

RURAL WATER DISTRICT NO. 1

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2011

Rural Water District No. 1, Marion County, Kansas

CONTENTS

December 31, 2011

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheets, December 31, 2011 and 2010	2
Statements of Revenues, Expenses, and Changes in Fund Equity, Years ended December 31, 2011 and 2010	3
Statements of Cash Flows, Years ended December 31, 2011 and 2010	4-5
Notes to Financial Statements, December 31, 2011	6-9

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, 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 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, 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 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 5, 2012

Rural Water District No. 1, Marion County, Kansas

BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 43,181	20,208
Investments	59,475	71,561
Receivables, less allowances for doubtful accounts of \$8,645 in 2011 and \$0 in 2010	<u>16,168</u>	<u>24,688</u>
Total current assets	<u>118,824</u>	<u>116,457</u>
CAPITAL ASSETS		
Capital assets not being depreciated	17,750	17,750
Capital assets, net of accumulated depreciation	<u>600,784</u>	<u>627,564</u>
Total capital assets	<u>618,534</u>	<u>645,314</u>
OTHER ASSETS		
Loan costs, net of accumulated amortization	5,366	5,981
Restricted investment - KDHE loan	<u>32,852</u>	<u>32,852</u>
Total other assets	<u>38,218</u>	<u>38,833</u>
Total assets	<u>\$ 775,576</u>	<u>800,604</u>
<u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Current portion of long-term debt	\$ 13,511	13,039
Accounts payable	1,794	1,890
Accrued interest	3,105	3,282
Other accrued expenses	<u>2,384</u>	<u>2,975</u>
Total current liabilities	20,794	21,186
LONG-TERM DEBT, net of current portion	<u>216,512</u>	<u>230,023</u>
Total liabilities	<u>237,306</u>	<u>251,209</u>
NET ASSETS, Page 3		
Invested in capital assets, net of related debt	388,511	402,252
Restricted for debt service	32,852	32,852
Unrestricted	<u>116,907</u>	<u>114,291</u>
Total fund equity	<u>538,270</u>	<u>549,395</u>
Total liabilities and fund equity	<u>\$ 775,576</u>	<u>800,604</u>

Rural Water District No. 1, Marion 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	\$ 148,998	136,351
Other	1,701	2,083
Total operating revenues	<u>150,699</u>	<u>138,434</u>
EXPENSES		
Personnel	49,944	52,701
Utilities	14,823	12,364
Office supplies	2,658	3,002
Meeting expense	764	640
Chemicals and lab fees	2,561	2,415
Insurance	8,959	6,237
Repairs	27,455	26,386
Mileage	7,001	6,829
Professional fees	3,714	3,759
Depreciation and amortization	<u>32,105</u>	<u>32,126</u>
Total operating expenses	<u>149,984</u>	<u>146,459</u>
Operating income (loss)	<u>715</u>	<u>(8,025)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	800	2,002
Bad debt expense	(8,645)	-
Interest expense	<u>(7,595)</u>	<u>(9,178)</u>
Total nonoperating revenues (expenses)	<u>(15,440)</u>	<u>(7,176)</u>
Loss before other revenues	(14,725)	(15,201)
OTHER REVENUES		
Benefit unit sales	<u>3,600</u>	<u>3,600</u>
Net loss	(11,125)	(11,601)
FUND EQUITY, beginning of year	<u>549,395</u>	<u>560,996</u>
FUND EQUITY, end of year	<u>\$ 538,270</u>	<u>549,395</u>

