

RURAL WATER DISTRICT NO. 3

SEDGWICK COUNTY, KANSAS

Independent Auditor's Report

December 31, 2010

Rural Water District No. 3, Sedgwick County Kansas

CONTENTS

December 31, 2010

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheet, December 31, 2010	2
Statement of Revenues, Expenses, and Change in Fund Equity, Year ended December 31, 2010	3
Statement of Cash Flows, Year ended December 31, 2010	4-5
Notes to Financial Statement, December 31, 2010	6-9

Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 3,
Sedgwick County, Kansas

We have audited the accompanying balance sheet of the Rural Water District No. 3, Sedgwick County, Kansas as of December 31, 2010, and the related statement of revenues, expenses, and change in fund equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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 Rural Water District No. 3, Sedgwick County, Kansas as of December 31, 2010 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rural Water District No. 3, Sedgwick County, Kansas 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
November 4, 2011

Rural Water District No. 3, Sedgwick County Kansas

BALANCE SHEET

December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 300,033
Certificates of deposit	2,437,462
Investments	1,078,533
Accounts receivable - customers	95,170
Accrued interest income	11,659
Inventory	<u>93,072</u>
Total current assets	<u>4,015,929</u>

CAPITAL ASSETS, net of accumulated depreciation when applicable

Capital assets not being depreciated	105,764
Capital assets, net of depreciation	<u>3,304,153</u>
Total capital assets	<u>3,409,917</u>
Total assets	<u>\$ 7,425,846</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Current portion of long-term debt	\$ 6,000
Accounts payable	45,660
Other accrued expenses	<u>75</u>
Total current liabilities	51,735

LONG-TERM DEBT, net of current portion

Total liabilities	<u>18,000</u>
	<u>69,735</u>

NET ASSETS, Page 3

Invested in capital assets, net of related debt	3,385,917
Unrestricted	<u>3,970,194</u>
Total fund equity	<u>7,356,111</u>
Total liabilities and fund equity	<u>\$ 7,425,846</u>

Rural Water District No. 3, Sedgwick County Kansas

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND EQUITY

Year ended December 31, 2010

REVENUES	
Water sales	\$ 1,121,923
Other fees	<u>21,162</u>
Total operating revenues	<u>1,143,085</u>
EXPENSES	
Cost of water purchased	283,354
Water protection fee	5,009
Wages and salaries	293,372
Payroll taxes	23,608
SIMPLE retirement contribution	6,185
Employee benefits - insurance	59,890
Education and training	550
Office supplies and expenses	31,743
Accounting fees	17,971
Engineering fees	22,269
Legal fees	42,719
Insurance	33,737
Fuel and vehicle maintenance	14,083
Repairs and maintenance	44,576
Utilities	12,768
Depreciation	195,746
Other expenses	<u>13,343</u>
Total operating expenses	<u>1,100,923</u>
Operating income (loss)	<u>42,162</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	68,654
Gain (loss) on sale of assets	<u>(10,862)</u>
Total nonoperating revenues (expenses)	<u>57,792</u>
Income before other revenues	99,954
OTHER REVENUES	
Benefit unit sales	<u>57,200</u>
Net Income	157,154
FUND EQUITY, beginning of year	<u>7,198,957</u>
FUND EQUITY, end of year	<u>\$ 7,356,111</u>

See notes to financial statements

Rural Water District No. 3, Sedgwick County Kansas

STATEMENT OF CASH FLOWS

Year ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from water sales	\$ 1,120,765
Other cash received	<u>21,162</u>
	<u>1,141,927</u>
Cash paid for:	
Water purchases	(287,947)
Salaries, payroll taxes and benefits	(383,888)
Other expenses	<u>(228,646)</u>
	<u>(900,481)</u>
Net cash provided by operating activities	<u>241,446</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Loss on sale of assets	(10,862)
Purchase of certificates of deposit	(855,945)
Redemption of certificates of deposit	372,259
Purchase of investments	(764,610)
Redemption of investments	920,862
Interest income received	74,583
Purchase of capital assets	<u>(62,584)</u>
Net cash used in investing activities	<u>(326,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Benefit unit sales	<u>57,200</u>
Net cash provided by financing activities	<u>57,200</u>
Net increase (decrease) in cash and cash equivalents	(27,651)
CASH AND CASH EQUIVALENTS, beginning of year	<u>327,684</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 300,033</u>

See notes to financial statements

Rural Water District No. 3, Sedgwick County Kansas

STATEMENT OF CASH FLOWS

Year ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Operating income, Page 3	\$ 42,162
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	195,746
(Increase) decrease in receivables	(1,176)
(Increase) decrease in inventory	(10,580)
Increase (decrease) in accounts payable and accrued expenses	<u>15,294</u>
Net cash provided by operating activities	<u>\$ 241,446</u>

