

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Independent Auditor's Report

December 31, 2011

Rural Water District No. 1, Harvey County, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of the Rural Water District No. 1, Harvey County, Kansas as of December 31, 2011 and 2010, 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 Water 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, Harvey County, Kansas as of December 31, 2011 and 2010, 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 Rural Water District No. 1, Harvey County, 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

February 6, 2012

Rural Water District No. 1, Harvey County, Kansas

BALANCE SHEETS

December 31, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and equivalents	\$ 765,626	500,941
Certificates of deposit	573,214	566,179
Accounts receivable - customers	44,564	50,647
Accounts receivable - other	517	540
Accrued interest income	958	2,653
Inventory	25,302	24,841
Prepaid expenses	5,133	4,021
Total current assets	<u>1,415,314</u>	<u>1,149,822</u>
CAPITAL ASSETS, net of accumulated depreciation when applicable		
Capital assets not being depreciated	17,391	16,911
Capital assets, net of depreciation	<u>5,125,536</u>	<u>5,323,337</u>
Total capital assets	<u>5,142,927</u>	<u>5,340,248</u>
OTHER ASSETS		
Loan fees - net of accumulated amortization of \$11,666 and \$8,992 respectively	41,816	44,490
Restricted investment - KDHE loan reserve	<u>424,331</u>	<u>424,331</u>
Total other assets	<u>466,147</u>	<u>468,821</u>
Total assets	<u>\$7,024,388</u>	<u>6,958,891</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 172,655	166,824
Accounts payable	29,335	13,467
Accrued interest payable	<u>50,107</u>	<u>52,515</u>
Total current liabilities	252,097	232,806
LONG-TERM DEBT		
Long-term debt, net of current portion	<u>3,352,842</u>	<u>3,525,497</u>
Total liabilities	<u>3,604,939</u>	<u>3,758,303</u>
NET ASSETS, Page 3		
Invested in capital assets, net of related debt	1,617,430	1,647,927
Restricted for debt service	545,760	545,760
Unrestricted	<u>1,256,259</u>	<u>1,006,901</u>
Total fund equity	<u>3,419,449</u>	<u>3,200,588</u>
Total liabilities and fund equity	<u>\$7,024,388</u>	<u>6,958,891</u>

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Water sales	\$ 760,252	797,052
Miscellaneous income	<u>33,651</u>	<u>32,451</u>
Total operating revenues	<u>793,903</u>	<u>829,503</u>
EXPENSES		
Cost of water purchased	2,167	3,985
Office supplies and expenses	12,957	14,324
Professional fees	4,655	13,210
Salaries	145,584	147,510
Payroll taxes	15,349	15,950
Utilities	36,852	37,114
Depreciation	240,048	236,538
Dues and fees	1,776	3,717
Insurance	15,746	16,019
Repairs and maintenance	12,800	25,491
Vehicle and mileage	18,136	15,805
Other expenses	<u>7,718</u>	<u>8,074</u>
Total operating expenses	<u>513,788</u>	<u>537,737</u>
Operating income	<u>280,115</u>	<u>291,766</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	9,361	17,831
Loss on disposition of property assets	(443)	(375)
Interest expense	(122,198)	(127,274)
Amortization of bond issuance costs	<u>(2,674)</u>	<u>(2,674)</u>
Total nonoperating revenues (expenses)	<u>(115,954)</u>	<u>(112,492)</u>
Income before other revenues	164,161	179,274
OTHER REVENUES		
Benefit unit sales	<u>54,700</u>	<u>27,600</u>
Net income	218,861	206,874
FUND EQUITY, beginning of year	<u>3,200,588</u>	<u>2,993,714</u>
FUND EQUITY, end of year	<u>\$3,419,449</u>	<u>3,200,588</u>

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 766,335	799,392
Other cash received	<u>33,674</u>	<u>35,198</u>
	<u>800,009</u>	<u>834,590</u>
Cash paid for:		
Water purchases	(2,157)	(3,982)
Salaries and payroll taxes	(160,895)	(163,496)
Other expenses	<u>(115,073)</u>	<u>(135,686)</u>
	<u>(278,125)</u>	<u>(303,164)</u>
Net cash provided by operating activities	<u>521,884</u>	<u>531,426</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(7,035)	(180,747)
Redemption of certificates of deposit	-	170,269
Interest income received	11,056	19,199
Purchase of capital assets	<u>(24,490)</u>	<u>(212,188)</u>
Net cash used in investing activities	<u>(20,469)</u>	<u>(203,467)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt payments		
Principal paid	(166,824)	(161,171)
Interest paid	(124,606)	(130,259)
Benefit unit sales	<u>54,700</u>	<u>27,600</u>
Net cash used in financing activities	<u>(236,730)</u>	<u>(263,830)</u>
Net increase in cash and cash equivalents	264,685	64,129
CASH AND CASH EQUIVALENTS, beginning of year	<u>500,941</u>	<u>436,812</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 765,626</u>	<u>500,941</u>

