

RURAL WATER DISTRICT NO. 1

SEDGWICK COUNTY, KANSAS

Independent Auditor's Report

December 31, 2010

Rural Water District No. 1, Sedgwick County, Kansas

CONTENTS

December 31, 2010

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheets, December 31, 2010 and 2009	2
Statements of Revenues, Expenses, and Changes in Fund Equity, Years ended December 31, 2010 and 2009	3
Statements of Cash Flows, Years ended December 31, 2010 and 2009	4-5
Notes to Financial Statements, December 31, 2010	6-9

Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the Rural Water District No. 1, Sedgwick County, Kansas 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 Rural Water District No. 1, Sedgwick County, Kansas 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.

Rural Water District No. 1, 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
February 21, 2011

Rural Water District No. 1, Sedgwick County, Kansas

BALANCE SHEETS

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 53,968	221,003
Investments	1,073,016	895,831
Accounts receivable	24,749	14,419
Accrued interest receivable	189	2,523
Prepaid insurance	<u>174</u>	<u>176</u>
Total current assets	1,152,096	1,133,952
CAPITAL ASSETS, net of accumulated depreciation	<u>786,970</u>	<u>828,883</u>
Total assets	<u>\$ 1,939,066</u>	<u>1,962,835</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 30,323	28,074
Accounts payable	568	407
Other accrued expenses	<u>2,394</u>	<u>2,651</u>
Total current liabilities	33,285	31,132
LONG-TERM DEBT, net of current portion	<u>166,783</u>	<u>197,125</u>
Total liabilities	<u>200,068</u>	<u>228,257</u>
FUND EQUITY		
Invested in capital assets, net of related debt	589,864	603,684
Unrestricted	<u>1,149,134</u>	<u>1,130,894</u>
Total fund equity	<u>1,738,998</u>	<u>1,734,578</u>
Total liabilities and fund equity	<u>\$ 1,939,066</u>	<u>1,962,835</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Water sales	\$ 193,911	165,017
Other	<u>100</u>	<u>200</u>
Total operating revenues	<u>194,011</u>	<u>165,217</u>
EXPENSES		
Water purchases	57,840	43,766
Personnel	33,710	32,454
Utilities	826	939
Office supplies	4,032	3,421
Water protection fee	1,737	1,529
Insurance	3,339	3,408
Repairs	28,871	31,442
Mileage	2,870	2,941
Professional fees	14,641	23,686
Depreciation	41,913	40,772
Other	<u>415</u>	<u>879</u>
Total operating expenses	<u>190,194</u>	<u>185,237</u>
Operating income (loss)	<u>3,817</u>	<u>(20,020)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	17,006	22,697
Interest expense	<u>(16,403)</u>	<u>(18,489)</u>
Total nonoperating revenues (expenses)	<u>603</u>	<u>4,208</u>
Income (loss) before other revenues	4,420	(15,812)
OTHER REVENUES		
Gain on property released	-	136,500
Benefit unit sales	<u>-</u>	<u>5,000</u>
Net Income	4,420	125,688
FUND EQUITY, beginning of year	<u>1,734,578</u>	<u>1,608,890</u>
FUND EQUITY, end of year	<u>\$ 1,738,998</u>	<u>1,734,578</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 183,608	165,449
Other cash received	<u>100</u>	<u>200</u>
	<u>183,708</u>	<u>165,649</u>
Cash paid for:		
Water purchases	(57,840)	(43,766)
Salaries and payroll taxes	(32,956)	(32,454)
Other expenses	<u>(57,606)</u>	<u>(65,990)</u>
	<u>(148,402)</u>	<u>(142,210)</u>
Net cash provided by operating activities	<u>35,306</u>	<u>23,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on property released	-	136,500
Purchase of certificates of deposit	(1,087,689)	(702,344)
Redemption of certificates of deposit	910,504	513,752
Change in repurchase agreements	-	277,000
Interest income received	19,340	26,969
Purchase of property assets	<u>-</u>	<u>(17,037)</u>
Net cash provided by (used in) investing activities	<u>(157,845)</u>	<u>234,840</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Long-term debt payments		
Interest paid	(16,403)	(18,489)
Principal paid	(28,093)	(26,006)
Benefit unit sales	<u>-</u>	<u>5,000</u>
Net cash used in financing activities	<u>(44,496)</u>	<u>(39,495)</u>
Net increase (decrease) in cash and cash equivalents	(167,035)	218,784
CASH AND CASH EQUIVALENTS, beginning of year	<u>221,003</u>	<u>2,219</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 53,968</u>	<u>221,003</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income, Page 3	\$ 3,817	(20,020)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	41,913	40,772
(Increase) decrease in receivables	(10,330)	2,297
(Increase) decrease in prepaid insurance	2	(8)
Increase (decrease) in accounts payable and accrued expenses	<u>(96)</u>	<u>398</u>
Net cash provided by operating activities	<u>\$ 35,306</u>	<u>23,439</u>

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District was organized to provide water for rural Sedgwick 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:

	<u>2010</u>	<u>2009</u>
Capital assets being depreciated		
Water system and line	\$ 1,555,448	1,555,448
Less accumulated depreciation	<u>768,478</u>	<u>726,565</u>
	<u>\$ 786,970</u>	<u>828,883</u>

The District has entered into an agreement with the City of Wichita to build a chlorine booster pump station. The District is responsible for one-half of the cost. The estimated cost at this time is unknown.

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.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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:

	<u>2010</u>	<u>2009</u>
Cash		
Petty Cash	\$ 10	10
Intrust Bank, Now account, Wichita, Kansas	35,900	161,383
Simmons First National Bank, money market account, Olathe, KS	<u>18,058</u>	<u>59,610</u>
Total cash	<u>53,968</u>	<u>221,003</u>
Investments		
Certificates of deposit		
Intrust Bank, Wichita, Kansas	315,930	366,940
Simmons First National Bank, Olathe, Kansas	-	528,891
Southwest National Bank	<u>757,086</u>	<u>-</u>
Total investments	<u>1,073,016</u>	<u>895,831</u>
Total cash and investments	<u>\$ 1,126,984</u>	<u>1,116,834</u>

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

Current assets		
Cash	\$ 53,968	221,003
Investments	<u>1,073,016</u>	<u>895,831</u>
Total cash and investments	<u>\$ 1,126,984</u>	<u>1,116,834</u>

Deposits

At December 31, 2010 the carrying amount of the District's deposits, including certificates of deposit, was \$1,126,984. The bank balance was \$1,135,785. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$1,025,144 was covered by FDIC insurance and \$113,641 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

2. DEPOSITS AND INVESTMENTS (Continued)

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:

	<u>2010</u>	<u>2009</u>
Mortgage payable to Simmons First National Bank due in monthly installments of \$3,708 including principal and interest at a rate of 7.73%, due June 14, 2016	\$ 197,106	225,199
Less current portion	<u>30,323</u>	<u>28,074</u>
	<u>\$ 166,783</u>	<u>197,125</u>

Scheduled principal payments on long-term debt for the next six years are as follows:

2011	\$ 30,323
2012	32,752
2013	35,375
2014	38,208
2015	41,269
2016	<u>19,179</u>
	<u>\$ 197,106</u>

The loan is guaranteed by USDA Rural Development.

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

4. GAIN ON PROPERTY RELEASED

Periodically the District enters into agreements with the City of Wichita and others to release benefit units from the District. The proceeds from these releases were \$0 during 2010 and \$136,500 during 2009.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

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 February 21, 2011, which is the date at which the financial statements were available to be issued.