

RURAL WATER DISTRICT NO. 1
SEDGWICK COUNTY, KANSAS
Independent Auditor's Report
December 31, 2011

Rural Water District No. 1

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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 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 Rural Water District No. 1 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.

Rural Water District No. 1 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, 2012

Rural Water District No. 1

BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 113,805	53,968
Investments	1,034,616	1,073,016
Accounts receivable	24,714	24,749
Accrued interest receivable	189	189
Prepaid insurance	<u>181</u>	<u>174</u>
Total current assets	1,173,505	1,152,096
CAPITAL ASSETS, net of accumulated depreciation		
	<u>761,259</u>	<u>786,970</u>
Total assets	<u>\$ 1,934,764</u>	<u>1,939,066</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 32,752	30,323
Accounts payable	534	568
Other accrued expenses	<u>2,901</u>	<u>2,394</u>
Total current liabilities	36,187	33,285
LONG-TERM DEBT, net of current portion		
	<u>133,973</u>	<u>166,783</u>
Total liabilities	<u>170,160</u>	<u>200,068</u>
FUND EQUITY		
Invested in capital assets, net of related debt	594,534	589,864
Unrestricted	<u>1,170,070</u>	<u>1,149,134</u>
Total fund equity	<u>1,764,604</u>	<u>1,738,998</u>
Total liabilities and fund equity	<u>\$ 1,934,764</u>	<u>1,939,066</u>

See notes to financial statements

Rural Water District No. 1

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	\$ 225,196	193,911
Other	<u>100</u>	<u>100</u>
Total operating revenues	<u>225,296</u>	<u>194,011</u>
EXPENSES		
Water purchases	68,154	57,840
Personnel	34,924	33,710
Utilities	524	826
Office supplies	5,440	4,032
Water protection fee	1,976	1,737
Insurance	3,647	3,339
Repairs	33,811	28,871
Mileage	2,775	2,870
Professional fees	9,157	14,641
Depreciation	43,228	41,913
Other	<u>397</u>	<u>415</u>
Total operating expenses	<u>204,033</u>	<u>190,194</u>
Operating income (loss)	<u>21,263</u>	<u>3,817</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	11,957	17,006
Interest expense	<u>(14,114)</u>	<u>(16,403)</u>
Total nonoperating revenues (expenses)	<u>(2,157)</u>	<u>603</u>
Income (loss) before other revenues	19,106	4,420
OTHER REVENUES		
Grant income	4,000	-
Benefit unit sales	<u>2,500</u>	<u>-</u>
Net Income	25,606	4,420
FUND EQUITY, beginning of year	<u>1,738,998</u>	<u>1,734,578</u>
FUND EQUITY, end of year	<u>\$ 1,764,604</u>	<u>1,738,998</u>

See notes to financial statements

Rural Water District No. 1

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	\$ 229,466	183,608
Other cash received	<u>100</u>	<u>100</u>
	<u>229,566</u>	<u>183,708</u>
Cash paid for:		
Water purchases	(68,154)	(57,840)
Salaries and payroll taxes	(34,784)	(32,956)
Other expenses	<u>(61,636)</u>	<u>(57,606)</u>
	<u>(164,574)</u>	<u>(148,402)</u>
Net cash provided by operating activities	<u>64,992</u>	<u>35,306</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(435,650)	(1,087,689)
Redemption of investments	474,050	910,504
Interest income received	11,957	19,340
Purchase of property assets	<u>(17,517)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>32,840</u>	<u>(157,845)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Long-term debt payments		
Interest paid	(14,114)	(16,403)
Principal paid	(30,381)	(28,093)
Proceeds from grant funds	4,000	
Benefit unit sales	<u>2,500</u>	<u>-</u>
Net cash used in financing activities	<u>(37,995)</u>	<u>(44,496)</u>
Net increase (decrease) in cash and cash equivalents	59,837	(167,035)
CASH AND CASH EQUIVALENTS, beginning of year	<u>53,968</u>	<u>221,003</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 113,805</u>	<u>53,968</u>

See notes to financial statements

Rural Water District No. 1

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	\$ 21,263	3,817
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	43,228	41,913
(Increase) decrease in receivables	35	(10,330)
(Increase) decrease in prepaid insurance	(7)	2
Increase (decrease) in accounts payable and accrued expenses	<u>473</u>	<u>(96)</u>
 Net cash provided by operating activities	 <u>\$ 64,992</u>	 <u>35,306</u>

Rural Water District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 1 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, 2011 and 2010, property assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Capital assets being depreciated		
Water system and line	\$ 1,572,965	1,555,448
Less accumulated depreciation	<u>811,706</u>	<u>768,478</u>
	<u>\$ 761,259</u>	<u>786,970</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 total cost of the station, which is unknown at this time.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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		
Petty Cash	\$ 10	10
Intrust Bank, Now account, Wichita, Kansas	95,698	35,900
Simmons First National Bank, money market account, Olathe, KS	<u>18,097</u>	<u>18,058</u>
Total cash	<u>113,805</u>	<u>53,968</u>
Investments		
Certificates of deposit		
Intrust Bank, Wichita, Kansas	-	315,930
Southwest National Bank	<u>1,034,616</u>	<u>757,086</u>
Total investments	<u>1,034,616</u>	<u>1,073,016</u>
Total cash and investments	<u>\$ 1,148,421</u>	<u>1,126,984</u>

Deposits

At December 31, 2011 the carrying amount of the District's deposits, including certificates of deposit, was \$1,148,421. The bank balance was \$1,153,180. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. At December 31, 2011, all of the bank balance of \$1,153,180 was covered by FDIC insurance. A third-party bank holds pledged securities in the amount of \$450,000, 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.

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.

Rural Water District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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 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	\$ 166,725	197,106
Less current portion	<u>32,752</u>	<u>30,323</u>
	<u>\$ 133,973</u>	<u>166,783</u>

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

2012	\$ 32,752
2013	35,375
2014	38,208
2015	41,269
2016	<u>19,121</u>
	<u>\$ 166,725</u>

The loan is guaranteed by USDA Rural Development.

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

4. CONCENTRATIONS OF RISK

Major Supplier

The District purchases 100 percent of their water from the City of Wichita.

5. 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 21, 2012, which is the date at which the financial statements were available to be issued.