351	132,410
Other	2,083	1,953
Total operating revenues	138,434	134,363
EXPENSES		
Personnel	52,701	36,826
Utilities	12,364	13,723
Office supplies	3,002	3,000
Meeting expense	640	340
Chemicals and lab fees	2,415	3,308
Insurance	6,237	5,967
Repairs	26,386	18,617
Mileage	6,829	5,297
Professional fees	3,759	3,278
Depreciation and amortization	32,126	32,303
Total operating expenses	146,459	122,659
Operating income (loss)	(8,025)	11,704
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,002	2,448
Interest expense	(9,178)	(10,271)
Total nonoperating revenues (expenses)	(7,176)	(7,823)
Income (loss) before other revenues	(15,201)	3,881
OTHER REVENUES		
Benefit unit sales	3,600	3,600
Net income (loss)	(11,601)	7,481
FUND EQUITY, beginning of year	560,996	553,515
FUND EQUITY, end of year	$ 549,395	560,996

See notes to financial statements

Rural Water District No. 1 Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	$ 127,493	132,423
Other cash received	2,083	1,953
	129,576	134,376
Cash paid for:		
Salaries and payroll taxes	(51,002)	(36,463)
Other expenses	(63,386)	(49,886)
	(114,388)	(86,349)
Net cash provided by operating activities	15,188	48,027
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,210)	(1,173)
Interest income received	2,002	2,448
Net cash provided by investing activities	792	1,275
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt payments		
Interest paid	(9,249)	(10,467)
Principal paid	(57,584)	(22,131)
Benefit unit sales	3,600	3,600
Net cash used in financing activities	(63,233)	(28,998)
Net increase (decrease) in cash and cash equivalents	(47,253)	20,304
CASH AND CASH EQUIVALENTS, beginning of year	67,461	47,157
CASH AND CASH EQUIVALENTS, end of year	$ 20,208	67,461

See notes to financial statements

Rural Water District No. 1 Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income, Page 3	$ (8,025)	11,704
Adjustments to reconcile change in net income to net cash provided by operating activities		
Depreciation and amortization	32,126	32,303
(Increase) decrease in receivables - customers	(8,947)	(3)
Increase (decrease) in accounts payable and accrued expenses	34	4,023
Net cash provided by operating activities	$ 15,188	48,027
NONCASH ACTIVITY		
Reduction of KDHE loan reserve applied against long term debt	$ -	100
Reduction of loan costs applied against long term debt	$ -	892

See notes to financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 1, Marion County, Kansas was incorporated and organized on July 8, 1968, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated over the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over estimated useful lives of seven to forty years. At December 31, 2010 and 2009, property assets consisted of the following:

	2010	2009
Capital assets not being depreciated		
Land	$ 5,750	5,750
Well easement	12,000	12,000
	$ 17,750	17,750
Capital assets being depreciated		
Water system and line	$ 973,352	973,352
Water tower	286,937	286,937
	1,260,289	1,260,289
Less accumulated depreciation	(632,725)	(601,215)
	$ 627,564	659,074

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2010 and 2009, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

Estimates

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

2. DEPOSITS AND INVESTMENTS

Composition of Cash and Investments

At December 31, 2010 and 2009, cash and investments consist of the following accounts with local financial institutions:

	2010	2009
Cash		
Tampa State Bank, Tampa, Kansas		
Demand account	$ 20,208	67,461
Investments		
Certificates of deposit		
Tampa State Bank, Tampa, Kansas	71,561	70,351
Loan reserve account		
Kansas Development Finance Authority, Topeka, Kansas	32,852	32,852
Total investments	104,413	103,203
Total cash and investments	$ 124,621	170,664

The above balance is classified as follows in the accompanying financial statements:

Current assets		
Cash	$ 20,208	67,461
Investments	71,561	70,351
Other assets		
Restricted investment - KDHE loan (see Note 3)	32,852	32,852
Total cash and investments	$ 124,621	170,664

Deposits

At December 31, 2010 the carrying amount of the District's deposits, including certificates of deposit, was $91,769. The bank balance was $99,114. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. All of the bank balance was covered by FDIC insurance.

Investments

Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, repurchase agreements, and the State Treasurer's investment pool. All investments must be insured, registered, or held by the District or its agent in the District's name.

At December 31, 2010, the District did not have any of these investments.

3. LONG-TERM DEBT

A summary of the long term debt obligations at December 31 is as follows:

	2010	2009
Mortgage payable to the Kansas Rural Water Finance Authority. This debt was retired during 2010.	$ -	45,000
Mortgage payable to the Kansas Department of Health and Environment due in varying semi-annual installments of principal and interest at a fixed rate of interest of 3.59%. Due February 1, 2025	243,062	255,646
	243,062	300,646
Less current portion	13,039	22,583
	$ 230,023	278,063

Scheduled principal payments on long-term debt are as follows:

2011	$ 13,039
2012	13,512
2013	14,001
2014	14,508
2015	15,034
2016 - 2020	83,743
2021 - 2025	89,225
	$ 243,062

Net revenues of the district have been pledged as security for the debt.

Under the terms of the loan agreement with the Kansas Department of Health and Environment, the Water District is required to maintain a special account in its financial records (in addition to the operating cash account). This account is as follows:

Loan Reserve Account

A Loan Reserve Account has been established with the Kansas Development Finance Authority. The Loan Reserve Account is to equal the loan reserve requirement, which is defined as “an amount equal to 10% of the original principal amount of the loan.” This account may be used to pay principal and interest on the loan if the amount in the Debt Service Account is not sufficient to make the payments. If payments are made from this account, the Water District is required to transfer all available system revenues into the Loan Reserve Account until the loan reserve requirement is met. Investment earnings on monies held in this account shall be credited to each succeeding loan payment. At December 31, 2010 and 2009, $32,852 was held in the Loan Reserve Account.

4. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through March 11, 2011, which is the date at which the financial statements were available to be issued.