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income, Page 3	\$ 280,115	291,766
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation	240,048	236,538
Decrease in receivables - customers	6,083	2,340
Decrease in receivables - other	23	2,747
Increase in inventory	(461)	(4,929)
(Increase) decrease in prepaid expenses	(1,112)	38
Increase (decrease) in accounts payable	<u>(2,812)</u>	<u>2,926</u>
Net cash provided by operating activities	<u>\$ 521,884</u>	<u>531,426</u>
NONCASH ACTIVITY		
Amortization of bond issuance costs	<u>\$ 2,674</u>	<u>2,674</u>
Capital asset addition included in accounts payable	<u>\$ 23,607</u>	<u>4,927</u>
KDHE loan fees adjusted for final amount borrowed	<u>\$ -</u>	<u>(8,186)</u>
KDHE loan reserve adjusted for final amount borrowed	<u>\$ -</u>	<u>(910)</u>
KDHE loan balance adjusted for final amount borrowed	<u>\$ -</u>	<u>(9,096)</u>
Loss on disposition of capital assets	<u>\$ 443</u>	<u>375</u>

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Harvey County, Kansas was incorporated and organized on March 24, 1975, by order of the Board of County Commissioners, Harvey County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Harvey and 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 on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over an estimated useful life of six to twenty-five years.

At December 31, 2011 and 2010, capital assets consist of the following:

	<u>2011</u>	<u>2010</u>
Capital assets not being depreciated		
Land	\$ 7,422	7,422
Construction in progress	<u>9,969</u>	<u>9,489</u>
	<u>\$ 17,391</u>	<u>16,911</u>
Capital assets being depreciated		
Water system and line	\$7,668,366	7,638,683
Buildings and improvements	167,871	167,871
Equipment and furnishings	102,836	101,825
Vehicles	<u>66,918</u>	<u>63,406</u>
	8,005,991	7,971,785
Less accumulated depreciation	<u>2,880,455</u>	<u>2,648,448</u>
	<u>\$5,125,536</u>	<u>5,323,337</u>

Amortization

Issuance costs of water revenue bonds are amortized under the interest method over the repayment terms of the bonds.

Inventory

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 and 2010, 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. CASH AND DEPOSITS

At December 31, 2011, the bank balance of the District's deposits, including certificates of deposit, was \$1,340,946. Of this balance \$918,894 was covered by FDIC insurance and \$422,052 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.

Certificates of Deposit

Certificates of deposit at several local banks consisted of the following at December 31:

<u>Date of Deposit</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	2011	
			<u>Amount</u>	2010 <u>Amount</u>
04/09/10	04/09/12	1.00	\$ 174,572	171,980
07/24/08	04/24/12	1.10	95,686	94,498
05/05/06	05/05/12	0.90	55,475	54,897
08/03/06	08/03/12	0.85	65,322	64,577
10/21/08	10/21/12	0.65	123,336	121,988
12/06/07	12/06/12	0.50	58,823	58,239
			<u>\$ 573,214</u>	<u>566,179</u>

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. RESTRICTED INVESTMENT - KDHE LOAN RESERVE

The loan agreements with the Kansas Department of Health and Environment (KDHE) require ten percent of the loan proceeds to be held in a loan reserve account with the Kansas Development Finance Authority. Monies held in the loan reserve account are invested as a separate fund by the Kansas Development Finance Authority with earnings being credited to the District.

4. LONG-TERM DEBT

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

	<u>2011</u>	<u>2010</u>
Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$19,695 at a fixed rate of 4.0% including service fee. Due February 1, 2020.	\$ 281,471	308,779
Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$126,021 at a fixed rate of 3.36% including service fee. Due August 1, 2028.	<u>3,244,026</u>	<u>3,383,542</u>
	3,525,497	3,692,321
Less current portion	<u>172,655</u>	<u>166,824</u>
Long-term portion	<u>\$ 3,352,842</u>	<u>3,525,497</u>

Scheduled maturities of long-term debt:

2012	\$ 172,655
2013	178,690
2014	184,937
2015	191,404
2016	198,097
Thereafter	<u>2,599,714</u>
	<u>\$ 3,525,497</u>

Net revenues of the District have been pledged as security for the debt, and the District is required to have net revenues, as defined in the debt agreements, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2011.

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 2008. Basically, all employees are eligible to participate. The District matches employee contributions to the plan up to 3 percent of compensation. The District's contributions were \$3,281 and \$3,683 for the years ended December 31, 2011 and 2010, respectively.

6. FUND EQUITY – RESTRICTED

	<u>2011</u>	<u>2010</u>
<u>Principal and Interest Account</u>		
Under the terms of the debt agreements, the District is required to add to a reserve account each month an amount necessary to meet, on the next payment date, all interest and principal of the District's long-term debt on that date.	\$ 121,429	121,429
<u>Bond Reserve Account</u>		
Kansas Department of Health and Environment requires a 10% reserve account.	<u>424,331</u>	<u>424,331</u>
Total restricted fund equity	<u>\$ 545,760</u>	<u>545,760</u>

8. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 6, 2012, which is the date at which the financial statements were available to be issued.