NONCASH ACTIVITY

Capital asset addition included in accounts payable	<u>\$ 230</u>
Land purchased on installment basis	<u>\$ 24,000</u>

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 3, Sedgwick County, Kansas was incorporated and organized on February 16, 1972, by order of the Board of County Commissioners, Sedgwick County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Sedgwick, Sumner, Butler and Cowley 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 capital assets consisted of the following:

Capital assets not being depreciated	
Land	<u>\$ 105,764</u>
Capital assets being depreciated	
Water system and line	\$ 5,288,952
Buildings and improvements	536,679
Equipment and furnishings	449,918
Vehicles	<u>142,365</u>
	6,417,914
Less accumulated depreciation	<u>3,113,761</u>
	<u>\$ 3,304,153</u>

Inventory

Inventory, consisting of meters, pipes and fittings, is stated at lower of cost or market on the first-in, first-out basis.

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, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, cash and investments consist of the following accounts with local financial institutions:

Cash and cash equivalents	
Petty Cash	\$ 200
Carson Bank, NOW accounts, Mulvane, Kansas	121,711
Carson Bank, money market account, Mulvane, Kansas	<u>178,122</u>
Total cash and cash equivalents	<u>300,033</u>
Certificates of deposit	
Carson Bank, Mulvane, Kansas	310,447
Intrust Bank, Wichita, Kansas	122,015
Other banks	<u>2,005,000</u>
Total certificates of deposit	<u>2,437,462</u>
Investments	
U.S. Government Securities	
U.S. Savings Bonds	75
Federal Home Loan Bank	<u>1,078,458</u>
Total investments	<u>1,078,533</u>
Total cash and investments	<u>\$ 3,816,028</u>

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

Current assets	
Cash and cash equivalents	\$ 300,033
Certificate of Deposits	2,437,462
Investments	<u>1,078,533</u>
Total cash and investments	<u>\$ 3,816,028</u>

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits

At December 31, 2010 the carrying amount of the District's deposits, including certificates of deposit, was \$2,737,495. The bank balance was \$2,744,761. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$2,377,015 was covered by FDIC insurance, and the remaining \$367,746 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Certificates of Deposit

Certificates of deposit at various banks consisted of the following at December 31:

<u>Date of Deposit</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
04/30/09	01/31/11	1.65%	\$ 50,000
02/05/09	02/03/11	2.00%	100,000
08/12/09	02/14/11	1.30%	100,000
02/21/97	02/21/11	2.00%	173,453
03/04/09	03/04/11	2.50%	95,000
09/25/09	03/25/11	1.45%	100,000
04/09/03	04/09/11	1.21%	122,015
04/29/09	04/29/11	2.00%	50,000
06/10/09	06/10/11	2.10%	100,000
06/22/09	06/22/11	1.90%	100,000
07/24/09	07/22/11	1.90%	100,000
02/16/10	08/16/11	0.80%	100,000
09/23/09	09/23/11	1.60%	100,000
10/21/09	10/21/11	1.75%	100,000
11/06/09	11/04/11	1.50%	100,000
12/09/09	12/09/11	1.65%	100,000
12/11/09	12/12/11	1.70%	100,000
02/01/10	02/06/12	1.25%	100,000
03/10/10	03/12/12	1.10%	100,000
05/20/10	05/21/12	1.20%	200,000
06/30/10	06/30/12	1.50%	136,994
07/14/10	07/16/12	1.00%	110,000
08/09/10	08/13/12	1.00%	100,000
			<u>\$ 2,437,462</u>

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.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2010, the District held U.S. Government Securities consisting of Federal Home Loan Bank instruments. The District does not make adjustments for temporary market fluctuations. Generally, the maturity of these securities occurs within two years of acquisition. Premiums or discounts on purchases are not amortized or accreted. The investments are carried at cost which approximates fair value. Maturities result in a gain or a loss and are reported in the financial statements under nonoperating income. Interest rates on these investments range from 1.38% to 5.75%.

3. LONG-TERM DEBT

The following is an analysis of long term debt obligations at December 31:

Note payable to Wilfred and Mary Goevert due in annual installments of \$6,000 due by December 16, 2014	\$ 24,000
Less current portion	<u>6,000</u>
	<u>\$ 18,000</u>

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

2011	\$ 6,000
2012	6,000
2013	6,000
2014	<u>6,000</u>
	<u>\$ 24,000</u>

4. GAIN ON PROPERTY RELEASED

Periodically the District enters into agreements with the City of Derby, Rose Hill and others to release benefit units from the District. There were no benefit units released during 2010.

5. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 1999 for qualified employees. The District matches employee contributions to the plan up to 3 percent of compensation. The District's contribution was \$6,185 for the year ended December 31, 2010.

5. 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 November 4, 2011, which is the date at which the financial statements were available to be issued.