See notes to financial statements

Rural Water District No. 1, Marion 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	\$ 148,899	127,493
Other cash received	<u>1,701</u>	<u>2,083</u>
	<u>150,600</u>	<u>129,576</u>
Cash paid for:		
Salaries and payroll taxes	(50,561)	(51,002)
Other expenses	<u>(68,031)</u>	<u>(63,386)</u>
	<u>(118,592)</u>	<u>(114,388)</u>
Net cash provided by operating activities	<u>32,008</u>	<u>15,188</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(613)	(1,210)
Redemption of certificates of deposit	12,699	-
Interest income received	800	2,002
Purchase of capital assets	<u>(4,710)</u>	<u>-</u>
Net cash provided by investing activities	<u>8,176</u>	<u>792</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt payments		
Interest paid	(7,772)	(9,249)
Principal paid	(13,039)	(57,584)
Benefit unit sales	<u>3,600</u>	<u>3,600</u>
Net cash used in financing activities	<u>(17,211)</u>	<u>(63,233)</u>
Net increase (decrease) in cash and cash equivalents	22,973	(47,253)
CASH AND CASH EQUIVALENTS, beginning of year	<u>20,208</u>	<u>67,461</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 43,181</u>	<u>20,208</u>

See notes to financial statements

Rural Water District No. 1, Marion 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	\$ 715	(8,025)
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation and amortization	32,105	32,126
(Increase) in receivables - customers	(125)	(8,947)
Increase (decrease) in accounts payable and accrued expenses	<u>(687)</u>	<u>34</u>
Net cash provided by operating activities	<u>\$ 32,008</u>	<u>15,188</u>
 NONCASH ACTIVITY		
Increase in bad debt expense	<u>\$ 8,645</u>	<u>-</u>

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 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 estimated useful lives of seven to forty years. At December 31, 2011 and 2010, property assets consist of the following:

	<u>2011</u>	<u>2010</u>
Capital assets not being depreciated		
Land	\$ 5,750	5,750
Well easement	<u>12,000</u>	<u>12,000</u>
	<u>\$ 17,750</u>	<u>17,750</u>
 Capital assets being depreciated		
Water system and line	\$ 978,062	973,352
Water tower	<u>286,937</u>	<u>286,937</u>
	1,264,999	1,260,289
Less accumulated depreciation	<u>(664,215)</u>	<u>(632,725)</u>
	<u>\$ 600,784</u>	<u>627,564</u>

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.

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The District reports customer accounts receivable for water used at net realizable amounts. The District provides an allowance for doubtful accounts based upon review of outstanding receivables, historical collection information and existing economic conditions. Customer accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

2. DEPOSITS AND INVESTMENTS

Composition of Cash and Investments

At December 31, 2011 and 2010, cash and investments consist of the following accounts with local financial institutions:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Tampa State Bank, Tampa, Kansas		
Demand account	\$ 43,181	20,208
Investments		
Certificates of deposit		
Tampa State Bank, Tampa, Kansas	59,475	71,561
Loan reserve account		
Kansas Development Finance Authority, Topeka, Kansas	<u>32,852</u>	<u>32,852</u>
Total investments	<u>92,327</u>	<u>104,413</u>
Total cash and investments	<u>\$ 135,508</u>	<u>124,621</u>

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

Current assets		
Cash and cash equivalents	\$ 43,181	20,208
Investments	59,475	71,561
Other assets		
Restricted investment - KDHE loan (see Note 3)	<u>32,852</u>	<u>32,852</u>
Total cash and investments	<u>\$ 135,508</u>	<u>124,621</u>

Deposits

At December 31, 2011 the carrying amount of the District's deposits, including certificates of deposit, was \$102,656. The bank balance was also \$102,656, as there were no outstanding checks or deposits in transit at the end of the year. All of the bank balance was covered by FDIC insurance.

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011, 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>2011</u>	<u>2010</u>
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	230,023	243,062
Less current portion	<u>13,511</u>	<u>13,039</u>
	<u>\$ 216,512</u>	<u>230,023</u>

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

2012	\$ 13,511
2013	14,001
2014	14,508
2015	15,034
2016	15,578
2017 - 2021	86,777
2022 - 2025	<u>70,614</u>
	<u>\$ 230,023</u>

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:

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. LONG-TERM DEBT (Continued)

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, 2011 and 2010, \$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, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through March 5, 2012, which is the date at which the financial statements were available to be issued.